Guidelines

for

Poultry Financing

STATE BANK OF PAKISTAN
Agricultural Credit Department
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The Team

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1. Introduction

Poultry is an important sub- sector of agriculture and has contributed enormously to food production by playing a vital role in the domestic economy. It has great potential and can play a significant role in the national economy by contributing towards food security of the country, reducing pressure on demand for mutton and beef and earning of foreign exchange. Poultry industry can broadly be divided into three groups, viz. hatchery, poultry farming and feed sectors. Keeping in view the importance of poultry industry and to exploit its untapped potential, guidelines on poultry financing have been developed in consultation with stakeholders to increase the flow of credit to this sector. The objectives of the guidelines are to facilitate banks in developing internal expertise & products for poultry financing and encourage banks to provide needed working capital and term finance to the poultry sector which will support farmers to adopt modern and efficient poultry farming techniques and will increase poultry meat/ food production for local consumption and export.

The guidelines are aimed at facilitating banks to enhance the flow of credit to poultry sector. Banks are advised to use the guidelines for developing their own products, according to their credit policy and operational & market requirements, subject to compliance with SBP regulations for agriculture financing. Besides, banks may also coordinate with the concerned Govt. departments including SMEDA for obtaining the necessary information /feasibility report about the poultry sector, which are useful for developing specific products for financing to the sector.

2. Eligibility of the Borrower

Individuals and all types of legal entities engaged in poultry related activities or desirous to establish new broiler, breeder, hatcheries or layer farms having sufficient knowledge and relevant experience are eligible to draw loans under poultry financing. As per Prudential Regulations, agriculture financing shall not include loans to traders and intermediaries engaged in trading/ processing of agriculture commodities. Such lending would fall under Corporate/ Commercial Banking or SME financing. However, agricultural financing can be extended to entities (including corporate firms, partnerships, and individuals) engaged in farming activity as well as processing, packaging and marketing of mainly 75% of their own agriculture produce. Financing facilities may be extended provided the bank is satisfied with the repaying capacity of the borrower & his managerial skills to run the farm and compliance with SBP regulations and bank's credit policy.

It is advisable that bank should have detailed understanding and information about the borrower, his capacity to effectively use and repay the loan from the projected cash flows, and / or any other possible income streams.

3. Types of Financing

The financing will be provided to meet working capital and term finance requirements of poultry sector. Banks are advised to finance for all types of poultry farming activities including the following: -

3.1. Working Capital

To meet day to day expenses of poultry sector, working capital financing on revolving basis can be provided for all activities including the following:

- Purchase of feed, birds/ day old chicks, feed raw material.
- Vaccination, vitamin and other medication for poultry birds, saw dust, wood, coal, medicines, water filter cartages.
- Over head expenses i.e. labor, utility bills, Cost of fuel for generators & vehicles, transportation etc.
- Utensils for poultry bird feed etc.
- Low cost durables like utensils for water/ feed, chick guard, spray pumps, fumigants, weighing machines, tubs, water nipples, laying nets, PVC pipes & crates etc.
- Packing & Storage material for cold storage where applicable.
- Any other item required to meet day to day expenses for running poultry farm

3.2. Term Financing

The term finance facilities can be provided for medium to long term credit needs of the poultry sector which may include the following:

- Construction of broiler, layer, breeder & hatchery farms and feed mills
- Control sheds automatic drinkers /tube feeders, generators, ventilators, table/ breeder eggs storage refrigeration plants
- Purchase of machinery/ equipment for poultry farm/ hatchery/ feed mill
- Transport vans - eggs and poultry carrying van, distribution vehicles such as motorcycles, pickups etc.
- Deep freezers
- Slaughtering & de- feathering machine
- Any other item required for the establishment of poultry industry

4. Fixation of Loan Limits and Repayment Terms

The loan limit shall be assessed by bank keeping in view the borrowers profile, feasibility of the business, cash flow etc. as per bank's credit policies. Banks should undertake due diligence and market survey to assess the prices of equipments, vehicles and all other goods for poultry sector.

5. Mark-up

- Banks shall determine mark up rate keeping in view KIBOR rate and their cost of funds etc. in line with their credit policy.
- Banks shall not charge any penalty on early repayment or adjustment of loans by the borrower.

6. Security and Collateral

Banks are advised to secure their financing to safeguard the interest of the bank and facilitate borrower as per their lending policies. List of eligible security and collateral may include the following: -

- Charge on agricultural land through passbook system
- Personal surety
- Hypothecation/mortgage of assets e.g. incubators, feed mill machinery, generator & refrigerators etc.
- Mortgage of rural, urban or commercial property.

- Pledge of SSC/DSC, lien on bank deposit, bank guarantee.
- Pledge of gold and Gold jewellery.
- Individual/Group Guarantee (maximum per person exposure as mentioned in PRs for agriculture regarding personal guarantee).
- Any other tangible collateral security acceptable to bank.

7. Insurance and other Documentation

Banks can secure its financing by obtaining documents as per their financing policies and SBP regulations/ guidelines. Completion of documentation formalities shall be the responsibility of the bank. Further, the assets should be comprehensively insured to safeguard the interest of the bank and the borrower from risks of losses due to circumstances beyond the control of the borrower. It is advisable that banks should sensitize and educate their borrowers about the importance of having an insurance cover in this regard.

8. Loan Monitoring and Recovery System

Effective loan monitoring and recovery system are critical for ensuring quality of loan portfolios. The first recourse for the bank to recover its loans is the borrower and his/her cash flows. An effective monitoring system, follow-up and frequent interactions with the borrowers are critical for ensuring recovery of agricultural loans. In addition to the traditional correspondence and letter/notice based recovery mechanism, banks may also initiate the following recovery process against the delinquent borrowers:

- Persuading borrowers / guarantors through personal contacts.
- Issuance of legal notices.
- Recovery through Tehsildar /Mukhtiarkar/ after declaration of loans as Arrears of Land Revenue in accordance with Section 4(7) of Loans for Agriculture Purposes Act 1973 by the Collector / Asstt. Collector / Deputy Commissioner in case of financing against passbook.
- Filing recovery suits in Banking Tribunals/High Courts.
- Recovery in accordance with Financial Institutions (Recovery of Finances) Ordinance 2001.

- Any other legal remedies available to the bank.

Banks are required to develop sound and reliable loan monitoring and tracking system to ensure proper utilization & quality of loan and its timely repayments.

9. Compliance with SBP Regulations

Banks shall ensure that financing to poultry sector is being made in compliance with the SBP Prudential Regulations for Agriculture Financing.

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