

3rd July, 2006

**RS. 160 BILLION TARGET ALLOCATED TO
AGRICULTURE SECTOR FOR FISCAL YEAR 2006-07**

The annual meeting of the Agricultural Credit Advisory Committee (ACAC) which was held in Karachi today with Governor, State Bank of Pakistan, Dr. Shamshad Akhtar in the chair, has approved a target of Rs.160 billion for the disbursement of agriculture credit to the farmers during the fiscal year 2006-07. This target is 23 per cent higher than the last fiscal year's target of Rs.130 billion.

She underscored that these targets should be treated as 'minimum achievements' required from the banks. While the central bank is not in the business of directed credit, but it would encourage banks to achieve balanced regional and sectoral distribution of credit to achieve sound economic development.

The five big commercial banks (ABL, HBL, MCB, NBP and UBL) have been allocated a target of Rs.80 billion, Zarai Tarqati Bank Ltd Rs.48 billion, Punjab Provincial Co-operative Bank Ltd. Rs.9 billion and Domestic Private Banks as a group Rs.23 billion. The committee also made province wise allocations of disbursements, based on the cropped area and absorption capacity of each province and AJK and FATA.

The Committee expressed its deep satisfaction that the total disbursement to the agriculture sector during July-May 2005-06 has reached to Rs.117 billion, which is 25.8% higher than the disbursements of Rs.93.0 billion during the same period of the last fiscal year. The disbursements made during the eleven months are about 90% of the full year target and considering the average disbursements of Rs.15 billion in the month of June during last three years, the full year target of Rs.130 billion would be achieved comfortably.

The five big commercial banks as a group disbursed Rs.59.8 billion against the full year target of Rs.63 billion. Zarai Taraqati Bank Limited (ZTBL), Punjab Provincial Cooperative Bank Limited (PPCBL) and domestic private banks (DPBs) disbursed Rs.38.8 billion, Rs.4.5 billion and Rs.13.9 billion against the target of Rs.43 billion, Rs.9 billion and Rs.15 billion respectively. The five big Commercial Banks as a group achieved about 95% of the full year target. ZTBL 90%, PPCBL 50% and the DPBs as a group achieved 92.4% of their annual targets.

The Committee was informed that the disbursements to farm and non-farm sectors as a whole during the first eleven months of the fiscal year 06 remained more or less as per target with farm sector fetching Rs.95.7 billion or 81.8% against the target of 80% and non-farm sector obtaining Rs.19 billion or 16.3% against the target of 16%. The Committee expressed the hope that the banks would take necessary steps to further accelerate the pace of credit disbursement to the agriculture sector so that target of Rs.160 billion for the year 2006-07 is achieved comfortably.

The Committee noted that the small farmers (farmers having landholding up to subsistence level) attracted 67%, Economic holding (medium farmers) 23% and large farmers (above economic holding) received 10% of total disbursement made to the farm sector.

Taking serious note of regional/provincial disparities in growth of agricultural credit disbursements, the SBP Governor announced the setting up of a special committee of five big commercial banks and Zarai Taraqiati Bank Limited to prepare a report in order to identify issues and constraints impeding credit delivery at provincial level and suggest corrective measures within one month. The committee also impressed upon the provincial governments to take initiatives to make the farming community of their respective provinces/regions attractive for banks' investment.

The ACAC was informed that the SBP, in consultation with stakeholders, was in the process of framing guidelines to facilitate and encourage banks to build up their portfolio in the livestock sector. These guidelines, likely to be notified within this month, are aimed at increasing the flow of credit to livestock sector that promises rich returns to the dairy growers, the banks and the economy as a whole. The allocation for livestock sector has accordingly been raised to 15% of total disbursements as compared to 8% last year.

As both Federal and Provincial governments are taking initiatives to enhance flow of fund to the agriculture/rural sector, the Committee is likely to recommend to the Provincial Governments to reduce the stamp duty to Rs.50/- for all agricultural loan agreements upto Rs.0.5 million to facilitate small farmers in accessing loans from banks.

The ACAC has also made the following recommendations for further increasing the pace of growth of agricultural credit disbursement, which would be examined by SBP:

- Allowing refinancing credit lines to banks at KIBOR to extend loans to Agriculture/rural sector;
- Government/Ministry of Finance may be requested to consider exempting interest income on agri-credit from income tax or tax it at a concessional rate under a separate bracket for a period of 3-5 years
- The Board members and Senior Management Teams of Commercial Banks may be sensitized about the business viability of agriculture and rural finance and further capacity enhancement and institutional building in the area may be emphasized;
- The off and on announcements for loan write off and interest waivers promote default culture and create difficulties for banks in recovering loans and thus discourage banks to build and expand their portfolios in rural areas, such announcements may, therefore be avoided.

- The insurance framework for rural areas, particularly for crop loan and livestock loans may be developed on priority.
- The provincial governments may be requested to ensure full cooperation from their revenue department and that the automation of land records may be initiated on immediate priority.

The meeting was also informed that the Committee constituted by ACAC in its meeting held in July, 2005 under the Chairmanship of Mr. Riaz Riazuddin, Economic Advisor, State Bank of Pakistan has revised and finalized the 'Credit Estimation Methodology Report' in the light of latest developments in the agricultural technology and suggestions received from different stakeholders, Research Institutions and Agricultural Universities. The Report will be published shortly.

The National Reconstruction Bureau (NRB) also made a detailed presentation to the Committee on automation of land records and conferment of property rights. The Committee appreciated the proposed system, however, it emphasized the need for greater consultation with all stakeholders including SBP and banks before launching the project.

The meeting was attended among others by the Deputy Governor, State Bank of Pakistan, Mr. Mansur-ur-Rehman Khan, presidents of commercial banks, ZTBL and PPCBL, officials of Federal and Provincial Governments, Chambers of Agriculture, Farmers' Associations, Agricultural and Economic Research and other stakeholders.
