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Salim Raza prods banks to revamp lending mechanism for boosting agri. financing

Syed Salim Raza, Governor State Bank of Pakistan has prodded banks to revamp and re-structure their agri. lending mechanism through innovative products and adoption of international best practices.

Presiding over a mid-term review meeting of the Agricultural Credit Advisory Committee (ACAC) held at the State Bank of Pakistan, Karachi today, Mr. Raza said that future economic growth during next four to five years and beyond will be led by the agriculture sector. "If we want to have sustained growth, it will come through development of the agriculture sector. Banks must seriously think about ways and means to increase agri. lending," he asserted.

He emphasized upon the banks to adopt group-based lending, wholesaler lending to Micro-finance Banks (MFBs), Micro-finance Institutions (MFIs) and lending to small & marginalized farmers, who are in majority. Banks should devise strategies for lending to farmers in livestock, dairy, fisheries, etc. and for developmental purpose including farm implements, water conservation and infrastructure, he said and added that in this regard Habib Bank Ltd., National Bank of Pakistan & Askari Bank Ltd. have made some good progress.

SBP Governor stressed that banks should establish close liaison with farmers' associations for financial literacy & marketing of agri. loan products and for the recovery of outstanding loans. 'Similarly, farmers' associations should also develop close linkages with banks, provincial agriculture & extension departments, input suppliers, agri. marketing companies, etc. and arrange programmes to disseminate knowledge & skills to the farmers at grass root level', he added.

Referring to several initiatives taken by the State Bank for the promotion of agri. financing, Mr. Raza talked about launching of Pilot Project Phase II for disbursement of agri. credit in 28 underserved districts, introduction of One Window Operation, relief package for agri. loans in NWFP & FATA, Credit Guarantee Scheme for small farmers for war affected areas, refinancing facility for modernization of rice husking mills & cotton ginning factories, training programmes for the officials of Credit Administration & Risk Management Departments of banks, etc.

He said the State Bank is working on the development of Credit Guarantee Scheme for small & marginalized farmers, simplification of agri. lending procedures & turnaround time, Model Shariah compliant products for agriculture financing, market development for agri. commodities through warehousing system and trading at National Commodity Exchange Limited. The warehousing system will facilitate small farmers to realise prices and avail banks' collateralize credit through warehouse receipt.

While giving a brief overview of the sector, SBP Governor said that the agriculture sector has shown an average growth of 4.5% in the last five years and it provides livelihood to 66% of the population. However, banks' credit to farmers has remained almost stagnant i.e. 42-45% of the credit requirements of the farming community and approximately 2 million against 6.6 million farm household being served, he pointed out. The share of agri. credit in total banks' credit has declined from 6.8% in 2005 to 4.7% in June 2009 while the target for agri. credit for the current fiscal year is Rs 260 billion against estimated overall credit requirement of Rs 533 billion. Mr. Raza pointed out that major reasons for the below par performance of banks, as far as agri. credit is concerned, are the lack of interest, product development and human resource problems.

Representatives from farmers' associations and other stakeholders also pointed out various hurdles in the promotion of agri. financing. The SBP Governor asked the banks to resolve the issues in disbursement of agri. loans to the farming community.

Representatives from Zarai Taraqati Bank, National Bank and Habib Bank informed the participants about various initiatives taken by these banks to boost agri. credit. Representatives of commercial banks have assured the ACAC meeting that the agri. disbursement target of Rs 260 billion for this fiscal year would be met.

The meeting was attended, among others, by heads of commercial banks, representatives of agriculture chambers and trade bodies, officials of relevant federal/provincial departments, besides senior officials of the State Bank.
