

## **Credit Guarantee for Small and Marginalized Farmers (CGSMF)**

As per Agriculture Census 2010, 5.35 million farm households (out of total 8.3 million) have land-holding up to five acres in Pakistan. These small farmers have a significant share in the national agricultural output. Despite their significance, the small and marginalized farmers face difficulties in accessing formal credit due to small landholding and lack of collateral. As a result, they are forced to borrow from informal sources on unfair terms.

In order to enhance access of small and marginalized farmers to formal credit, the Government of Pakistan has approved funding support for establishing a credit guarantee facility for these farmers. The scheme shall provide 50% risk coverage against the principal outstanding on loans of up to Rs.100,000 extended to small and marginalized farmers by participating commercial, specialized and microfinance banks.

The details of the scheme are given below:

### **1. Objective**

The objective of the CGSMF (henceforth the scheme) is to encourage participating commercial, specialized and microfinance banks (henceforth Participating Financial Institutions (PFIs)) to lend collateral free to small and marginalized farmers to meet their working capital requirements. All the commercial, specialized, and microfinance banks which are in reasonably good financial position and have considerable share/expertise in agriculture finance shall be considered as PFIs.

### **2. Scope**

The scheme shall cover production loans up to Rs. 100,000 extended by PFIs. The loan tenor shall be based on cropping cycle up to a maximum period of one year. However, for sugarcane crop with 18 months cropping cycle, the loan tenor shall be fixed in accordance with its cropping cycle.

The purpose of borrowing may include meeting working capital requirements, purchase of input supplies, rentals of farm implements etc.

The scheme shall be applicable to all eligible farmers in (a) all provinces (b) special areas (AJ&K and FATA) and (c) Federal Capital.

### **3. Eligibility of Borrowers**

The scheme shall exclusively apply to small and marginalized farmers/tenants across the country owning / cultivating irrespective of land ownership or lease/ tenancy;

- 1) 5 acres for irrigated land
- 2) 10 acres for rain-fed land

PFIs shall take into account the following factors while determining eligibility of the borrowers;

- Verification of cultivation by the bank/ revenue authorities.
- Fresh borrowers having no collateral.
- Cash flows of the borrower.
- Obtain e-CIB record of the borrower.
- In line with the credit policy of the Bank.

- Be in conformity with the relevant rules and regulations.
- Shall have valid CNIC.

#### **4. Funding Arrangements:**

The Government has made an initial allocation of Rs. One billion in the federal budget FY 2015-16, for the scheme which may be topped up annually. The allocated funds shall be used to create a Guarantee Fund. SBP shall ensure that the aggregate value of the Guarantee limits assigned to PFIs does not exceed the funds available in the Guarantee Fund. Detailed Standard Operating Procedures (SOPs) regarding payment against guarantee claims are given as Annexure 2.

#### **5. Management of the Scheme**

For the CGSMF, SBP shall be the executing agency on behalf of the Government, whereas SBP, Banking Services Corporation (BSC) shall be the implementing agency. Development Finance Support Department (DFSD) at SBP:BSC shall serve as the Credit Guarantee Office (CGO) and shall be responsible for implementation of the scheme.

#### **6. Date of Commencement and Period**

The scheme shall be effective from the date of its circulation by SBP and shall remain active till it is discontinued by the Government and upon release of the guarantees issued to PFIs.

Only fresh loans extended to eligible farmers, after issuance of CGSMF, shall be eligible for coverage under the scheme. In case of termination/discontinuation of the scheme, claims pertaining to the loans guaranteed by CGO shall remain eligible for coverage under the scheme.

#### **7. Allocation of Guarantee Limits**

SBP shall allocate credit guarantee limits to PFIs based on their portfolio of small farmers and market potential on an annual basis. CGO shall monitor performance of the PFIs viz-a-viz their allocated limits on quarterly basis and if deemed necessary, more frequently. SBP shall reserve the right to decline the nomination of any bank that does not meet the criteria prescribed, from time to time, by SBP.

The issuance of credit guarantee limits shall be subject to compliance with provisions of the scheme and other instructions issued by SBP from time to time. SBP/SBP:BSC shall have the right to withdraw its approval of guarantee, if it is discovered, at any stage, that the borrower was not eligible for financing under the scheme at the time of extension of the loan facility. In such an event, the PFI will bear 100% of the credit risk of such borrower.

#### **8. Risk Sharing Mechanism with the PFIs**

The scheme shall provide credit risk coverage of 50% of the outstanding loans (principal) in case of non-repayments, after being classified as 'SUBSTANDARD' (as per the classification criteria laid down in Prudential Regulations for both Agriculture Financing and Microfinance Banks, respectively). The remaining 50% of the credit risk shall be borne by the PFI.

#### **9. Payment of Claims under the Guarantee Scheme:**

Detailed SOPs for payment of claims are issued along with the scheme as Annexure 2. The payment under the guarantee scheme, however, shall not obviate the lending PFI from its

right of recovery of the defaulted amount. The PFI shall continue its efforts for recovery of loans and shall report the recovery status to the CGO on yearly basis.

Recovery from a delinquent borrower after reimbursement of guarantee claim by SBP:BSC shall be treated as recovery of principal and the proportionate share shall be reimbursed to SBP:BSC. The recovery cost shall not be passed on to the scheme.

**10. Operational Modalities:**

- PFIs shall submit their claims for reimbursement, duly reviewed by their internal audit department, on half-yearly basis, i.e; loans classified as ‘Substandard’ (as per the respective classification criteria under PRs for both Agricultural Finance and MFBs) during 1st January to 30<sup>th</sup> June by 20<sup>th</sup> July, and 1<sup>st</sup> July to 31<sup>st</sup> December by 20<sup>th</sup> January.
- The verified / approved claims shall be reimbursed to the PFIs by CGO, SBP:BSC.
- Any recovery made from a delinquent borrower after reimbursement of claim from CGO shall be reimbursed to CGO as outlined in SOPs at Annexure-2.
- However, if at any point in time, claims are found to be incorrect or without basis during inspection by SBP’s Banking Inspection Department or otherwise, the same shall be recovered from banks’ account maintained with the SBP:BSC (Bank) and the bank will be liable to penalty under relevant provisions of the Banking Companies Ordinance 1962, and Microfinance Institution Ordinance 2001.
- For detailed SOPs, please refer to Annexure-2.

**11. Monitoring of the Guaranteed Portfolio**

PFIs shall ensure due diligence of all the loans at the time of approval as well as internally audit all claims before their lodgment with CGO in the SBP:BSC. The PFIs shall submit quarterly (or as and when required) reports of their financing to small and marginalized farmers to CGO for its evaluation. The CGO may also undertake post-disbursement verification of selected cases in order to verify the genuineness of claims in line with prescribed criteria.

Further, Banking Inspection Department of SBP during their regular and or special inspection may also examine PFIs’ claims submitted to CGO for payment under the scheme.

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