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1. Introduction

Production and marketing of fruits, vegetables, floral crops and landscape plants is called horticulture industry. Horticulture plants requires tropical to temperate climatic conditions and Pakistan is blessed with wide range of agro-climatic conditions i.e. tropical, sub-tropical, warm temperate and temperate regions. This opportunity positions Pakistan in privileged countries, where variety of crops particularly horticultural crops can be produced having enormous potential in the global market.

Pakistan is a major producer of fruit and vegetables, with most of the production consumed in the domestic market. The total area devoted to fruit and vegetable production has increased rapidly in recent years, reaching 1060.8 million hectares in FY 2006. Production of peach, persimmon, pomegranate, reflecting the strong domestic market demand for horticulture crops. Citrus fruits, primarily the mandarin variety kino, is the largest fruit crop group by volume and is a major export revenue earner. Pakistan is the fourth largest producer of dates. In FY 2006, 1753.9 million tons of mangoes were produced out of which 1.25 million tons were exported.

In NWFP and Northern Areas there is great room and scope for promotion of citrus fruits, peaches, plums, apricot, persimmon, apple, strawberry, guava etc. In Punjab citrus (kino, oranges, etc), mango, guava, while in Sind mango, banana, dates and papaya and in Baluchistan apple, grapes, dates, stone fruits (apricot, peach, plum, cherry, etc) and pistachio can be targeted for international marketing by promoting processing industry for value addition and export. There is considerable scope for introduction and development of new fruits like cherries, strawberry, litchi in different parts of the country. There is tremendous potential for production and processing of tomatoes, potatoes, onions etc.

The government is paying special attention to promote this industry, for this purpose Pakistan Horticulture Development and Export Board have been created aiming at to encourage and facilitate the growers to “grow for export; impart new technologies and techniques to growers and processors; develop/ implement export marketing strategies; create an export oriented environment facilitated through producers and quality standard through regulations and incentive schemes; attract local and foreign investment; facilitate in setting up of necessary material and quality infrastructure including inter alia cool chain system all over the country, develop linkages and networking with relevant institutions i.e. R &D, banks, training/ HRD, joint venture arrangement/ commercial linkages with international companies, technology transfer, and sub- contracting.

There is a large potential for value added of horticultural crops and products, which can bring many fold foreign exchange compared to what we are getting. This can be achieved through good farm management, adopting good agricultural practices, promotion of products and byproduct industry through value addition, processing, improved picking, grading, modern packaging and marketing practices.

However the country has not yet been able to achieve quality standards and marketing potential. There are issues relating to compliance, traceability, farm management; perish ability, cool chain, storage, wholesales markets and marketing etc. The disbursement of credit to this sector during 2006-07 was only Rs.280 million which is 0.16 % of total agri credit disbursement for the year. One of the main reasons for low disbursement to horticulture sector is lack of awareness of banks regarding the sector. Therefore, in order to facilitate the banks, the guidelines for financing have been developed by SBP in collaboration with banks, MINFAL, PHDEB; hortibusiness finance sub-committee, farmer's representatives and other stakeholders. Banks can benefit from the guidelines to tap the sector that promises high returns to the horticulturist, banks and the economy as a whole.

2. Hortibusiness

The business of fruits, vegetables, flowers and condiments from sowing through cultivation and food processing till export is termed as agribusiness. The business can be broadly divided into two main categories viz. horticulture crops (pre harvest) and value addition and processing (post harvest).

- **Horticultural Crops**

The pre harvest hortibusiness is termed as horticulture which is one of the most important branches of agriculture. Horticulture deals with fruits, vegetables including condiments, flowers and ornamental shrubs and trees. Horticulture crop often have high cash value and are intensively cultivated on relatively small area. The high cost value of the horticulture crops justifies a large input of capital, labour and technology.

There are four main branches of horticulture.

- i. Pomology or fruit production**

Pakistan is one of the few countries of the world having four seasons and the soil is rich for all kinds of fruits. More than 28 types of fruits are grown throughout the year. The country has also got the position both geographically and strategically to enhance its fresh fruit produce exports to our traditional markets like Middle East, Afghanistan, Iran, and the emerging markets like China, Central Asian Republics along with the highly competitive but lucrative markets of Europe and Far East. The prominent fruit crops are mangoes, citrus (kino, oranges, etc), dates and apples having vast local consumption as well as exports.

ii. Olericulture or vegetable production

Pakistan also produces more than 30 types of vegetables. The sector has immense potential both for local consumption as well as exports. The tunnel farming has also provided a boost for the production of off season vegetables which is one of the most profitable avenue for farmers. The government is emphasizing for the development of potato and onion production on commercial basis as it has a potential for processing and exports in addition to local consumption.

iii. Floriculture or flower production

In Pakistan floriculture is a relatively new but a fast growing sub sector of horticulture. Traditionally rose petals, jasmine, tulips and marigolds have been produced for garlands, worn on festivals and ceremonial occasions. Local growers export to the Middle East and on selected cases, to meet European demand of red roses on Valentine day. The mountain valleys of North Western Frontier and Balochistna provinces offer potential to produce off season and temperate region flowers, bulbs, corms and ornamental plants.

iv. Ornamental horticulture or use of plants for ornamented purposes.

The production, marketing and maintenance of landscape plants is classified under ornamental horticulture. The sector is in infancy stage in Pakistan under the government's pilot projects. However, it is also one of the potential areas of horticulture as the profits are very high having large export market in USA, Europe and Japan.

• **Post-Harvest Hortibusiness**

Horticulture commodities are highly perishable. Due to unscientific traditional handling post harvest losses are estimated to the tune of 25% to 40% which is disincentive to horticulture expansion. These losses are mainly due to use of traditional techniques of plucking fruits & vegetables and their transportation/storage. There is a need to have post harvest processing, storage, grading, polishing, packing and other activities in addition to development of cool chain.

3. The Guidelines for Financing

In view of importance and un-tapped potential of horticulture industry the guidelines are developed to enhance flow of formal credit to this sector. These guidelines are aimed at assisting and facilitating banks to penetrate in this sector by rigorously financing related activities. The guidelines cover the financing to horticulture crops and its value addition/processing up to farming community. Whereas, the financing for hortibusiness activities are to be made as per prudential regulations of commercial and SME financing. Banks may adopt the guidelines in the present form or with some adjustment to suit their organizational & operational

needs and market characteristics, subject to compliance with SBP Prudential & other Regulations for agricultural financing.

The main objectives of Guidelines are:

- To facilitate banks in developing internal expertise & products for horticulture financing.
- To encourage & facilitate financial sector to provide needed working capital and term finance to horticulture sector.
- To encourage farmers to adopt modern and efficient horticulture farming techniques.
- To encourage increased fruits and vegetables foods production for local consumption.
- To promote export of fruits & vegetables foods by promoting processing industry for value addition.

4. Eligibility of the Borrower

Individuals/ partnership concerns and all types of legal entities engaged in horticulture related activities or desirous to establish new horticulture farming and having sufficient knowledge and relevant experience are eligible to draw loan under horticulture financing scheme. As per Prudential Regulation, agriculture financing shall not include loans to traders and intermediaries engaged in trading/ processing/ grading/ packaging of agriculture commodities. Such lending would fall under Corporate/ Commercial Banking or SME financing and would be subject to compliance of corporate/ commercial/ SME regulations. However, agricultural financing can be extended to entities (including corporate firms, partnerships, and individuals) engaged in farming activity as well as processing, grading, packaging and marketing of mainly 75% of their own agriculture produce. Financing facilities may be extended provided bank is satisfied with the capacity of the borrower /sponsor to manage and run the orchard farm subject to the following conditions.

- Borrower should be a holder of computerized NIC while usual requirements for corporate clients would apply.
- Borrower should not be a defaulter of any bank / financial institution. This condition may be relaxed in case the bank is satisfied with creditworthiness of the borrower and that earlier default was circumstantial and not willful.
- Bank is satisfied and comfortable with the farmer and guarantors (where applicable) identity character, reputation and creditworthiness.

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 flow, and/ or any other possible income streams.

5. Types of Financing

Horticulturists need financing facilities to meet daily expenses i.e. working capital requirements and long term investment for horticulture.

- **Working Capital Financing**

To meet day to day expenses of horticulturists, banks can provide working capital finance on revolving basis to cover following items :-

- 1) Seeds/ root-stock and nursery plants.
- 2) Water – Charges for purchase of tube-well water
- 3) Fertilizers and gypsum
- 4) Pesticides including herbicides and Weedicides.
- 5) Sprayers
- 6) Farm Labour
- 7) Charges for Laser Leveling
- 8) Labor charges for Fruits, vegetables, etc picking
- 9) Labor charges for fruit/ vegetable sowing / Transplantation of nursery
- 10) Charges for Purchase of diesel & engine oil for tractor
- 11) Charges for purchase of diesel & engine oil for tube-well operation
- 12) Orchards and Nurseries (including all dry fruits, dates and papaya)
- 13) Production Loans for off season vegetables grown in green houses and tunnels
- 14) Herbs / Roots Production on Commercial Basis
- 15) Transplantation Expenses
- 16) Inter Culturing Expenses
- 17) Farm Yard Manure
- 18) Production loan for commercially viable medicinal crops
- 19) Storage, Transportation, Marketing, Grading, Packing and Processing by farmers
- 20) Electricity Charges
- 21) Cost of Packing Material
- 22) Any item to meet day to day expenses.

- **Term Financing**

The term finance facilities could be provided for the following purposes:

- 1) Cost of construction/ installation etc. of structures involved in Tunnel & Green House Technology for growth of Horticultural Produce
- 2) Rotary sprinkler / Water gun
- 3) High pressure pump
- 4) Tractors
- 5) Farm implements
- 6) Tube-wells
- 7) Food processing plant
- 8) Mini Juice extraction plants for citrus, mangoes and other fruits
- 9) Saw Machine for Crate making for fruit
- 10) Fruit polishing machines / Waxing machine
- 11) Arboriculture (wind breaker, shelter belts, hedges)
- 12) Orchards and Nurseries (including all dry fruits, Dates and Papaya etc.)
- 13) Fencing
- 14) Equipments for Sprinkle/ Trickle/Drip Irrigation System
- 15) Steel / Iron Tanks for Water supply / Storage at farm
- 16) Greenhouse Equipment / Technology
- 17) Construction of Cold storages and purchase of Refrigerator Van / Mini trucks by farmers
- 18) Constructions of Godowns and Bins for storage of agri produce.
- 19) Fixed capital for storage of Raw agricultural farm produce
- 20) Purchase of Trucks bullock carts transport machinery, country boats, forklifts etc., Purchase of Pick-up and Mini Trucks for agricultural use
- 21) Purchase of Processing Machinery including seed dryers, vegetable dryers & fruit dryers for use at farms
- 22) Scientific Storage: System of commodity specific cold chain to be introduced from origin to destination.
- 23) Construction of Laboratory for Integrated Pest Management (IPM)
- 24) Any other item related to capital expenditure involved in horticulture.

6. Loan Limits and Repayment Terms

The limit amount shall be assessed by bank on the basis of financing request, appraisal or feasibility report. The banks should undertake due diligence and market survey to assess the prices of equipments, vehicles and all those things/goods which a bank can finance for the Horticulturist. Banks at their own discretion may sanction revolving credit limits to the borrowers automatically renewable on annual basis for working capital financing and for medium to long term financing for the capital expenditure. The loans provided under revolving credit scheme are required to be adjusted every year along with up to date mark up.

A list of main fruits/ vegetables their varieties, sowing/ maturing period and suitable areas for their growth is attached(Appendix A) for the better apprehension of banks to adjust their repayments frequency and extension of credit.

7. Mark up

Banks shall determine mark up rate by their own keeping in view KIBOR rate and their cost.

8. Security, collateral and insurance

• Security, collateral

- Charge on agricultural land through passbook system.
- Mortgage of rural, urban or commercial property.
- Hypothecation/mortgage of assets e.g. processing, grading and packaging machinery, generator & refrigerators etc.
- Pledge of SSC/DSC, lien on bank deposit, bank guarantee and/or;
- Individual/Group Guarantee (maximum per person exposure as mentioned in PRs for agriculture regarding personal guarantee).
- Any other tangible collateral security acceptable to bank.

• Insurance

Banks are encouraged for the insurance of loans provided for horticultural purposes and hypothecated stocks/ assets should be comprehensively insured from reputed insurance company or group of companies. It is advisable that banks should sensitize and educate their borrowers about the critical importance of having an insurance cover and should make insurance as an integral part of their respective horticulture financing products.

9. Documentations

Following documents or formalities must be completed.

- Bank account in the name of intending borrower before applying for the finance facility.
- Standard Application form (SBP format) in Urdu along with borrower and his/ her father / husband name in English (for feeding in computer with correct spelling) duly completed, should be obtained. Signatures/ thumb impression of the applicant, guarantor and witnesses (where required) and verified by the branch manager.
- In case of tenants / farmers a certified copy of Khasra Girdawari/ copy of field book/ Form VIII A Fard Jamabandi or Form VII and VII A (for land owners of Sind Province)

- Bank charge may be created on the agriculture land through passbook system by the revenue Authorities and a charge creation certified Schedule –II is to be obtained wherever applicable.
- Register or equitable mortgage of rural/urban property or earmarking of Banks deposits or pledge of FSC/SSC/Regular income certificates/other financial instruments or pledge of gold, silver and gold and silver ornaments.
- Letter of agreement-cum-guarantee (IB-7) from the borrower.
- Letter of hypothecation/ pledge for stocks, plant and machinery etc, wherever applicable.
- Appraisal/ feasibility report in the applicant and credit report of the guarantors must be prepared before finance is sanctioned.
- SBP credit information report should be obtained.
- For loan against third party guarantee, viz. fruit/ vegetables processing, grading, packaging units, etc, bank shall ensure properly secured its exposure in accordance with the relevant SBP regulations. All these indirect financiers will provide a list of their bonafide horticulture farmers or farms along with their computerized NIC numbers and addresses. Finance would be disbursed in the account of bonafide horticulture farmers or farms. The guarantor will be responsible for repayment of loan as per terms and conditions agreed between the bank and the indirect financier.
- Any other documents required by banks to safe guard their intrest.

Completion of documentation shall be the responsibility of ACOs or Branch /Regional Manager.

10. Loan Monitoring System

Effective loan monitoring and tracking system are critically important for ensuring quality of the loan portfolios. Banks must develop sound and reliable loan monitoring and tracking system for desirable growth of credit in the horticulture sector.

11. Recovery of Loans

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. The traditional correspondence and letter/notice based recovery mechanism will not be successful in agricultural loans. However, in case of delinquent borrowers the following recovery process may be initiated:

- 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.

12. Compliance with Prudential Regulations

Bank shall ensure that financing to horticulture sector is being made in compliance with the SBP Prudential Regulations for agriculture financing, including classification of non-performing loans.
