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**STATE BANK EASES BANK LENDING FOR AGRICULTURE:
NEW PRUDENTIAL REGULATIONS FOR AGRICULTURE FINANCING ISSUED**

The State Bank of Pakistan today issued a separate set of Prudential Regulations for Agriculture Financing in order to facilitate and encourage the flow of bank credit to the agriculture sector. These Prudential Regulations, which will come into force immediately, have been finalized after extensive and intensive consultations with all the major stakeholders, particularly the banks. The newly issued Prudential Regulations have been placed at SBP web-site <http://www.sbp.org.pk/publications/prudential/index.htm> for ease of reference of all concerned.

The main objective of issuing a separate set of Prudential Regulations for Agriculture Financing is to capture the peculiar characteristics of the sector's production and marketing cycle and align it with the bank's lending and borrower's repayment cycles.

A major change in the new regulations is to enable the commercial banks to extend agriculture credit on the basis of future cash flows instead of relying solely on the collateral. Standard cash flows can be estimated for different crops in different geographical areas and these cash flows can then be adjusted for specific borrowers by trained credit officers of the banks/DFIs, keeping in view the quality of land, efficiency of the individual farmers, etc. This will not only facilitate expeditious decision making, but will also reduce subjectivity in the process of decision making.

This important change in credit appraisal procedure would open-up bank financing for a large number of small farming households who have so far been denied access due to lack of adequate collateral. The State Bank of Pakistan has targeted that at least 3 million farm households out of total 6 million should have access to institutional agriculture credit by 2010. The new regulatory framework is intended to help achieve this target.

The Prudential Regulations for Agriculture Financing may be considered only as minimum standards and the banks/DFIs are advised to take sufficient measures to ensure that agricultural financing is undertaken in a prudent manner. The banks/DFIs have been asked by the State Bank to put in place an appropriate management information system to monitor the quality of agricultural finance portfolio on a continuous basis and take appropriate decisions at the right time. They have also been requested to diversify their agricultural finance portfolio in terms of geographical areas, types of financing, etc. to avoid the risks of concentration of credit and designate suitable, qualified and properly trained staff for this purpose.

Keeping in view the national importance of agriculture sector, the State Bank expects banks/DFIs to take extra care in facilitating their borrowers. For better understanding of their customers, banks/DFIs have been asked to translate their application forms, check lists of all required documents and brochures in Urdu and other regional languages.

State Bank of Pakistan will, as always, keep a close liaison with all the stakeholders and will modify and update these Prudential Regulations whenever necessary.
