

September 6, 2008

State Bank sets Rs 250 Bln agri credit target for FY09

Dr Shamshad Akhtar, Governor State Bank of Pakistan said today that the central bank has set an indicative credit disbursement target of Rs 250 billion for the agriculture sector for the current 2008-09 fiscal year (FY09) which can be further enhanced after having a detailed analysis of the rising input costs of the sector.

While chairing a meeting of the Agricultural Credit Advisory Committee (ACAC) held at the State Bank of Pakistan, Karachi, Dr Akhtar commended the performance of banks that played a significant role in surpassing the target set for the last fiscal year.

Dr Akhtar informed the meeting that in 2007-08 banks have surpassed the agriculture credit target of Rs 200 billion and disbursed Rs 212 billion to the farming community which is higher by Rs 43 billion or 25% than the last year's disbursement of Rs 169 billion.

She said that keeping in view the growing requirements of the sector, the State Bank has proposed an indicative target of Rs 250 billion for 2008-09, which is higher by Rs 50 billion or 25% than last year's target and Rs 38 billion or 18% higher than the actual disbursements of FY08.

Dr Akhtar appreciated the fact that sector-wise agriculture credit disbursements during the last fiscal year showed diversification of the credit to non-farm sector as its share in the total credit disbursement increased to 25% in FY08 from 17% in FY07. She pointed out that recoveries of agriculture loans have shown significant improvement during FY08 and banks recovered 92% of their recoverable amounts as against 83% recovered during FY07.

While responding to questions posed by representatives of three less developed provinces on lower disbursement of agriculture loans to their respective provinces, the SBP Governor said that the banks are making efforts which have resulted in increase in the disbursements during the last couple of years. Delegates pointed out that there are issues of credit absorption in these provinces because of low productivity, water salinity, lack of good farming practices by the farmers and other issues that need to be addressed by various provincial agriculture and extension services departments to create enabling environment for banks to increase their outreach.

Dr Akhtar urged the representatives of the three provincial governments to take necessary steps to address these issues and improve the coordination between respective departments on fast-track basis to increase the flow of agriculture credit to the less developed areas of the country.

SBP Governor also informed the meeting about the recently launched Crop Loan Insurance Scheme developed by SBP Task Force that would be implemented from coming Rabi crop. To facilitate the small farmers, the government has agreed to share the premium cost of subsistence farmers, she asked banks to adequately publicize the scheme for the benefit of the farmers. It is hoped that banks will also adjust their agriculture loan pricing following the introduction of Crop Loan Insurance Scheme as it will mitigate their risk of losses due to natural calamity, she added.

Dr Akhtar briefed the Committee about State Bank's initiative of introducing Guidelines on Islamic Financing for Agriculture. She urged all stakeholders to effectively publicize the scheme for creating awareness amongst the farming community.

The representatives of the farming community while appreciating the efforts of State Bank and commercial banks in increasing the flow of credit to farming community highlighted the issues pertaining to low quality seeds, acute shortage of fertilizers, water scarcity and lack of marketing channels. They suggested to the Committee to take up these issues with concerned federal and provincial government departments so that the farming community can utilize the banks' credit efficiently.

The Executive Director, State Bank of Pakistan, Mr. Jameel Ahmed informed the meeting that as per approved plan the banks will open six hundred branches during 2008, 20% of which will be in the rural areas. Dr Shamshad Akhtar said that SBP will encourage the banks to open as many number of branches as they like in rural un-served areas in addition to approved plan.

The banks briefed the Committee on their respective initiatives which inter alia include increase in number of agriculture lending branches, increase in agriculture credit officers, introduction of innovative lending products for farm and non-farm activities and number of awareness programs conducive throughout the country.

While concluding the meeting, Dr Akhtar informed the Committee about the introduction of a scheme under the DFID funded Financial Inclusion Program whereby the banks can provide wholesale credit to microfinance banks for onward disbursement to micro borrowers of rural areas against the credit enhancement guarantee scheme. She said that the initiative will facilitate government's efforts to alleviate poverty and also increase access to credit to rural/farming community, besides the banks can contribute in enhancing agriculture credit disbursement through the network of microfinance institutions.
