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## *SBP Governor expresses satisfaction over the credit disbursement to the Agriculture Sector*

Dr Shamshad Akhtar, Governor, State Bank of Pakistan reported to the Agricultural Credit Advisory Committee (ACAC) the progress of banking sector in delivery of credit to agriculture sector. The overall credit disbursement to the agriculture sector during the first half (July-December, 2007) of the current fiscal year has been good and based on the achievements, it is hoped that the indicative disbursement target of Rs 200 billion for the year will be achieved.

She made these observations while chairing the mid-term review meeting of ACAC, held at State Bank of Pakistan, Karachi today. The meeting was informed that banks have disbursed a total of Rs90.3 billion to the agriculture sector during the first half of FY08 as against Rs 71.7 billion disbursed in the same period last year, showing an increase of Rs 18.6 billion or 26 percent. The overall disbursement during July-December, 2007 is about 45 percent of the full year target and is in line with the percentage achieved during the same period last year.

It may be mentioned here that the ACAC in its annual meeting held on 10<sup>th</sup> July, 2007 had set indicative agricultural credit target of Rs 200 billion for the fiscal year 2007-08. The target was 25% higher than the previous year's target of Rs 160 billion and 18.3% higher than the actual disbursements of Rs 169 billion. Out of total credit of Rs 200 billion, Rs 96.5 billion was allocated to big five commercial banks, Rs 35.5 billion to domestic private banks, Rs 60 billion to Zarai Taraqati Bank Limited (ZTBL) and Rs 8 billion to Punjab Provincial Cooperative Bank Limited (PPCBL).

The meeting was also informed that five big commercial banks (ABL, HBL, MCB Bank, NBP and UBL) as a group disbursed Rs 44.9 billion, ZTBL Rs 23.9 billion, domestic private banks Rs 19.1 billion and PPCBL Rs 2.4 billion as against disbursements of Rs 34.3 billion, Rs 24.2 billion, Rs 10.2 billion and Rs 3.0 billion respectively in the same period last year. Percentage share of five big commercial banks and domestic private banks in total disbursement increased from 48% to 50% and from 14% to 21% while the share of ZTBL and PPCBL declined from 34 % to 26% and from 4% to 3 %, respectively.

The province-wise disbursements during July-December, 2007 depict that the share of Sindh in total disbursements has improved from 9.9% to 11.3 % over last year whereas the disbursements to other provinces remained almost at the same level. Disbursements in Sindh have increased by Rs 3 billion or 44% to Rs 10.2 billion as compared to the same period of last fiscal year. The sector-wise disbursement shows that the share of non-farm sector has increased to 27% from 13% during the first half of FY08. To facilitate and encourage banks to focus on non-farm sector, SBP has taken a number of initiatives which include issuance of guidelines for livestock & fisheries financing, horticulture financing and recently designed a financing scheme for small farmers based on group lending methodology.

The meeting dwelt at length on ways & means to further enhance the outreach of the rural financing and came up with several proposals in this regard.

Dr Akhtar said that the State Bank is taking a number of initiatives for financial inclusion of rural population and in this regard it has developed a microfinance strategy in collaboration with the stakeholders. A key to enhancing

financial penetration and augment inclusion is to enhance greater commercialization of both agriculture and nonagriculture industry with Government focusing on creating a conducive and enabling environment.

She said that the subsidized lending has proved unsuccessful across the world. She emphasized on commercialized lending to the rural sector at an effective pricing so that it could be beneficial for both the farmers and the commercial banks. In order to increase the flow of credit to agriculture sector, the Governor issued the following directives:

- To have an analysis of interest rate pricing mechanism of banks on their agri. lending to ensure that farmers are not overcharged but at the same time banks are able to effectively recoup the cost of administration and are able to price the associated risk properly.
- To initiate a crash educational program for the capacity building of the agri/rural credit officers of banks in order to improve their capacity in agri. financing.
- Ministry of Food, Agriculture & Livestock (MINFAL) and the State Bank to develop a comprehensive mapping of districts/ villages where government initiatives are underway to facilitate banks in lending to respective areas.
- To continue exploring effective crop insurance mechanism to mitigate the risks of losses in case of natural calamities.
- To liaison with provincial governments in expediting the computerization of land record.

Speaking on the occasion, Mr. Zia-ur-Rehman, Secretary, MINFAL appreciated the efforts of SBP and banks in increasing outreach of agri. credit. He gave a presentation on Government's initiatives for the development and promotion of agriculture sector. He said that MINFAL has initiated 62 projects at a cost of Rs 130 billion while the allocation for the current year is more than Rs 15 billion for the development of agriculture sector. He said that we are encouraging private sector to play its vital role in the development of this sector. He said that banks should plan to disburse maximum agricultural credit at lowest possible mark up to meet the growing requirements of farming community. He also suggested that the processing time for the disbursement of agricultural loan should be minimized. He stressed upon banks to accept animals as collateral for the diversification of agri. credit to non-farm sector.

A presentation by the Chairman of SBP Committee for Development of Guidelines for Innovative Lending Technologies for Agri/Rural Credit Enhancement, was also made. The Governor has requested SBP and PBA to work out a timetable for implementation of the various initiatives suggested for enhancing rural credit.

The meeting was attended, among others, by senior officials of the State Bank of Pakistan, presidents and representatives of commercial banks, ZTBL and PPCBL, officials of federal and provincial governments, chambers of agriculture, farmers' associations and other stakeholders.

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