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State Bank develops Financing Scheme for Small Farmers

The State Bank of Pakistan has developed a Financing Scheme on group-based methodology for small farmers involved in crop and non-crop activities in order to improve the access to finance to such farmers who are unable to meet adequate collaterals requirements of commercial banks.

Under the scheme, banks shall provide loans to the members of small farmers' group for crop and non-crop activities, based on their cash flow under joint cross guarantee of group members. The scheme covers all areas of the group-based financing methodology including group formation, roles & responsibilities of members, bank & group coordinator, size and tenure of loans, documentation and other related matters. However, financing to small farmers under the scheme shall be subject to compliance with SBP regulations on agriculture financing.

It may be pointed out that under group-based lending programs; loans are given to individuals through a peer group. In this case, group members guarantee repayment, of each other's loans and collateral is generally not used but peer pressure and collective responsibilities generated by the group take their place.

Financing under the scheme will not exceed Rs200,000/- per borrower, which is within the clean lending limits of Prudential Regulations for Agriculture Financing. However, the exact amount of loan will be determined by the bank based on genuine requirements and cash flow of the applicant. Maximum period of loan should be fixed as per Prudential Regulations, repayment schedule may be set as per production cycle of the crop/non-crop activities being financed or revolving credit facility for three years subject to mandatory clean up of entire liabilities (both principal and mark up) once in a year or cash flow of the borrower in case of non-crop activities. Banks are advised that they should have detailed understanding and information about the borrower's business and his/her assets as well as his/her capacity to effectively use and repay the loan.

Moreover, under the scheme the loan can be extended for working capital requirement of the farming community both for crop as well as non- crop activities. Banks can also provide term loan facility to small farmers for making different types of improvements in the land, construction of sheds/ ponds, development of orchards/ nurseries, purchase of livestock, farm implements, machinery, tube wells, generators etc.

Banks are advised to arrange insurance of the amount of loan disbursed for crop and non crop activities (wherever available) and life insurance of the borrower to safeguard the interest of the borrower and the bank, in case of losses due to natural calamity or event beyond the control of the borrower. In addition, where the agricultural loans have been extended for specified purposes, the banks/DFIs are advised to ensure that the loans have been utilized for the same purposes for which they were obtained. For this purpose, the banks/DFIs may consider it prudent to make payments directly to the suppliers wherever appropriate. However, this provision will not apply on farmers who are provided loans under Revolving Credit Scheme.

It may be pointed out that the outreach of agricultural credit is limited to the extent of about 2 million borrowers as against total farmer's population of 6.6 million. Majority of the country's farmers i.e. 84% comprises of small farmers and rely on informal sector credit at exorbitant rates to meet their agricultural credit requirements. One of the main reasons of the financial exclusion of these small farmers has been their inability to provide collateral to banks. It is expected that the problem of financial exclusion will be mitigated with the introduction of group-based financing scheme for small farmers. The full text of the Financing Scheme for Small Farmers is available at SBP website: www.sbp.org.pk

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