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**“SBP issues guidelines on Value Chain financing to help
Banks increase agri-financing outreach”**

State Bank of Pakistan has issued Guidelines on Value Chain Contract Farmer Financing to encourage banks to extend credit to small and marginalized farmers by leveraging on the strengths of inter-relationships that exist in the agriculture value chain. These guidelines will serve as a basis for banks to develop mutually beneficial relationship between the banks, farmers and the value-chain agent.

Contract Farming assumes an extensive number of arrangements along the value chain linking small-scale farmers to markets by either formal or informal contracts. Value Chain Contract Farmer Financing schemes are broadly defined as binding arrangements between banks and agri. value chain actors including producers, processors, aggregators, traders through which a farmer or group of farmers ensures supply of agricultural products to individual firms. It replaces the traditional collateral requirements with trade agreements by facilitating coordinated commercial relations between value chain actors.

The introduction of value chain contract farmer financing scheme will enable farmers to avail financing from banks backed by processor’s guarantee and in return buyers/processors may get assurance of getting required quantity and quality of agricultural produce. The guidelines have introduced five instruments including Trader Credit, Input Supplier Credit, Marketing Company Credit, Lead Firm Credit and Arthi or Intermediary, besides identifying roles & responsibilities of stakeholders, financing mechanism, eligibility criteria, types of financing, loan limits, security & collateral, insurance and loan monitoring mechanism.

It is expected that the guideline would benefit farmers in terms of enhanced productivity in variety of ways such as availing quality input facilities, adopting new technologies, insurance coverage for crop/non-crop activities and most importantly assurance of buyer in advance. The processors, traders, exporters and *Artis* gains ensured supply of desired quantity of quality produce and bankers are at ease with assured loan settlement by the VC agents.

Small farmers with up to 5 acre land holding constitute 65% or 5.4 million as against 8.3 million farm households in the country. Therefore, SBP, in line with government’s efforts to promote access to finance to small farmers, is working on a number of initiatives that include credit guarantee scheme for small & marginalized farmers, crop & livestock insurance and warehouse receipt financing.

These guidelines are headway into SBP’s consistent efforts to improve small farmers’ access to finance to achieve the broader goal of financial inclusion. SBP has advised banks to use the guidelines for developing their own products for providing credit to contract farmers particularly to those who lack collateral to offer to the bank. Successful adoption of the guidelines will improve depth and spectrum of agri-financing to escalate rural household incomes and economic growth of the country. The Circular No. for these guidelines is AC&MFD Circular No.5 of 2014 dated September 30, 2014. The Guideline and Circular may be accessed from SBP website

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