

## **LOCAL CREDIT ADVISORY COMMITTEES**

### **INRODUCTION**

SBP management felt the dire need for the formation of Local Credit Advisory Committees (LCAC) at local level as it was observed that the stake holders (i.e. business community, industrialists, exporters, agriculturalists, SME's, local chambers / various associations, banks and general public) were facing lot of problems (i.e. availability / disbursement of credit as well as other day to day operational problems) and there was no forum where they can raise their day to day problems and seek help at their door step for remedy. Keeping in view of all above as well as for the betterment of economy in general and the stake holders in particular the captioned Committees were formed by Governor SBP on 16-06-2000 at each field office of SBP BSC all over the country, aiming to resolve the identified/ genuine problems of stakeholders at local level and minimize the references to SBP and Central Directorate, Karachi. The Chief Managers of SBP BSC field offices were advised to play an active role in the above Committee, in resolving the identified / genuine problems of stakeholders at local level in consultation with the policy departments of SBP. The Chief Managers also pay on site visit of their jurisdiction aiming to identify the problems of small farmers, trader & SME's etc. The meeting to be conducted on monthly basis.

Now the captioned committees are running very well and appreciated by all stakeholders as their many problems are being solved at local level. Further, SBP also amended its policy in light of the genuine/ identified problems of the stakeholders. Revised Prudential Regulations, Export Refinance, Consumer Finance, Housing Finance, Revamped LMM Scheme, Revolving Credit Scheme for Agriculture etc. are few examples which can be quoted as based on feedback of these Committees. Through these Committees various seminar/workshops/conferences/specialized training on Export Finance, Prudential Regulations, Agricultural Credit and Islamic banking are arranged at majority of the offices aiming to create awareness of SBP schemes among the stakeholders and obtain feed back (if any) from them.

### **12.1 FORMATION OF LOCAL CREDIT ADVISORY COMMITTEE (LCAC)**

As per the instructions of the Governor SBP, (through Ex. ED, Note No.KMS/1521-1527/2000 dated 15-6-2000) Local Credit Advisory Committee(including Sub. Committee on Agriculture) established at every SBP BSC field office w.e.f. 16-6-2000.

#### **12.1.1 Purpose**

A source of guidance on relevant matters concerning SBP and public. Also interaction between chambers/banks to resolve the genuine difficulties faced by banker and "other beneficiaries" of export finance facility and "other services" provided by SBP offices to public - C.Ms to play their role as leader of banking community in the area of their jurisdiction efficiently/diligently and promptly address the genuine problems identified by private sector/bankers in consultation with the concerned department of SBP, he should be readily available to bankers, representative of trade/industry and general public.

### 12.1.2 Process

Meeting to be conducted on monthly basis, the minutes of which to be submitted along with resume/status of issues raised in such meetings and follow up action to Director CAD (Now renamed as CMAD) SBP.

The banks were advised for the above committees and were requested (through Director, BSD SBP letter No. BSD (RU-45) 636/(MAC)-2000-20286 dated 7<sup>th</sup> December 2000) for their proper nomination/representation in the above committee with full powers as it was observed that nominated members were not only lacking the understanding of problems raised during the said committee meetings but also express their inability to resolve the petty matters due to lack of powers which they require from their respective main offices.

Further, Governor SBP advised/requested (vide a D.O. No.BSD/RU-45/936(MAC)/2001-91-95 dated 2<sup>nd</sup> January, 2001)the Presidents of 5 major Banks for:-

- Formation of above committees.
- Advised for the availability of their representatives with delegation of powers to resolve/problems in above meetings.
- Aiming the decision on the genuine problems faced by the business community to be made at Local Level.
- Minimize the references to him and to their Central offices at Karachi.

### 12.1.3 Stakeholders

- ◆ Business community
- ◆ Industrialists
- ◆ Exporters
- ◆ Agriculturists
- ◆ SME's
- ◆ Local chambers / various associations
- ◆ Banks
- ◆ Government departments
- ◆ General public/individuals
- ◆ All policy departments of SBP/SBP BSC

For further strengthening these Committees, the Governor SBP again discussed the issue in a joint meeting with policy department of SBP/SBP BSC and Chief Managers (the meeting attended by the Directors of BPD, EPD & ACD SBP, Managing Director SBP BSC and Directors of Administration, Audit and Accounts (BSC) held on 18<sup>th</sup> December 2003 at HOK, advised the Chief Managers, to play positive/ proactive role and decided to create a Cell in the Accounts Department of SBP BSC as a focal point for coordination among the all concerned departments of SBP and Offices. Accordingly a cell was created in the Accounts Department SBP BSC and a Joint Director was posted on 30<sup>th</sup> December, 2003.

Now the cell is operational, receiving minutes of LCAC meetings and on site visit of Chief Managers as well as other individual problems faced by the stakeholders and tackle the same with the concerned Department of SBP. The cell also disseminate the decision thereof not only to the concerned office but to all offices for their guidance, in addition to the cell also disseminate the SBP policy circulars and other material to offices accordingly and also prepare office-wise performance of LCAC meetings / Chief Manager's on site visit of his area of Jurisdiction as well the status of seminar / training / workshop in field of export refinance, housing finance, agricultural credit and Islamic banking.

## 12.2 MAJOR PROBLEMS IDENTIFIED

The major problem discussed so far in the LCAC meeting /on site visit can be categorized as common and non common problems which are as follow: -

### 12.2.1 Common / Exporters problems

1. Difficult procedure for grant of loan.
2. Excess documentation demanded by banks in loans/credit etc.
3. Excess Bank Charges/interest rate(L.C/Advising charges, Agricultural credit etc.).
4. Valuation of property / Stocks etc.
5. Post dated cheques.
6. Stamp duty on foreign D/A and stamp duty on loan documents.
7. 75% marginal restriction imposed on advances to traders be reduced (SBP reduced it to 40% to the traders registered with GST).
8. To allow smaller amount of remittance for import of urgent essential parts (accessory items) without opening of L.C (limit increased from \$5000/- to \$30,000/-or 5% of export performance).
9. Finance for construction industry( as same will boost domestic indigenous industry).
10. Delay in repatriation of foreign proceeds/realization of export proceeds.
11. Refund of duty drawbacks.
12. Exchange rate problem (lower rate applied on export proceeds on realization of L/Cs).
13. Overcharging on clearance of cheques.
14. Over collateralization/double collateralization.
15. In sufficient working capital limit mainly to procure raw cotton and financing BMR in textile sector.
16. No finance for women entrepreneurs.
17. Markup on delayed realization proceeds.
18. Payment of commission to foreign agent out of foreign currency a/c by exporters in Pakistan. (they are allowed to retain 6% of FOB value of goods realized in foreign currency A/c).
19. Demand for more incentive/limits to banks under the scheme like LMM etc. and reduction in its markup rate (rate reduced ranging from 2% to 5% in the revamped LMM scheme).
20. Exporters demand for long term finance (recently SBP announced scheme for Long Term Financing of Export Oriented Projects(LTF-EOP)).
21. Prudential Regulations –V(maintenance of current & debt/equity ratio).
22. Stuck up / irrecoverable loans status.
23. Status of NPL/sick units/revived sick units.

24. Export refinance facility against discrepant L/C be allowed (SBP allow finance against contract- as such bank can provide finance to its borrowers against the discrepant L/C subject to the production of an undertaking from the exporter that the proceed of the shipment made under the said document will be realized will be received).
25. Quick refund of EFS fine cases (cases of non/short shipment-SBP already published the procedure for refund of fine where the cases are in compliance with requirements are settled promptly).
26. Markup of FCEF (dollar window) to be reduced and fixed @ US \$4% (since been abolished).
27. SBP to revisit Prudential Regulations/Policies (since revamped and revisited, separate PRs on Cosumer finance, Corporate and SMEs have been prepared and introduced. Export Finance scheme( revamped in 2001) and revamped LMM scheme(2004) and Clean Note policy are the few examples in this regard).
28. Hypothecation of property / release of documents.
29. EFS rate to be reduced (the rate now linked with T. Bill rate and reduced to 4% from 13%).
30. Simplification of EFS documentations (SBP now minimized it to single page Application for banks which also include the provision for indirect exporters).
31. High markup rate i.e. 19% on inland L/C and working capital facility.
32. Demand for long term finance in US\$ (scheme already available under which payment is allowed in foreign currency against import of machinery).
33. Moratorium of 180 days on Prudential Commercial Bank and difficulties faced by the traders (SBP cleared the cases of foreign L/C).
34. C.I.B. report.
35. Uniform credit card policy.
36. Foreign currency finance pre payment penalties.
37. Security measures of banks property after 9/11.
38. Delay in Hajj refund cases.
39. Shortage of banks branches/staff.
40. Problems of stakeholders in payment of taxes/challans/utility bills.
41. Non availability notes/coins etc. (clean note policy has been introduced).
42. Non cooperative attitude of bankers.
43. Introduction of Islamic Banking in the country (the same has been introduced).
44. Opening of bank branch at Multan dry port.

#### **Agriculturalists Problems**

45. Quick processing of agriculture loan applications i.e. with in 15 days. (ACD SBP issued instructions in this regard i.e., 7 days for production loan through pass book and 15 days for development loans subject to fulfillment of formalities).
46. Lack of proper delegation of powers at branch manager level.
47. Untimely credit/ slow processing of cases resulting delayed the seasonal loans. (Governor SBP directed all bankers in a meeting held at Hyderabad on 22-3-2004 to prepare check list, intimate the turnaround time to the applicants in addition to this he also directed them to delegate the powers to their branch managers, implement the SBP Revolving Credit

- Scheme for Agriculture also publicize it. C.Ms were directed to pay visit of their area of jurisdiction and intimate the compliance there of).
48. Loan brochures to be translated into Urdu /local languages (ACD SBP translated their loan brochures and passed on the same to the bank for the guidance of farmers).
  49. Agriculture loans to be provided in cash instead of bank A/c.
  50. Enhancement of credit limit of farmers..
  51. Concessional loans for Arid zone areas.
  52. Relaxation in security/ guarantee for fisheries.
  53. Development of agro based industries.
  54. Mechanized farming and provision of modern technology.
  55. Refixation of Produce Index Unit.
  56. Increase in indicative per acre limit for major crops (ACD SBP now enhanced the same on 4-8-2004 and issued circular letter to quarter concerned).
  57. Loans against urban/rural property.
  58. Crop insurance.
  59. Direct finance to Arthees who will work as an agent on the basis of Commission (demand declined in the best interest of loanees).
  60. Late delivery of tractors after booking/grant of loan.
  61. Mandatory targets/Credit line.
  62. Low rate of markup for farmers of Cholistan area.
  63. Tractors are not available on leasing.
  64. Markup on agriculture loans may be reduced.
  65. Uniformity and standardization of documents (including application forms) for agriculture loans, as all banks have their own process (ACD SBP arranged the same and passed on to all banks).

### **12.2.2 Non Common Problems (pertains to the Govt. Departments)**

1. Non implementation of relief package announced by PM for flood/rain affected areas.
2. Incentive /package for draught or calamity areas in the country.
3. Relief in direct taxes be provided to fishermen.
4. National and international deep sea trawlers may be banned so that the fishermen may get the job.
5. Fish market may be controlled /run by the government.
6. Government may fix the rates of various fishes.
7. Problem of loan recovery in Sindh, Revenue Department do not cooperate (recovery cell to be created in every bank with judicial powers).
8. Low availability of pass book/Duplicate pass book. i.e. 20% only issued in Sindh where as in Punjab it is 80%.
9. Non availability of water for irrigation purpose.
10. Increase in PIA quota for exports of mangoes.

**Conclusion**

On going through all above it has been observed that CAC formed as source of guidance on relevant matters concerning SBP and public/stakeholders for solving genuine problems faced by the bankers, beneficiaries of export finance facility and “other services” provided by SBP offices to public. But by the time during the course of meeting the other problems also cropped up (mostly the non common problems) which are not under the purview of SBP but pertain to various Govt. Departments. The some common problems can be (as above) categorized as “other services” provided by SBP to private sector and general public, which are being successfully handled by the field offices of SBP BSC through efforts of CAC Cell and with the cooperation of the concerned departments of SBP or Govt. Department. Now the role of CAC is widely recognized by the stakeholders, as their many problems are instantly solved at local level.

- In line with the vision of Dr. Ishrat Husain, Governor, State Bank of Pakistan, to transform the SBP and its subsidiaries to perform a leadership role in the banking community, Local Credit Advisory Committees were formed in June 2000 at the field offices of the Bank. These committees work under the chairmanship of the relevant Chief Manager of the field office and have representation from commercial banks, DFIs, Government Departments, and members/representative bodies of traders, farmers and other businessmen including members of the federal/local agriculture chamber/farmer Associations and the general public . Regular meetings of these committees are held at the respective field offices of the BSC and the forum works as an effective feedback channel to and from the State Bank of Pakistan.