

## **Ashraf Mahmood Wathra: Financing agriculture in Pakistan**

Keynote address by Mr Ashraf Mahmood Wathra, Governor of the State Bank of Pakistan, at the International Conference on Innovative Agriculture Financing, Islamabad, 28 April 2015.

\* \* \*

Hon'ble Senator Mohammad Ishaq Dar, Federal Finance Minister

Hon'ble Mr. Sikandar Malik Bosan, Federal Minister for National Food Security and Research

Mr. Patrick T. Evans, Country Representative, FAO of United Nations

Mr. Chamnong Siriwongyotha, General-Secretary, Asia-Pacific Rural & Agriculture Credit Association (APRACA)

Mr. Saeed Ahmad, Deputy Governor, State Bank of Pakistan (SBP)

Our esteemed experts/guests from overseas

Distinguished CEOs/Presidents/Executives of banks, MFBs, Representatives of Farmers & Business Associations, and Academia.

Colleagues, ladies and gentlemen.

### ***Assalam-o-Alaikum and Good Morning!***

1. I extend a very warm welcome to all the participants in today's International Conference on Innovative Agriculture Financing and to Islamabad. I am particularly grateful to our international speakers who have taken out time to travel long distances to attend this conference; and share their knowledge and insights with us on a topic which is crucial to our national food security, growth and well-being. I would like to express my special gratitude to our Chief Guest Senator Mohammad Ishaq Dar and Guest of Honor Mr. Sikandar Malik Bosan whose presence here today is a reflection of the focus and importance that the country's leadership places on the development of Agriculture sector.

2. Honorable Finance Minister: we are grateful for all the support that you have provided to the promotion of inclusive finance in the country. We all know that you have great passion and high commitment for expanding the contribution of agriculture in the economy. In line with your vision of a progressive and equitable economy, the Government has initiated unprecedented programs and schemes for the promotion of financing to agriculture, especially to small farmers. SBP and banks are striving to optimally leverage these initiatives to make far-reaching impact on financial inclusion and economic development.

3. Honorable Minister for Food Security, Mr. Sikandar Malik Bosan: The importance of your office and its contributions to the development of agriculture sector are widely acknowledged. The crucial role that your Ministry is playing for the growth and development of Agriculture with special focus on providing relief to small farmers by linking them to the market; introducing cutting edge farm technology and state of the art high yield seed varieties and numerous other innovations for the promotion of agri-based exports for the uplift of agriculture in the country.

### ***Ladies and Gentlemen,***

4. Majority of the world's poor, an astounding number of over two billion people share one common profession: farming. But where agriculture harbors so many of the world's poor; it also offers the key to graduate economies out of the vicious cycle of poverty and food insecurity. Beyond direct links to rural livelihood, agricultural sector has strong links to rest of the economy, and this is one of the most powerful ways in which it generates overall growth and reduces poverty. Empirical evidence suggests that investment in agriculture is 2.5 to 3.0 times more effective in increasing the income of the poor than is non-agricultural

investment. Based on this premise, State Bank of Pakistan (SBP) is making relentless efforts to promote agriculture finance.

***My dear fellows and colleagues,***

5. In our efforts to promote financial services to the agriculture-based community, we are faced with the challenge of removing numerous stumbling blocks to meet the financial needs of the agri-sector.

6. However, with the Grace of Allah Almighty, the financial sector has not only stood strong against these challenges but has also registered remarkable growth. Over the years, we have moved away from the 'mandatory-credit regime' where force-feeding of targets to highly regulated commercial banks was the norm; towards a more open and 'market led' model where State bank has adapted itself into the role of a facilitator and developmental partner of financial institutions to accelerate the growth of agriculture finance in its natural eco-system.

7. Today, more than ever before, banks are successfully exploiting business opportunities in agriculture financing. We started off with a hand-full of banks as reluctant financiers of agri-sector but now we have 33 institutions, including Islamic and Microfinance banks that are providing financing efficiently to their agri-clientle.

8. Agri credit has demonstrated a consistent rise with annualized average growth rate of 16.2 percent for last three years. As a result agri credit increased to Rs 391 Billion in 2013-14 with Agriculture Credit Advisory Committee (ACAC) pushing the limits to even more aggressive credit disbursement target of Rs 500 Billion to be achieved during FY 2014-15. It is encouraging to note that banks have already disbursed Rs 326 Billion during the first 9 months, which is 65% of the target of FY 14-15, and is 28 % higher than the same period last year.

It is also heartening that the portfolio quality of banks agri portfolio has also improved over the recent period. I believe that the banks would be able to further improve the portfolio quality of agri-lending by using innovative lending models supported with their experience curve.

9. It has been through the collaborative efforts of all stakeholders that the banks have improved their actual agri disbursement to financing requirements ratio from 37% to 53% over the last 5 years and we are working to improve it even further so that more and more farmers can free themselves from the shackles of exploitative informal credit.

In order to make it happen, SBP has taken initiatives to promote agri-financing to bring depth, inclusion, efficiency and stability into the system:

- Innovations in agri-financing are being promoted by adoption of value chain and warehouse receipt financing through constant guidance and pilot projects.
- Enhanced risk management through crop and livestock loan insurance schemes and credit guarantee schemes, to help banks venture into providing financing to farmers, particularly the smaller ones.
- SBP has been extensively involved in capacity building of farmers through offering financial literacy programs and financial service providers, through engagement of local and international experts who are helping the financial service providers to tailor their approach for improved service delivery and increased profits.

***Distinguished guests!***

10. Yes State Bank views positively at the recent increasing momentum, but we should not lose sight of the fact that our long journey in agri-credit market has just started. In this context, I feel we will be wrong if we say that Rs. 500 billion is a big target. Let us not forget that this is only 53% of our credit demand.

11. Going forward, the most critical challenges are inclusion of majority small and marginalized farmers, addressing geographical imbalances and financing to non-crop activities, which will lead to enhancing the share of agri credit in banks' advances. SBP is committed to continue its efforts to deliver real benefits to the farming community and it is hoped that with the joint efforts of policy makers and the industry, agri-financing would soon emerge as a sound, scalable and sustainable business segment for banks in Pakistan.

12. In the end I would like to sincerely thank FAO for their remarkable support in collaborating with SBP for organizing this event. FAO has long played a strong role for the development of agriculture sector in Pakistan through introduction of innovation and technical assistance and this event is a mark of their continued commitment to the cause of developing an exceedingly vibrant agriculture sector in Pakistan. I am also grateful to UKAID for their continued and long-term support to advance financial inclusion in Pakistan. Let me also express our gratitude to Asia-Pacific Rural and Agricultural Credit Association (APRACA) for the importance and attention that you always give to Pakistan and SBP in the regional initiatives.

***Ladies & Gentlemen,***

13. I wish you all a pleasant participation in the conference and hope that this experience will invigorate the spirit of transformation that challenges the conventional beliefs and fosters innovative thinking to find lasting solutions to the problems of agriculture-financing.

Thank you our Chief Guest Senator Muhammad Ishaq Dar, Finance Minister, and the Guest of Honour Federal Minister Mr. Sikandar Malik Bosan, and all the participants and speakers!