

Standard Operating Procedures (SOPs)
Credit Guarantee for Small & Marginalized Farmers (CGSMF)

PART A: Processes under the Guarantee Scheme

1. Allocation of Guarantee Limits to the Participating Financial Institutions (PFIs)

All banks/MFBs/specialized institutions are eligible to participate under the CGSMF. Credit Guarantee Limits (CGLs) will be assigned to all financial institutions involved in agri. financing based on their exposure and potential in agricultural credit disbursements. All those banks which are not currently involved in agri. financing may also apply to Agricultural Credit & Microfinance Department (ACMFD) expressing their willingness to participate in the Scheme. Upon receiving the request, guarantee limits may be allocated to the interested financial institutions.

2. Eligibility of Borrowers

The Scheme will target small farmers/tenants across the country cultivating land, however, irrespective of land ownership or lease/ tenancy;

- a) 5 acres for irrigated land
- b) 10 acres for rain-fed land

The borrowers under the Scheme should be those who do not have required collateral to secure the bank loans and may avail one loan up to the maximum amount of Rs.100,000 at one time, renewable upon maturity.

PFIs shall take into account the following factors while determining eligibility of the borrowers;

- a) Verification of cultivation by the bank/ revenue authorities.
- b) Fresh borrowers having no collateral.
- c) Cash flows of the borrower/cropping pattern.
- d) Obtain e-CIB record of the borrower.
- e) In line with the credit policy of the Bank.
- f) Be in conformity with the relevant rules and regulations.
- g) Shall have valid CNIC.

3. Tenor of Loan

The loan tenor shall be based on cropping cycle up to a maximum period of one year. However, for sugarcane crop with 18 months cropping cycle, tenor may be fixed in accordance to its cropping cycle.

4. Treatment as Unsecured Financing

For the purpose of this Scheme all financing done under CGSMF shall be treated as secured to the extent of guaranteed amount and the remaining amount shall be treated as Clean Exposure (collateral free).

5. Provisioning

For the loans extended under CGSMF and classified as 'Substandard' the provision process would be as below:

For Agricultural Loans extended by Commercial/Specialized Banks:

Classification	Determinant	Treatment of Income	Provisions to be Made
(1)	(2)	(3)	(4)
OAEM (Other Assets Especially Mentioned)	Where mark- up /interest or principal is overdue (past due) by 90 days from the due date	Unrealized mark up/ interest to be put in Memorandum Account and not to be credited to Income Account except when realized in cash	No provision is required.
Substandard	Where mark- up /interest or principal is overdue (past due) by one year or more from the due date	As Above	20% of the outstanding principal net of guaranteed amount under CGSMF
Doubtful	Where mark- up /interest or principal is overdue (past due) by one and a half year or more from the due date	As Above	50% of the outstanding principal net of guaranteed amount under CGSMF
Loss	Where mark- up /interest or principal is overdue (past due) beyond two years or more from the due date	As Above	100 % of the outstanding principal net of guaranteed amount under CGSMF

For Microfinance Banks

Category	Determinant	Treatment of Income	Provisioning Requirement
OAEM (Other Assets Especially Mentioned)	Loans (principal/mark-up) is overdue for 30 days or more but less than 60 days	The unrealized interest / profit / mark-up / service charges on NPLs shall be suspended and credited to interest suspense account.	No provision is required
Substandard	Loans (principal/mark-up) is overdue for 60 days or more but less than 90 days	As Above	25% of outstanding principal net of guaranteed amount under CGSMF
Doubtful	Loans (principal/mark-up) is overdue for 90 days or more but less than 180 days	As Above	50% of outstanding principal net of guaranteed amount under CGSMF
Loss	Loans (principal/mark-up) is overdue for 180 days or more	As Above	100% of outstanding principal net of guaranteed amount under CGSMF

6. Monitoring of Portfolio

- a) Banks will submit their fresh borrowers' data, sanctioned during the quarter, on CF-1 Form (Annexure 3) to CGO on quarterly basis.
- b) The responsibility of due diligence rest with PFIs which should follow all relevant guidelines of SBP and their internal SOPs for approving credit under the Scheme.
- c) Since the system places primary responsibility on the PFIs and does not require evaluation on part of CGO prior to disbursement of the loan amount, the credit guarantee shall automatically stand issued, for a customer which the bank has evaluated to be eligible and the PFI shall extend lending facility to the borrower treating him/her as a guaranteed customer under the Scheme.
- d) This, in principle, consent for a partial guarantee of maximum 50% to borrowers evaluated as eligible by the PFIs subject to compliance with borrower's evaluation/eligibility criteria. Each PFI shall ensure that the outstanding guarantee amount does not exceed its allocated guarantee limit at any time.
- e) Each PFI shall report its outstanding position of all previously guaranteed loans to CGO on quarterly basis as per the format CF-2 (Annexure 3).

7. Payment of Claims:

- a) The bank shall have the right to lodge a claim to the extent of 50% of the outstanding amount (Principal only), as soon as a particular borrower, is classified as 'Substandard', as per the respective classification criteria given under Prudential Regulations for both Agri. Financing and Prudential Regulations for Microfinance Banks.
- b) The PFIs shall lodge claims on biannual basis on prescribed formats. Claims against loans classified as substandard during 1st January to 30th June should be filed by 20th July and from 1st July to 31st December by 20th January to CGO.
- c) All claims lodged by a PFI must be complete in terms of relevant annexure and required information. The claims shall be verified by the Internal Audit Department of the claimant bank under its seal and stamp. Besides, e-CIB reports of the delinquent borrowers under the Scheme shall also be submitted along with the claims to CGO.
- d) The claims will be scrutinized and verified by the CGO against the borrowers' data within 15 days.
- e) Claims shall be paid by CGO to the respective PFI within 05 working days under intimation to ACMFD.
- f) In case of multiple borrowings, from one or multiple banks, only single claim will be reimbursed for a loan which is senior in terms of date of sanctioning among all such sanctioned loans to single borrower.
- g) SBP and or its subsidiary BSC reserves the right to conduct a special inspection of all the claims reimbursed to a PFI through external auditors at any time.
- h) If at any point in time, claims are found to be incorrect or without basis during inspection by the Banking Inspection Department of SBP or otherwise, the same will be recovered from PFI's account maintained with the SBP: BSC. In such case, the PFI will be liable for penalty under relevant provisions of the Banking Companies Ordinance 1962, and Microfinance Institutions Ordinance 2001.

8. Recoveries

- a) The payment under the CGSMF shall not obviate the PFI from its right of recovery of the defaulted amount.
- b) The PFIs shall continue with their regular procedure for recovery of loan and take all necessary steps in this regard. The PFIs shall update their recovery status to the CGO on bi-annual basis.

- c) In the event of recoveries from delinquent borrowers, all such recoveries shall be treated as the recovery of principal and the PFI shall return the proportionate amount to CGO on bi-annual basis and will be reported to CGO on CF-4 format. CGSMF's proportionate share against recovery from defaulted borrowers during 1st January to 30th June should be filed /reimbursed by 20th July and from 1st July to 31st December by 20th January to CGO. Delayed reimbursement of recovered amount shall attract penal action from State Bank.
- d) The costs incurred on recovery efforts shall be borne by the concerned PFI and shall not be passed on to the Guarantee Fund.

9. Reporting

The PFIs shall report to CGO on prescribed formats (Annexure 3) on quarterly, bi-annual and annual basis. PFIs shall ensure that all the reports are duly verified and submitted within the prescribed time limits as given below.

S. No	Name of Report	Frequency	Time Line
1	CF-1 (Fresh Guarantee Loan Report)	Quarterly	20 working days
2	CF-2 (Existing Guaranteed Loans Report)	Quarterly	20 working days
3	CF-3 (Claim on Guarantee Fund Report)	Bi-annually	20 calendar days
4	CF-4 (Recoveries from Delinquent Borrowers Report)	Bi-annually	20 calendar days

10. Termination of the Scheme

The Scheme shall be terminated as and when announced by the Government. SBP will formally issue circular in this regard.

In case of termination/discontinuation of the scheme, claims pertaining to the loans guaranteed by CGO shall remain eligible for coverage under the scheme.

PART B: Roles and Responsibilities

Roles and Responsibilities of PFI:

- a) Each PFI shall nominate at least two senior officials (at least VP/Equivalent) as authorized officials/ signatories (along with their duly verified signatures, names, designations and email / contact address) to communicate with the CGO, SBP:BSC, Karachi and ACMFD, SBP, Karachi for matters pertaining to CGSMF.
- b) Only those claims which are signed by designated authorized officials shall be entertained by CGO.
- c) The PFIs shall ensure that a separate record of all the borrowers and portfolio is maintained as advised by CGO while observing their limits allocated by ACMFD. The PFI shall submit reports on prescribed formats along with its soft copies to CGO.
- d) The PFIs shall ensure implementation of internal controls and monitoring mechanism for addressing the issue of adverse selection under the Scheme.
- e) In addition, PFIs shall take all necessary measures to avoid multiple borrowings under the Scheme. The PFI shall obtain an undertaking from the borrower that he /she has not obtained any loan facility under CGSMF from any other bank.
- f) PFIs shall ensure verification of all the claims along with annexure (e-CIB reports etc) through internal audit before submission to CGO.
- g) PFIs shall ensure to separately review their guaranteed portfolio and claims through external audit or as a part of annual audit process of their financial statements at the end of each year and obtain an independent audit certificate in this regard. Relevant extract will be forwarded to CGO.
- h) PFIs shall arrange regular training and skill development programs for its officials working in this area particularly under this Scheme to ensure smooth processing and management of CGSMF.