

Pledge Loan scheme for Small and Medium Scale Paddy Millers, Paddy Storage Owners and Paddy Collectors to purchase paddy in Maha Season 2023/2024

Operating Guidelines

Department of Development Finance
Ministry of Finance, Economic Stabilization and National Policies
Sri Lanka

31 January, 2024

1. Introduction

As per the Cabinet Decision dated 29.01.2024 with regard to the Cabinet Memorandum No. 24/0155/604/016 dated 24.01.2024, the approval of the Cabinet of Ministers has been given for implementing a pledge loan scheme at a concessionary interest rate through Banks to purchase paddy at a Minimum Purchase Price declared by the Department of Agriculture for Maha season 2023/2024.

2. Objective of the loan scheme

To provide pledge loans at a concessionary interest rate to the Small and Medium Scale (SME) paddy millers, paddy storage owners and paddy collectors to purchase paddy in Maha season 2023/2024 only.

3. Participatory Financial Institutions (PFIs)

The loan scheme will be implemented by the Participatory Financial Institutions (PFIs) which are Bank of Ceylon, People's Bank, Regional Development Bank, Seylan Bank PLC, Sampath Bank Ltd, Commercial Bank of Ceylon PLC, DFCC Bank Ltd, National Development Bank PLC, Hatton National Bank PLC and Sanasa Development Bank Ltd.

4. Target Group

- 4.1 Small and Medium Scale (SME) paddy millers subject to the maximum daily paddy milling capacity of 25MT per day.
- 4.2 Paddy storage owners subject to having a sufficient storage capacity.
- 4.3 Paddy collectors subject to having a storage with a sufficient capacity or a valid lease agreement with a storage owner with a sufficient storage capacity or SME paddy miller
- 4.4 In addition, such borrowers should have a valid Business Registration obtained from a relevant Government institution.

5. Key features of the loan Scheme

- 5.1 Maximum loan amount: Rs. 50 million per SME paddy miller, and Rs. 25 million per paddy storage owner and paddy collector.
Out of the value of the paddy stock to be purchased, up to 75% will be granted by the PFIs as a pledge loan, and the balance is borne by the SME paddy millers, paddy storage owners and paddy collectors.
- 5.2 Maximum repayment period: 180 days
- 5.3 Rate of interest
 - 5.3.1 Effective interest rate of the loan scheme shall be 15 percent per annum.
 - 5.3.2 Interest subsidy of 4 percent per annum shall be paid by the General Treasury to the PFI through the Department of Development Finance (DDF) only for repayment period.
 - 5.3.3 The difference between the effective interest rate of the loan scheme and the 4 percent interest subsidy paid by the General Treasury, has to be borne by the respective SME

Handwritten signature

paddy millers, paddy storage owners and paddy collectors. Accordingly, 11 percent rate of interest per annum shall be paid to the lending PFI by the respective borrower.

- 5.3.4 Interest subsidy will be paid only for performing loans.
- 5.3.5 Interest subsidy will be calculated from the date of loan disbursement.
- 5.3.6 Interest calculations for subsidy payments should be calculated for two decimal places based on the outstanding balance of the loan.
- 5.3.7 Interest subsidy claims should be certified by the internal auditor of the respective PFIs.

5.4 Loan funds will be allocated district-wise, based on the average paddy production of each district in Maha seasons of last 5 years.

6. Duration of the loan scheme and termination

The loan scheme will commence with effect from 01st February 2024 and shall be terminated on the 30th April 2024.

7. Area of Operation

The scheme shall be operated island wide.

8. Eligible activities for loans

To purchase paddy from farmers in Maha season 2023/2024 only.

9. Selection of beneficiaries

- 9.1 PFIs will select suitable SME paddy millers, paddy storage owners and paddy collectors.
- 9.2 One SME paddy miller, paddy storage owner and paddy collector can obtain only one loan under this loan scheme.

10. Purchase price of Paddy

10.1 The Minimum Purchase Price (MPP) of paddy will be declared by the Department of Agriculture (DOA).

10.2 MPP of paddy for Maha season 2023/2024 (Rs per kg) is as follows.

Variety	Standard paddy with moisture content of 14%	Wet paddy with moisture content more than 14%
Nadu	105	90
Samba	120	100
Keeri Samba	130	120

11. Purchase of Paddy at Minimum Purchase Price (MPP)

11.1 The SME paddy millers, paddy storage owners and paddy collectors must not purchase paddy below the MPP declared by the DOA under the programme.

- 11.2 PFIs should obtain a written consent from SME paddy millers, paddy storage owners and paddy collectors about the agreement of purchasing paddy by them at MPP declared by DOA or above.

12. Monitoring mechanism

- 12.1 The paddy purchasing will be monitored by the Department of Agrarian Development (DAD) in collaboration with District Secretaries/Government Agents and Divisional Secretaries.
- 12.2 The respective PFIs should maintain a list of SME paddy millers, paddy storage owners and paddy collectors to whom the pledge loan are provided, and submit a report to the DDF twice a month for the smooth operations.
- 12.3 The PFIs should make aware the SME paddy millers, paddy storage owners and paddy collectors about the need of maintaining a list of farmers from whom the paddy has been purchased through the pledge loan including the variety of paddy, quantity of each variety and the purchase price and dates etc., and the need of informing the same to the respective Agrarian Development Officer at the Agrarian Services Centre located in the respective paddy purchasing area before releasing paddy stock from storage.
- 12.4 The PFI should provide a list of Agrarian Services Centers island wide to the SME paddy millers, paddy storage owners and paddy collectors.
- 12.5 As per the list of farmers submitted by the SME paddy millers, paddy storage owners and paddy collectors, the DAD should verify the details provided, and maintain a database including these information.
- 12.6 DAD should identify the SME paddy millers, paddy storage owners and paddy collectors who purchase paddy below the MPP, and blacklist them in collaboration with District Secretaries/Government Agents and Divisional Secretaries to avoid the eligibility of them for participating any Government-supported paddy purchasing programme/ pledge loan schemes in the future.
- 12.7 The blacklist prepared by DAD should be submitted to the PFIs and DDF after the season.
- 12.8 The PFIs should make aware the borrowers on the above mentioned monitoring mechanism at the time of granting pledge loans.

13. Conditions applicable to all loans disbursed by the PFIs under the scheme

13.1 Determination of the volume of loan

Branch managers of the PFIs are required to determine the volume of loan based on the following.

13.1.1 Financial Feasibility

Branch managers of PFI are required to ensure the credit worthiness of the applicant before granting a loan and therefore, they should determine the volume of loan and the suitability of the applicant based on his/her repayment capacity.

13.1.2 Milling and storage Capacity

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Branch managers of PFIs are required to consider milling capacity and storage capacity of the respective mill and storage capacity of respective paddy storage owner and paddy collector in determining the volume of the loan.

13.2 Security Requirements

- 13.2.1 PFIs shall keep paddy stock to be purchased by the SME paddy miller, paddy storage owner and paddy collector as a pledge to minimize the risk involved in disbursement and recovery of loan.
- 13.2.2 PFIs have discretion to apply the existing controlling mechanisms and procedures on pledge loans offered by them.
- 13.2.3 PFIs have discretion to obtain suitable collateral or personal guarantees to minimize the risk involved in disbursement and recovery of loans if deemed necessary.

13.3 Special conditions

The SME paddy miller, paddy storage owner and paddy collector should provide a valid business registration and storage capacity. In addition, the SME paddy miller should provide milling capacity of the mill. The Paddy collectors should provide a valid lease agreement with a storage owner with a sufficient storage capacity or SME paddy miller, if such paddy collectors don't have their own storages.

13.4 Rescheduling of Loan Repayment Period

Rescheduling of loan repayment period should be considered with the prior approval of the DDF. However, no subsidy payment is made for such rescheduled loans beyond the maximum loan repayment period of 180 days.

14. Responsibilities of the DDF

In order to ensure the successful implementation of the loan Scheme, the DDF shall ensure the following

- 14.1 Issue Operating instructions time to time to PFIs in respect of this loan scheme.
- 14.2 Register relevant loans received from the PFIs (**Form 1**) for the purpose of paying interest subsidy and unique registration number for each loan should be informed to the respective Head Offices of the PFIs.
- 14.3 Obtain adequate budgetary provisions for payment of interest subsidy to PFIs.
- 14.4 Pay relevant interest subsidies for the respective PFIs on monthly basis, based on the **Form 2** submitted by PFIs.

15. Responsibilities of the PFIs

In order to ensure the successful implementation of the loan scheme, the PFIs shall ensure the following

- 15.1 Select suitable SME paddy millers, paddy storage owners and paddy collectors Island wide for the purpose of lending under this loan scheme as per the operating guidelines.

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- 15.2 Obtains an affidavit from the applicant by confirming that he/she has not applied for a pledge loan from the other PFI under this loan scheme.
- 15.3 Register relevant application received from eligible SME paddy millers, paddy storage owners and paddy collectors.
- 15.4 Forward information on loans approved and registered by the PFIs to the DDF daily **(Form 1)**. The loans should be approved and registered by the PFIs before sending the Form 1 to the DDF.
- 15.5 Obtain the unique registration number for each loan, issued by the DDF before disbursement of funds.
- 15.6 Ensure the funds disbursed are utilized for the eligible activities mentioned in the 8 above.
- 15.7 Forward interest subsidy claims audited and certified by internal Auditor of the PFIs to the DDF within 21 days at the end of each month **(Form 2)**.
- 15.8 Forward detailed report on loan disbursements, loan recoveries and paddy stocks purchased to the DDF monthly **(Form 3 and 4)**.
- 15.9 Ensure that the loan scheme is administrated under a senior officer of the Head Office of the PFIs.

16. Conducting publicity programmes

The publicity of the programme will be conducted by the respective PFIs, DOA and DDF.



Malarmathy Gangatharan

Director General

Department of Development Finance

Ministry of Finance, Economic Stabilization and National Policies

The Secretariat

Colombo 01.

31... January, 2024

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Registration Form for the Subsidy Payment

for Bank use only

for DFD use only

Loan No

DFD Registration no of the loan

- (1) Name of the Bank :
- (2) District :
- (3) Name of the Bank Branch :
- (4) Borrower's Details

(i) Type of the Borrower	<input type="checkbox"/> SME Paddy Miller <input type="checkbox"/> Paddy Storage Owner <input type="checkbox"/> Paddy Collector		
(ii) Name (As mentioned in the Business Registration)			
(iii) Business Registration No			
(iv) Address			
(v) Location	District		DS Division
(vi) Daily Milling Capacity of Paddy (Mt) (Applicable for SME paddy millers only)			
(vii) Storage Capacity (Mt)			

- (5) Loan amount: Rs .
- (6) Loan Repayment Period (days) :
- (7) Rate of Interest of the loan :
- (8) Borrower's Interest rate :
- (9) Interest subsidy rate of the General Treasury :

This is to certify that we have approved the loan requested by the borrower mentioned in section (4) (ii), holding Business Registration No mentioned in section (4) (iii) for a loan amount mentioned in section (5), based on the operating guidelines issued by Department of Development Finance on 31.01.2024 relating to the "Pledge Loan scheme for Small and Medium Scale paddy millers, paddy storage owners and paddy collectors to purchase paddy in Maha season 2023/2024". We also certify that on the basis of the information provided and the evaluation done, the applicant has fulfilled the eligibility requirements of this loan scheme.

Prepared by:

Authorized by:

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Signature of Officer
Date:

.....
Signature of Authorized Officer
Date:

