Agriculture Finance
From A Public Sector Bank Perspective
March 08 2011

Sita Rama Rao
Chief Manager
We envision to be a trustworthy, efficient and strong bank committed to increasing our market share by generating innovative customer-centric services and products, igniting the passion and creative talents in human resource, leveraging technology to expand the clientele & deliver quality and value leading to customer delight.
Amplify the frontline capabilities to serve customers, develop processes, leveraging technology dynamically locate and empower people fast-cycle knowledge into innovative products create possibilities to reach the business goals & position the bank as a rising star in the financial horizon
Andhra Bank

- A Premier Public Sector Bank operating in 23 States and 3 Union Territories in the country
- Bank is currently functioning with 1587 branches, 954 ATMs with total delivery channels of 2615 as on 31.12.2010
- Total business of the bank as on 31.12.2010 is USD 32,818.32 Million which includes USD 18,243 Million deposits and USD 14,575 Million advances
- The Priority Sector advances of the bank as on 31.12.2010 stood at USD 4,796.67 Million and share of agricultural advances is at USD 2,234.89 Million
Awards And Accolades

• Best Public Sector Bank - Banking Excellence Award by the State Forum of Bankers’ clubs, Kerala

• Best Bank Performance on Key Parameters under CAMEL Rating adjudged by “The Analyst”- Magazine

• Best Bank (Mid-Size) award by “Business World”- Magazine

• Best Bank for the Quality of Assets- Awarded by “Business Today”- Magazine
Rural Development and Agriculture

- Growth of Agriculture and allied sectors is a critical factor for inclusive growth and the overall performance of Indian Economy

- Agriculture and allied sectors account for 14.2% of GDP of the country

- Agriculture and allied sector accounts for 58% of the employment and supplies food, fodder and raw material for vast segment of the Industry
Corporate Strategy

Our Corporate Policy on agriculture aims at

• Meeting all genuine credit needs of the farming community

• Improving the overall economic status of the farmers

• Providing training to the farmers for improving their skill and knowledge

• Taking up agricultural finance as business proposition
Andhra Bank conforms to the RBI requirement of lending 18% of the net bank credit to agricultural sector

Performance of Andhra Bank for the last three years is as under:

- 2007-08: 21.81%
- 2008-09: 19.77%
- 2009-10: 20.65%
# Andhra Bank-Credit Flow To Agriculture

<table>
<thead>
<tr>
<th>Year</th>
<th>DISBURSEMENTS (amount in Million USD)</th>
<th>Target</th>
<th>Achievement</th>
<th>Achievement %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td></td>
<td>964.44</td>
<td>964.97</td>
<td>100.06%</td>
</tr>
<tr>
<td>2008-09</td>
<td></td>
<td>1206.67</td>
<td>1213.356</td>
<td>100.56%</td>
</tr>
<tr>
<td>2009-10</td>
<td></td>
<td>1508.89</td>
<td>1533.063</td>
<td>101.60%</td>
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</table>
Source of Funds for Agricultural Sector

• Bank is having its own source of funds mobilized by way of deposits. Average cost of deposits of Andhra Bank is 6.10% as on 31.03.2010

• Refinance from NABARD (Interest rates ranging between 5.50% p.a to 9.50% p.a) to Regional Rural Banks and Commercial Banks
Deployment Of Funds To Agricultural Sector

a) Short term credit deployment constitutes around 57% of our total agricultural advances. Interest charged to this segment ranges between 8.5% p.a (7% subvented rate up to USD 6666.67 + 1.5% interest subvention provided by Government of India) to 14.5% p.a

b) Medium and long term credit constitute 43% of agricultural credit. Interest rate charged to this segment ranges between 10.5% p.a to 14.5% p.a
Agricultural Schemes - Factors Influencing Viability

- Fixation of minimum support price to major crops by Government
- Subsidized inputs like seeds, fertilizers etc.
- Low power tariff for agricultural production.
- Subsidy on low Horse Power tractors and power tillers for improving farm mechanization
- Government directing the banks to provide agricultural credit at subsidized rate of @ 7.00 % p.a up to USD 6666.67 for short term production credit requirements. Banks receive 1.50% interest subvention on such advances from Government.
Agricultural Schemes - Factors Influencing Viability contd...

• Farmers with prompt repayment history w.r.t short term production credit are given additional incentive of 2%, there by reducing the ultimate interest burden to 5% p.a.

• State Government of Andhra Pradesh has further subsidized the loans for the farmers, with prompt repayment history, thereby reducing the interest rate burden to 3% p.a. only

• Schemes like Dairy Development, Sheep/Goat rearing, small ruminants, Pig fattening, Mother units for Rural Backyard poultry etc. receive capital subsidy from Central Government/NABARD
NABARD is providing venture capital funds for the schemes like Emu farming, poultry sector, etc which reduces the interest charged on these loans considerably.

- National Horticulture Board provides subsidy for the activities taken up under horticulture and plantations.

- Medicinal and Aromatic Plants Board provides subsidy to the entrepreneurs taking up cultivation of medicinal and aromatic plants.

- Finance for minor irrigation activities are subsidized by Government through programs like SGSY, BC & SC/ST Action plans.
Subsidized credit to the farmers for construction of Godowns for food grains under Rural Godown scheme (Gramin Bhandran Yojana)

Liberalized finance at subsidized rate for sprinkler and drip irrigation schemes which helps in effective water management.

Agriculture is subject to vagaries of monsoon and hence immediate relief measures are extended to farmers in case of need.

Viability of the project will improve recovery rate of the Financial Institutions and contribute to the country’s GDP.
Andhra Bank

- Is responsible for a service area of 5148 villages across the country
- Has 852 Branches in rural and semi urban areas of the country
- Aims at meeting all genuine credit requirements of the farmers in its service area villages
- Educates farmers in latest farming technologies through Andhra Bank Rural Development Institutes and Financial Literacy and credit counseling centers
- Disseminates the latest information to farmers on agricultural activities through the in-house magazine “Kisan Vignan Vedika.” (Knowledge platform for Farmers)
Objectives of Product Development

• Identifying the farmers’ credit needs through market research and ensuring business to the bank

• Designing loan product based on the feedback from the field

• Ensure easy accessibility of the product by the user
Agricultural Product Development contd...

- Economic viability: assessed using tools like Debt Service Coverage Ratio, Internal Rate of Return, Sensitivity analysis, etc.

- Technical Feasibility: forward and backward linkages.

- Commercial viability: should be able to compete in the market.

- Comply with Government policies.

- Comply with National objectives.
• Comply with environmental aspects.

• Product should generate sufficient margins to the financial institutions

• To bridge the gap between rural and urban sectors and to eliminate regional disparities

• Create ample employment opportunities throughout the year or major part of the year

• To eliminate poverty
A) PRODUCTION CREDIT (SHORT TERM LOANS)

i) Crop Loans/ Pattabhi Kisan (Farmer) Credit Cards: to meet credit requirements for production. Andhra bank is first to launch this scheme.

ii) Kisan Sampathi (Farmer’s Wealth) : loans for avoiding distress sale of farm produce when the prices are low during harvesting season.

iii) Loans against Gold Jewelry: to meet production and the working capital requirements for agriculture & allied activities.

iv) Cash credits : to meet working capital requirements for pisciculture, poultry etc.
Andhra Bank – Agricultural Products

(B) INVESTMENT CREDIT (MEDIUM/LONG TERM)

i) Kisan Samraksha (Farmer’s Assets): For construction of Rural Godowns.

ii) Kisan Chakra (Farmer’s Wheel): for providing 2 or 4 wheelers to farmers for facilitating mobility.

iii) Kisan Bandhu (Farmer’s Friend): to purchase tractor, trailer and other farm implements to mechanize the farm

iv) Kisan Pragathi (Farmer’s Progress): to meet misc. credit requirements of farmers

v) Horticulture and plantations

vi) Minor irrigation schemes
(B) Investment Credit (Medium/Long Term) contd..

- Live stock development
- Organic farming
- High Tech agriculture projects
- Floriculture
- Olericulture (Vegetable cultivation)
- Land Development
- Waste Land development/Social Forestry
- Land purchase scheme
- Dairy Agent Scheme
- Sheep Agent Scheme
- Self Help Group financing.
Following factors should be considered while fixing prices

- Government guidelines like interest subvention, base rate etc
- Government support by way of subsidies to comply with national goals
- Availability of resources like interest rate on source of funds
- Income generation of the unit and product life
- Market demand of a particular product
- Risks involved in realization of credit.
- Expected future business
- Credit rating of the account.
Risk Factors

- Sudden change in Government Policies
- Acts of nature
- Deficiency in selection of the borrower
- Poor technology, inadequate infrastructure, lack of marketing abilities
- Poor Project Appraisal
- Lack of demand
- Defective titles of the securities
- Non establishment of unit
- Willful default
- Diversion of funds
- Inadequate insurance coverage
- Price fluctuations of commodities
- Inadequate storage facilities
• Adequate training to field level functionaries through staff training colleges and workshops for proper identification, appraisal and loan product awareness of the borrowers

• Compulsory coverage of loanee farmers through “National Agricultural Insurance Scheme” for all eligible crops.

• “Weather Based Crop Insurance Scheme” in identified districts.

• Providing relief measures in case of natural calamities to make the farmers sustain the loss.
• Continuous follow-up and taking adequate and immediate steps to correct the setbacks/deficiencies detrimental to the interest of the farmer and bank.

• Farmers’ Education through Financial Literacy and Credit Counseling centers.

• Providing Kisan Sampathi Loans (Agricultural Produce Loans) to farmers to avoid distress sale.

• Encouraging construction of Rural Warehouses to store agricultural produce
### Disbursements Under SHG Bank Linkage

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of groups financed</th>
<th>Amount (In Million USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>71758</td>
<td>159.55</td>
</tr>
<tr>
<td>2008-09</td>
<td>91571</td>
<td>203.78</td>
</tr>
<tr>
<td>2009-10</td>
<td>83644</td>
<td>279.55</td>
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## Outstanding SHG Bank Linkage

<table>
<thead>
<tr>
<th>Year</th>
<th>Accounts (In Millions)</th>
<th>Amount in Million USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>0.148</td>
<td>223.33</td>
</tr>
<tr>
<td>2008-09</td>
<td>0.213</td>
<td>367.33</td>
</tr>
<tr>
<td>2009-10</td>
<td>0.245</td>
<td>493.55</td>
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Andhra Bank Rural Self Employment Training Institutes

- Training programs for the benefit of farmers, SHG women, unemployed youth, artisans etc.
- Disseminating the cost-effective and latest area based Agricultural techniques to farmers.
- Improving the skills of SHG women and orienting them towards income generating activities.
- Identifying unemployed youth and motivating them to take up self employment;
Use of ICT has improved the performance of the bank as

- Centralized accounting systems help the field level personnel to extend good customer service and also devote time for canvassing the agricultural products, and conducting awareness camps among farmers etc.

- Issue of smart cards/ATM cards help the farmers to draw the credit at their convenience.

- Automated Processing system for lending schemes created a source of knowledge for processing the proposals in line with policy guidelines.
THANK YOU