

# Financing of Agriculture Beyond Credit

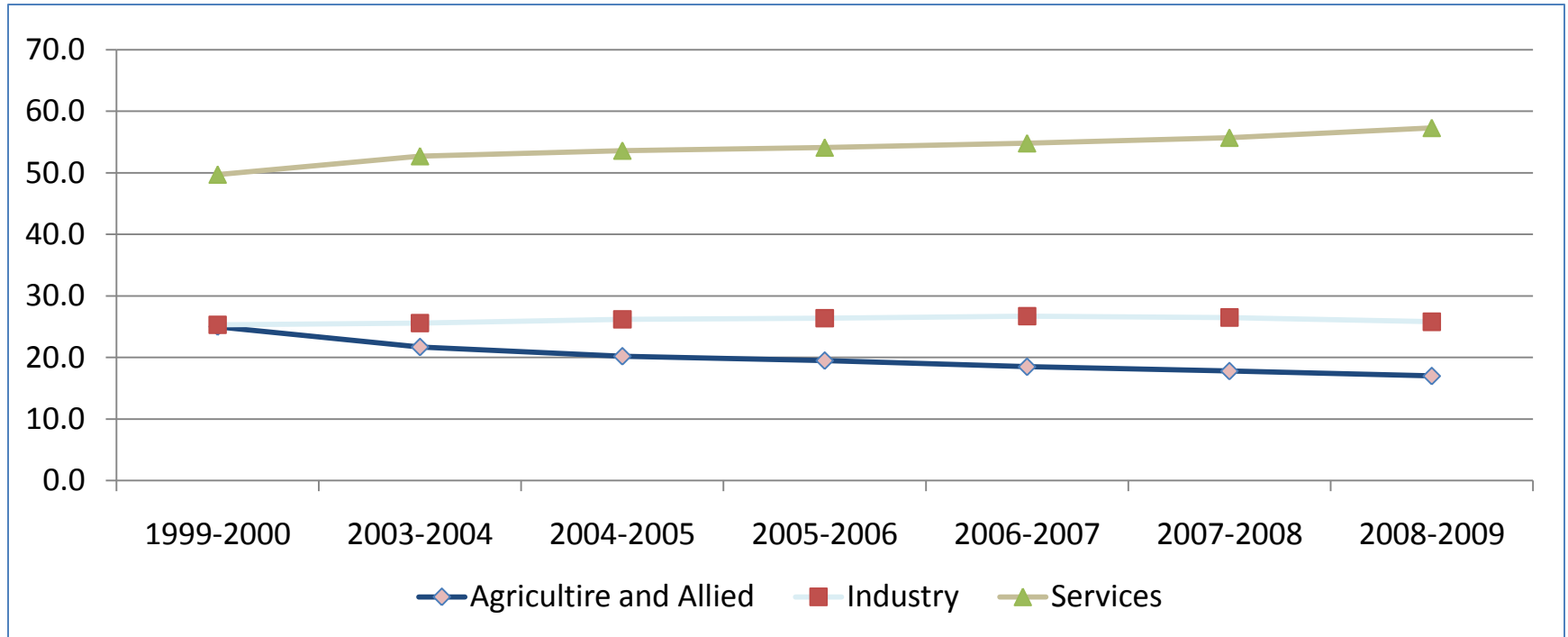
## AGRIFIN

9 March 2011

# Methodology

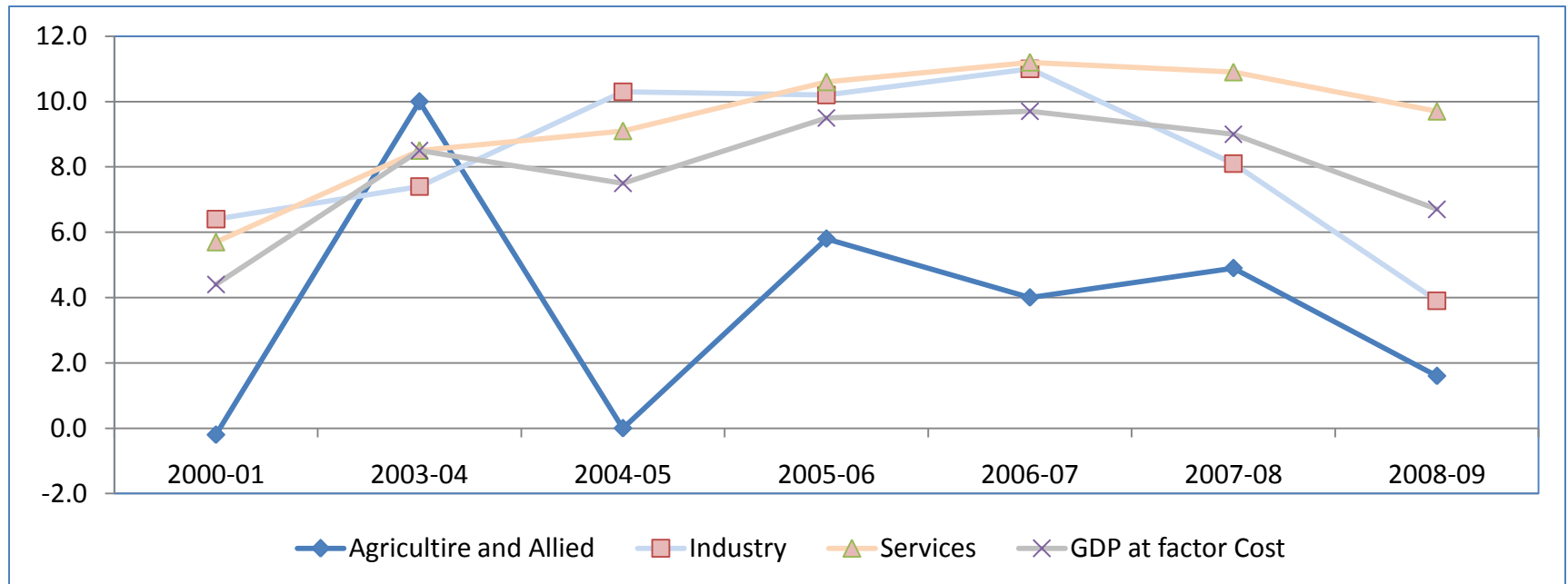
- Basic research source – RBI, NABARD, Ministry Agri and Sa-Dhan (care- data backlog one year)
- Reference to historical is just to contextualize the discussion
- Concluding Comments are based on own learnings and not necessarily that of BASIX
- An attempt to start a debate on the possibilities

# GDP- Sector Share (agri losing share)



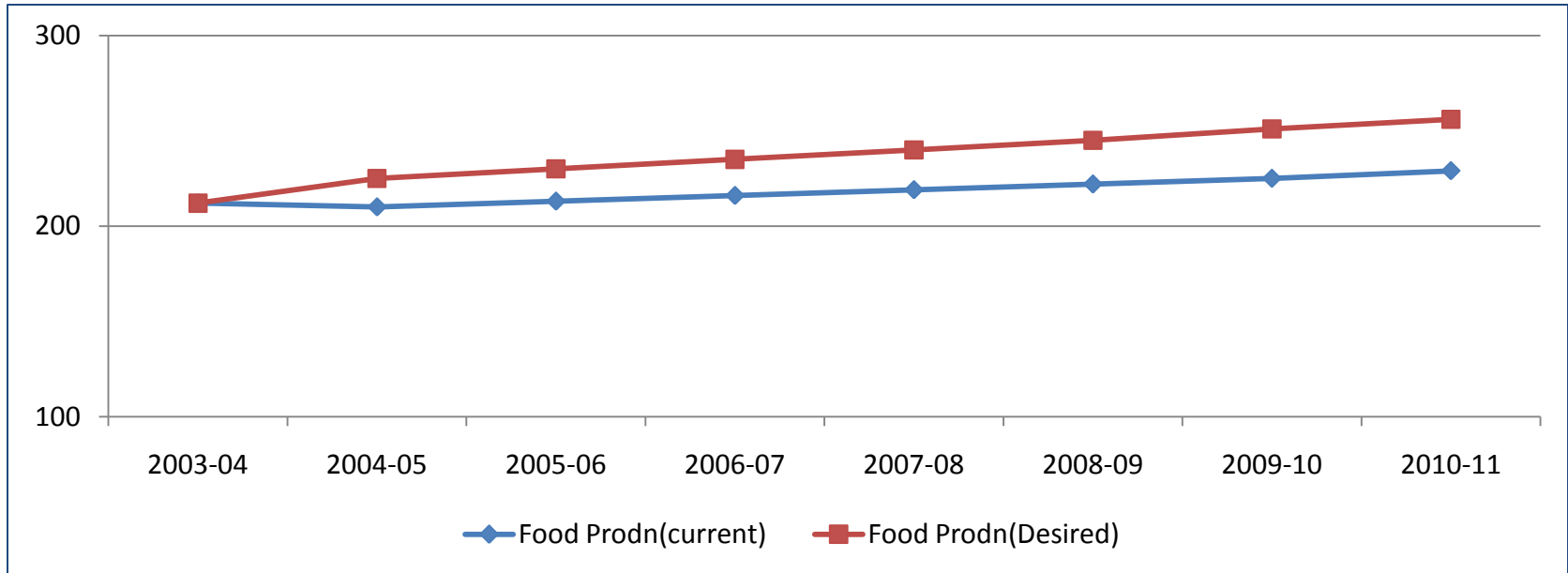
Sector	1999-00	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Agriculture and Allied	25.0	21.7	20.2	19.5	18.5	17.8	17.0
Industry	25.3	25.6	26.2	26.4	26.7	26.5	25.8
Services	49.7	52.7	53.6	54.1	54.8	55.7	57.3

# GDP – Sector growth (agri-erratic)



Sector	2000-01	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Agriculture and Allied	-0.2	10.0	0.0	5.8	4.0	4.9	1.6
Industry	6.4	7.4	10.3	10.2	11.0	8.1	3.9
Services	5.7	8.5	9.1	10.6	11.2	10.9	9.7
GDP at factor Cost	4.4	8.5	7.5	9.5	9.7	9.0	6.7

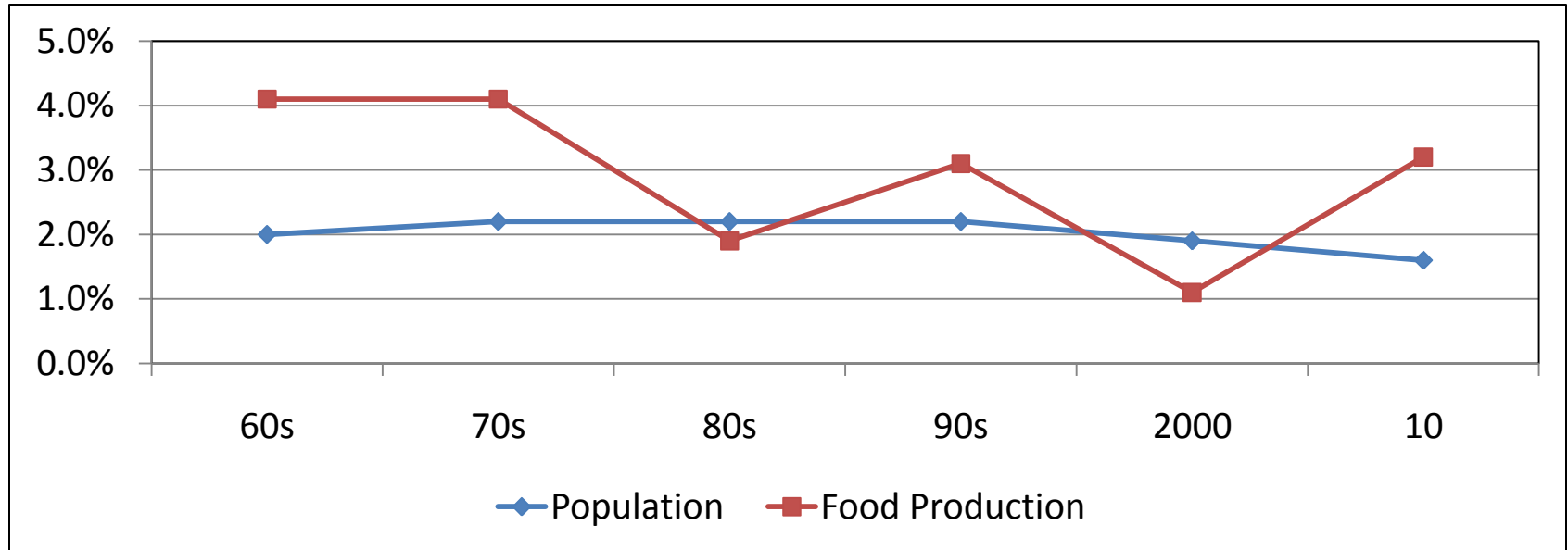
# Green Revolution losing steam!



Foodgrain Production mmt- current trend vs desired trend								
Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Food Prodn(current)	212	210	213	216	219	222	225	229
Food Prodn(Desired)	212	225	230	235	240	245	251	256

Source- MoA-Gol

# Food Production- unstable!



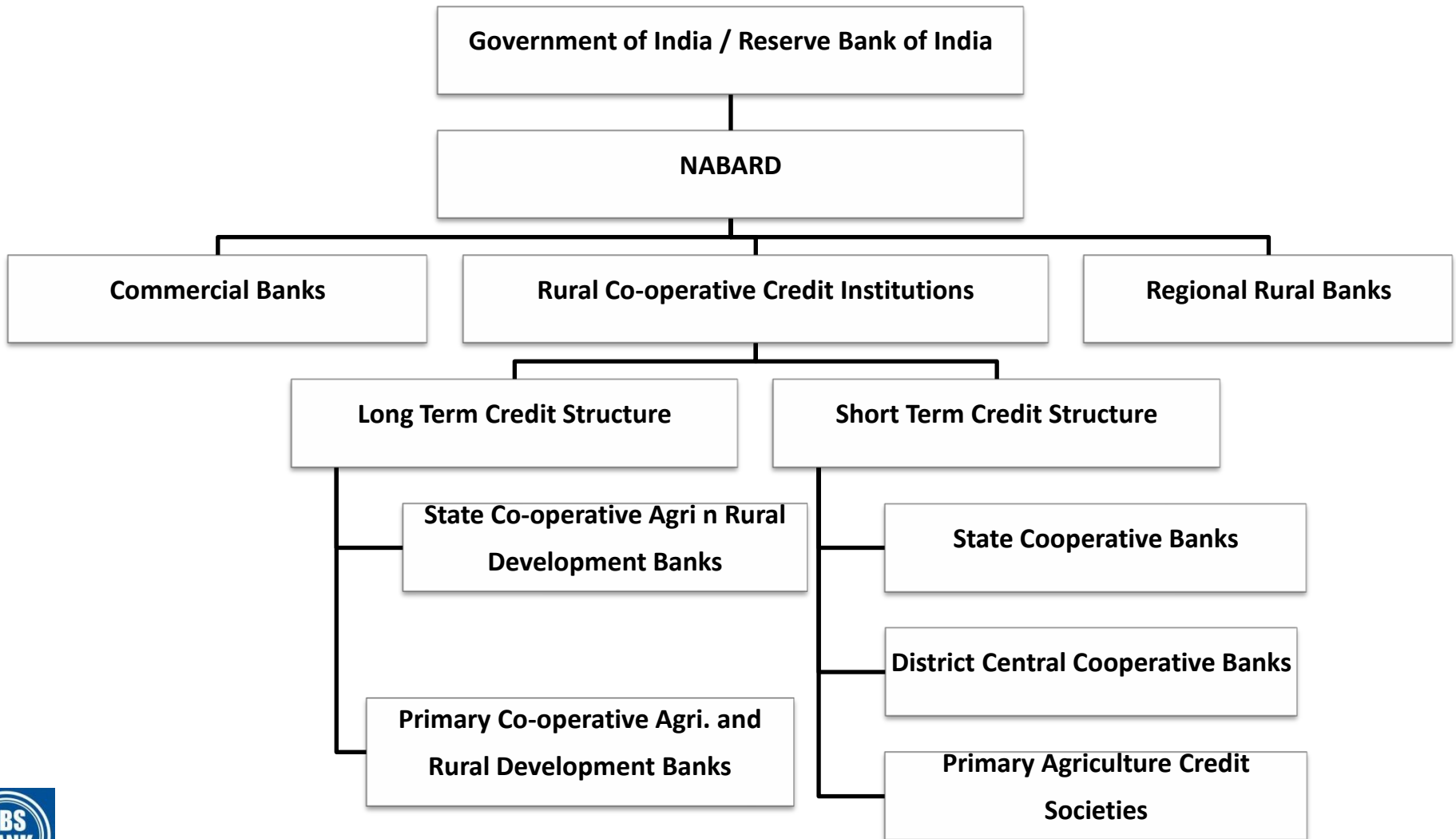
Growth In Population and Foodgrain production						
Particulars	60s	70s	80s	90s	2000	10
Population	2.0%	2.2%	2.2%	2.2%	1.9%	1.6%
Food Production	4.1%	4.1%	1.9%	3.1%	1.1%	3.2%

Source- MoA-Gol

# Agri Finance - Policy interventions so far..

Year	Events
1954	All India Rural Credit Survey – found many deficiencies in the operation of Co-operatives,, first time brought onto the table of necessity of the Commercial Bank’s indulgence in credit to the farm sector
1963	Setting up of Agricultural Refinance Corporation
1966	All India Rural Credit Review Committee
1969	Nationalisation of Banks - Introduction of Priority Sector Financing scheme
1975	Regional Rural banks
1982	NABARD, taking up the refinance function of ARDC and RBI
1996	Rural Infrastructure Development Fund
1991	Committee on Financial System – M.Narasimham
1998	High level committee on Agricultural Credit through Commercial Banks – R.V.Gupta
1999	Taskforce to study Function of Co-operative Credit System and measures to strengthen.- Jagdish Kapoor – suggested to set up a Co-operative Rehabilitation and Development Fund
2001	Expert Committee on Rural Credit – V.S.Vyas – suggested restoration of PACs by scrapping the cadre system, selective delayering of cooperative e credit structure
2002	Working Group to suggest Ammendments in Regional Rural Banks Act – M.V.Chalapathi Rao- to introduce capital adequacy norms in phased manner
2004	Adoption of Agricultural Credit Poilcy by GOI-the most important aim was to increase credit flow to agriculture by 30% per year.

# Agri Finance - Mainstream channel



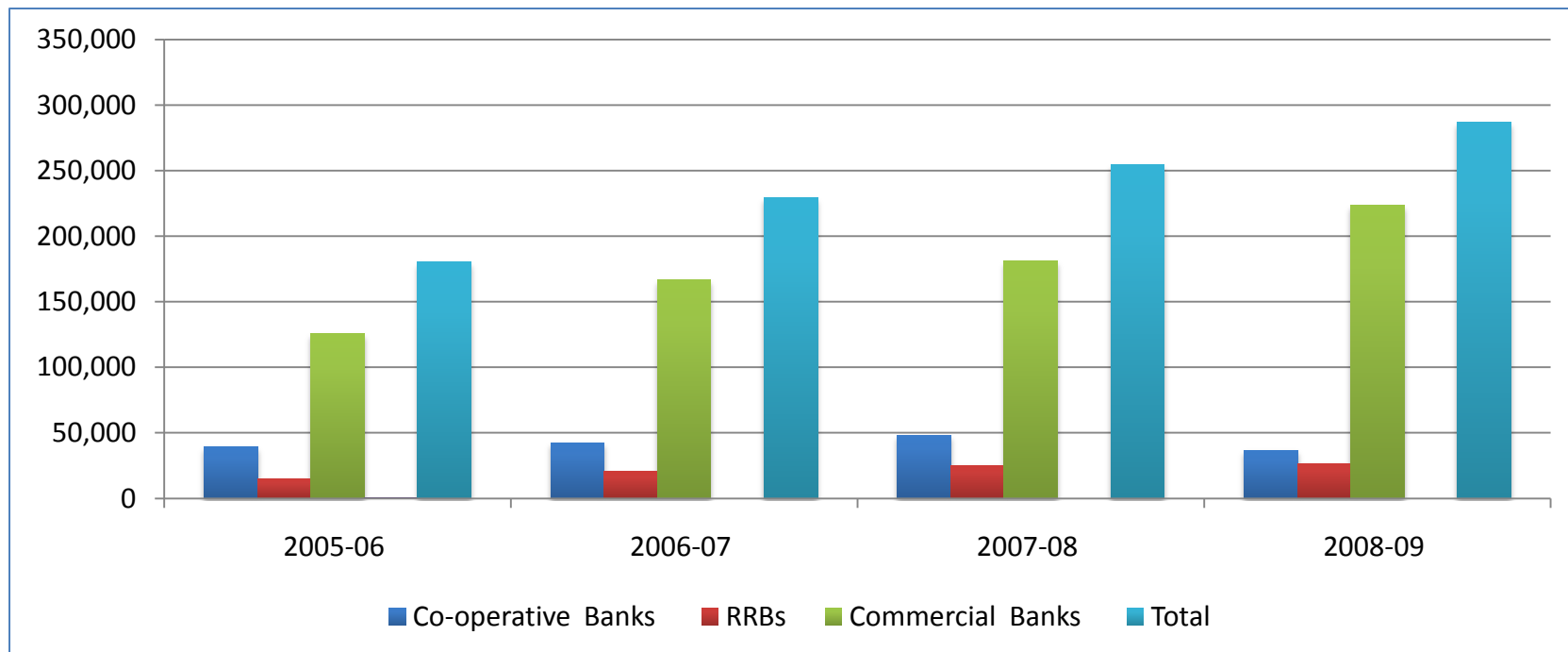


# Agri Finance – other Channels

- Micro Finance (MFI) – a recent phenomenon
- Informal sources
  - Money lender
  - Local Trader – buys the harvest
  - Input Supplier Credit
  - Mortgage lender – both informal and NBFCs
  - Contract Farming arrangement
  - Share cropping
  - Good old friends , neighbours and relatives.

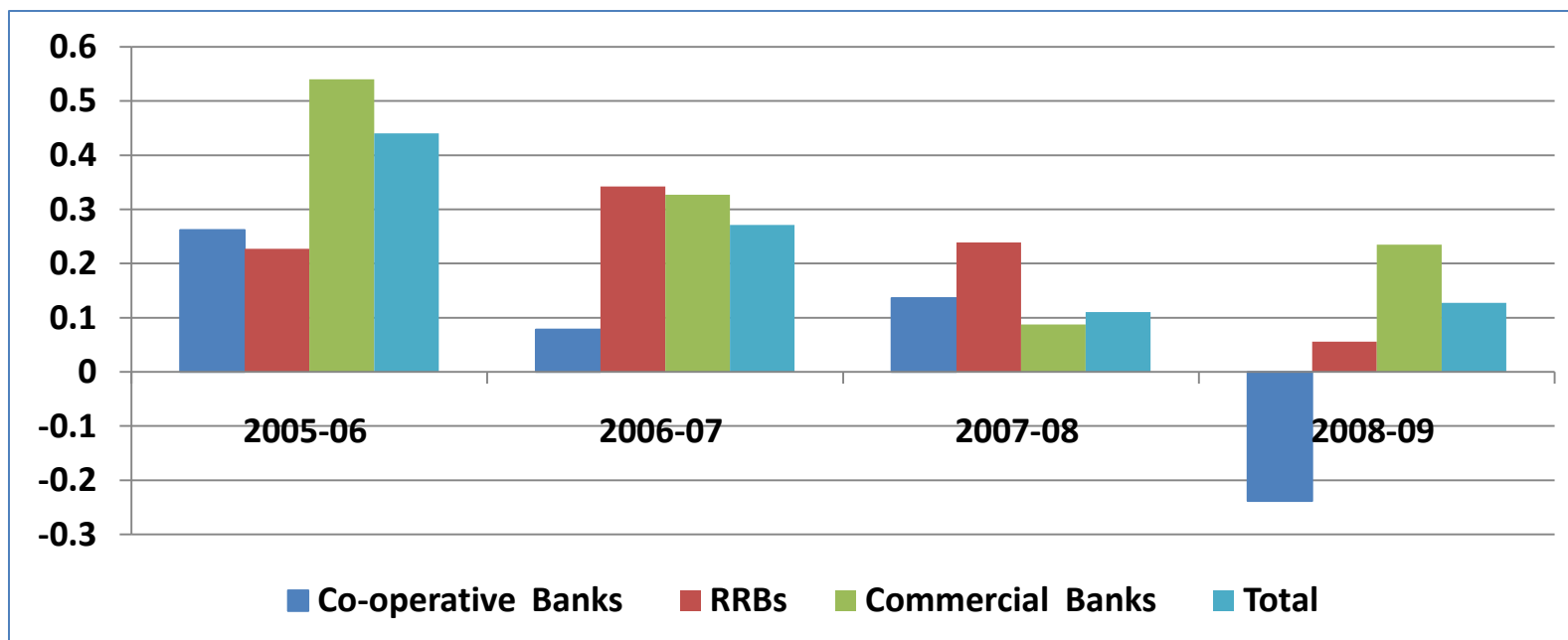
# Agri Credit - different channels

## Co-op failure



Agency (crores)	2004-05	2005-06	2006-07	2007-08	2008-09
Co-operative Banks	31,231	39,404	42,480	48,258	36,762
RRBs	12,404	15,223	20,435	25,312	26,724
Commercial Banks	81,481	125,477	166,485	181,088	223,663
Total	125,309	180,486	229,400	254,658	287,149

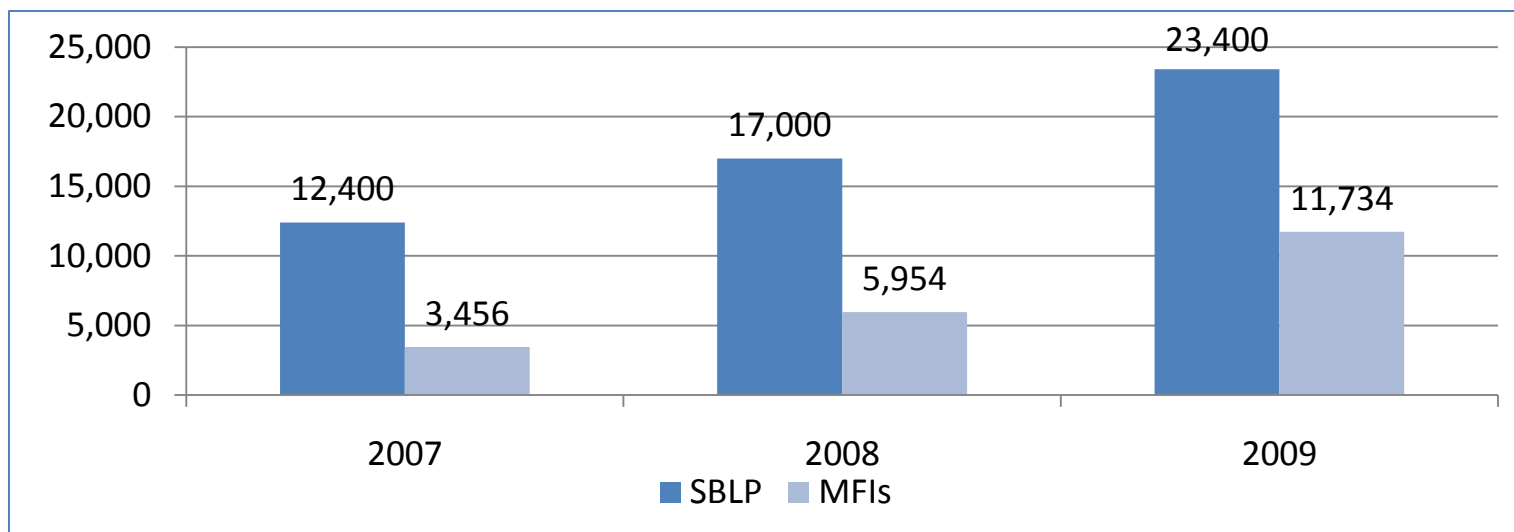
# Agri Credit – channel wise growth (y o y)



Agency	2005-06	2006-07	2007-08	2008-09
Co-operative Banks	26%	8%	14%	-24%
RRBs	23%	34%	24%	6%
Commercial Banks	54%	33%	9%	24%
Total	44%	27%	11%	13%

# The Micro Finance Story

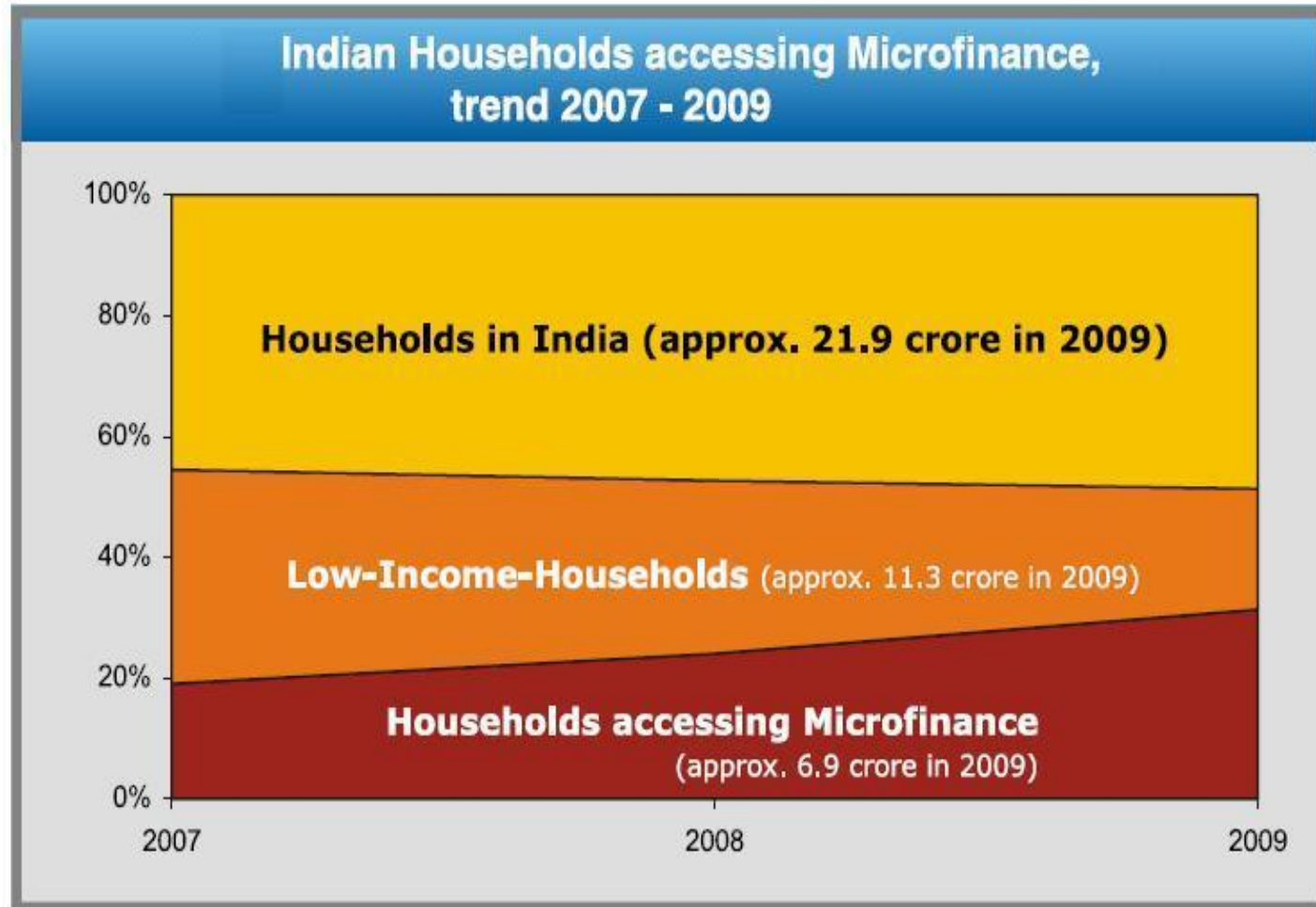
# Credit flow from MF channel –SHG and Direct



<b>portfolio of the two major microfinance-Supply-Channels (Crores)</b>			
	2007	2008	2009
SBLP	12,400	17,000	23,400
MFIs	3,456	5,954	11,734
<b>Total</b>	<b>15,856</b>	<b>22,954</b>	<b>35,134</b>

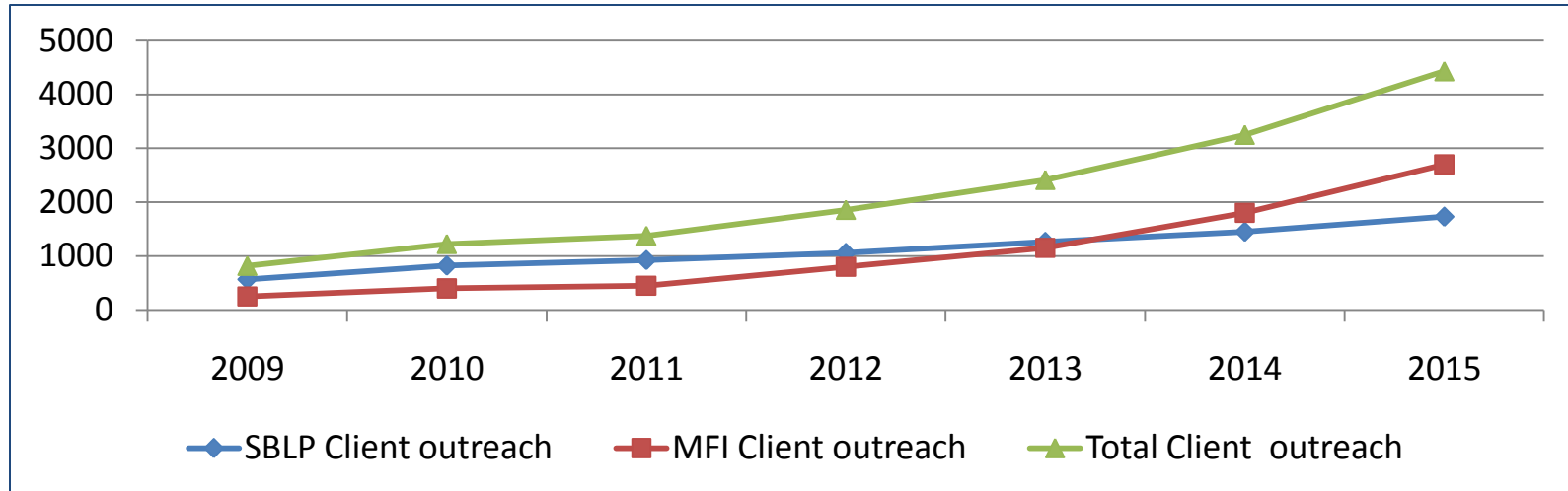
- MF channel accounts for mere 12% total Agri Credit
- Share of direct financing is increasing though is very small

# Indian Household accessing Microfinance

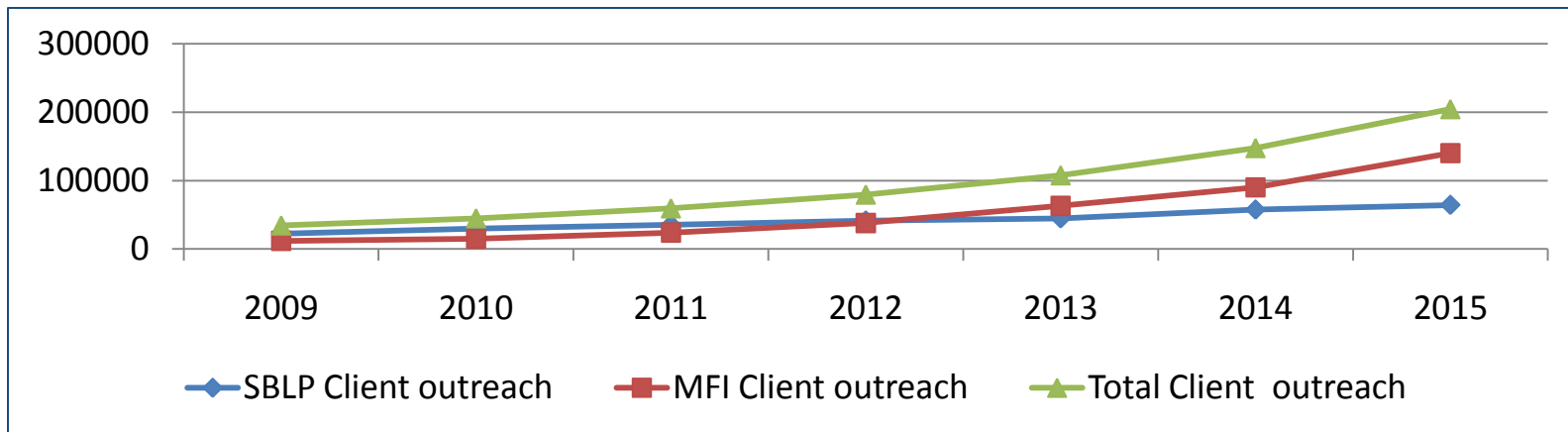


# Sector estimation for the future

Client Outreach Projection Person (Lakh)



Portfolio Projection Amount(in Crore)



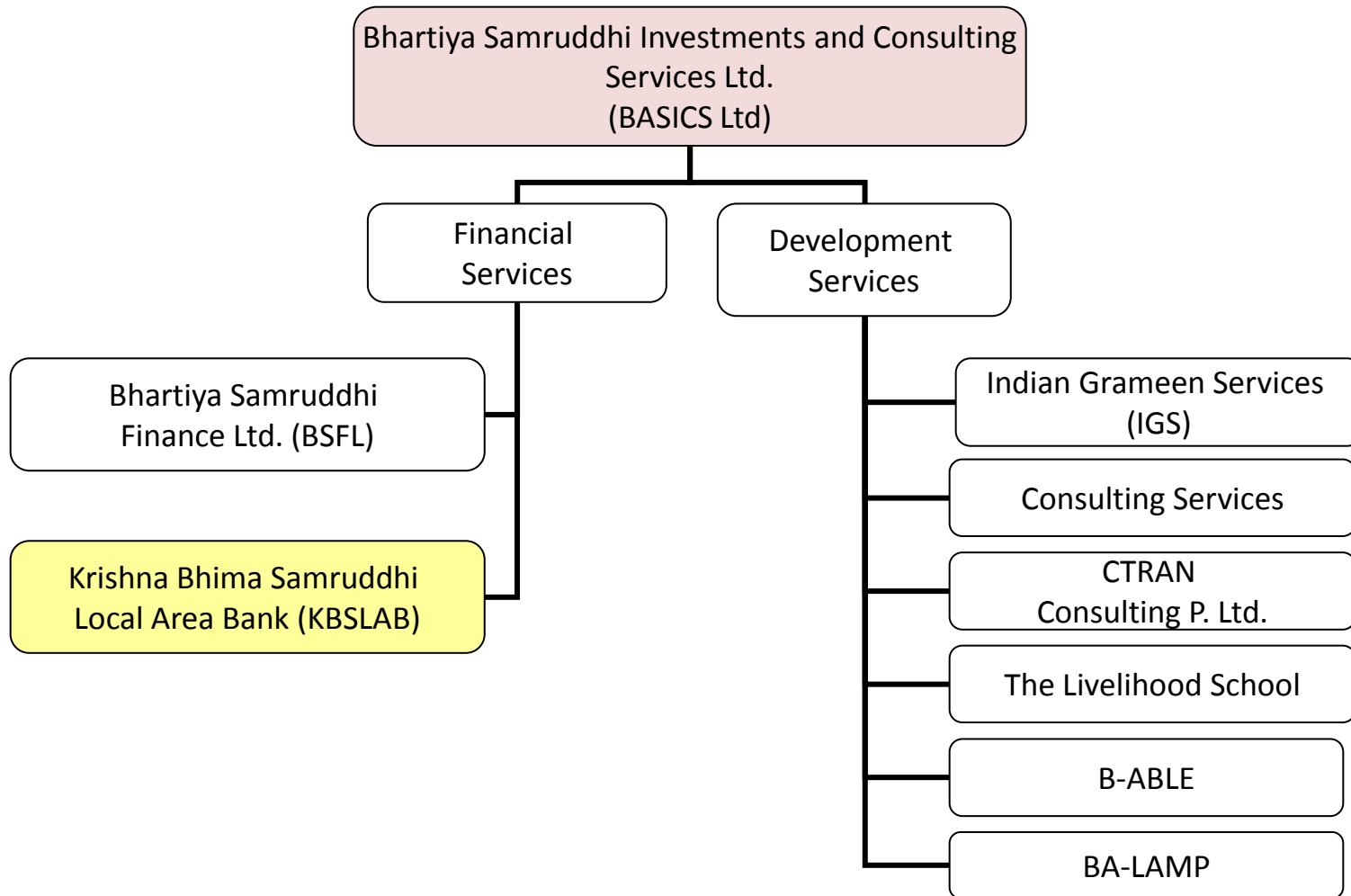
•Four fold increase by 2015- Is it achievable !!

# BASIX STORY

## Beyond Credit

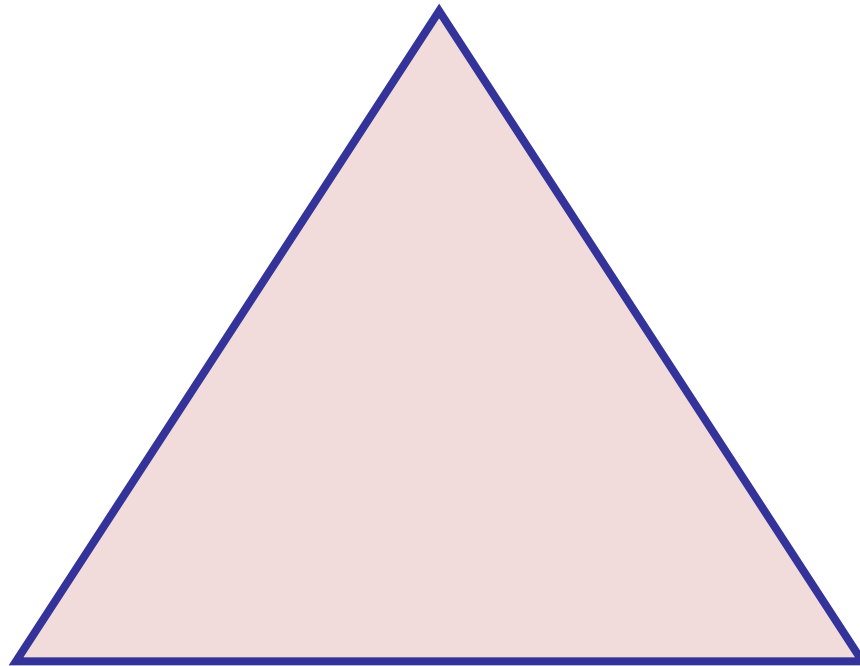


# BASIX Group Corporate Structure



# BASIX Livelihood Triad

Institutional Development Services (IDS)



Financial Inclusion  
Services (FINS)

Agricultural / Business  
Development Services (Ag/BDS)

## Triad Outreach

Services
Micro-Savings/Deposits - over a million customers
Micro-Credit-cumulative disbursement Rs.30 bn (USD 650 m)
Micro-Insurance (life, health, livestock, weather-based crop, micro-enterprise asset) - over two million
Agriculture and Business Development Services –nearly one million
Institutional Development Services (institutions)

## Agriculture Business and Institutional Development Services

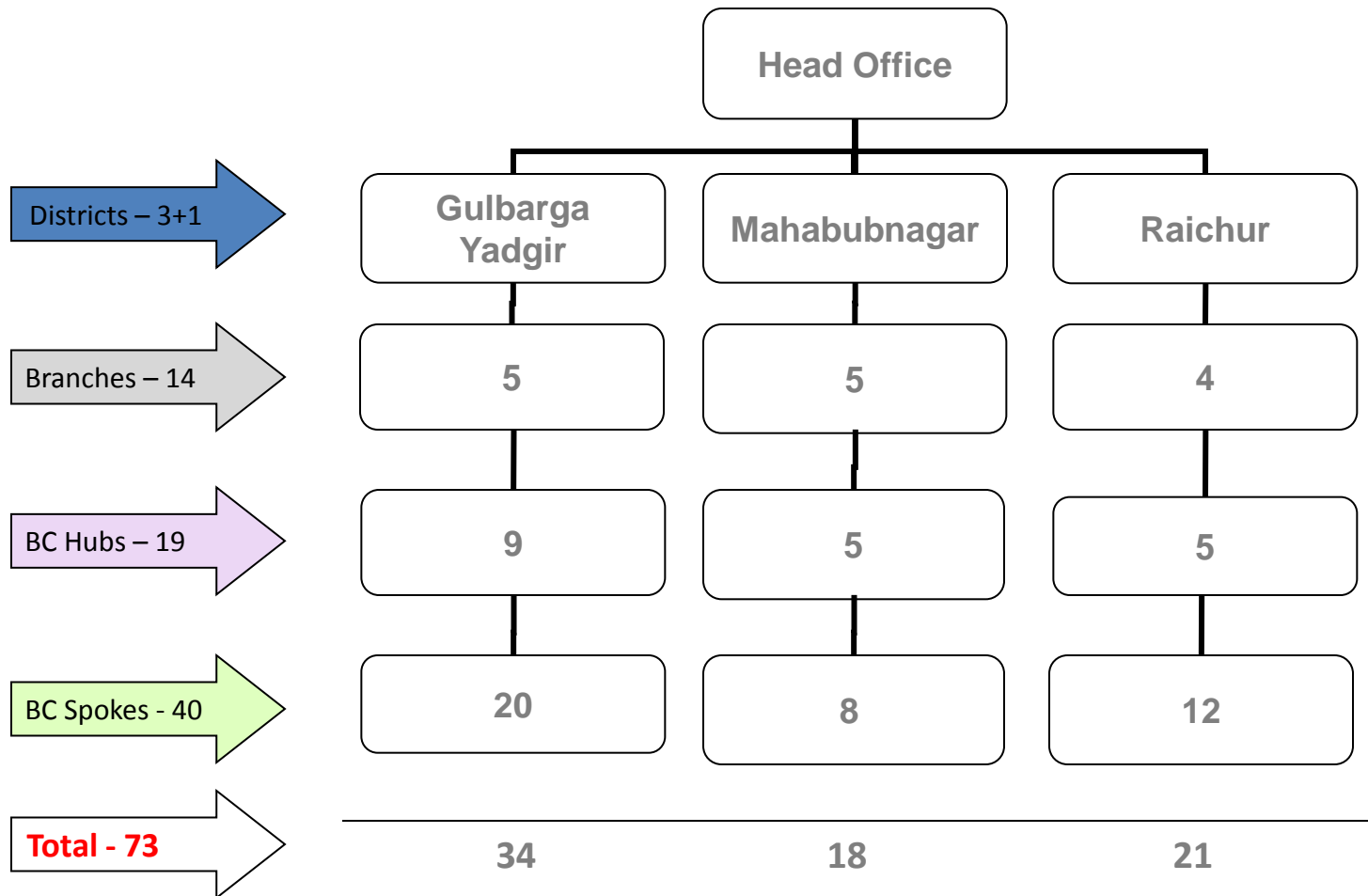
No. of Cumulative Customers: 1 million

Sub Sector/Service	No of Customers (000)
Crop (Cotton, Soya, Red gram and Paddy)	95
Dairy	143
Non-Farm Sector	175
IDS	6
No of Animals Vaccinated	190
No of customers offered IPM and Bio-inputs	202
No of customers trained on SRI cultivation	2

## KBS Bank

- A special category of Banks - Local Area Bank
- Operating area restricted to 3 districts
- Can raise resources from outside , but can deploy only within
- By Choice, adopted Microfinance as business model
- The only bank of its kind - 'Microfinance Bank' – in operation since 2001

# Current Delivery Channel



# Bank on Wheels (Mobile Branch)



# The Business Correspondent

- IGS, a Section 25 company
- Impeccable track record in Action Research
- Foot print across the country
- Already engaged as correspondent by two major banks
- New regulation allows “For Profit” companies to be the BCs
- The new pricing model offered by banks is very similar to the one KBS used since last two years.



# BC Hub Location



# Product spectrum

- Savings
- Credit
- Insurance- life, health, enterprise and weather
- Agri and Business & institutional Development services
- Micro Pension

# Loans - Portfolio

Products	Share in total portfolio
<b>Farm Sector</b>	<b>35%</b>
– Crop Loans	3%
– Agri Investment Loans	1%
– Agri allied Loans	31%
<b>Non-Farm Sector</b>	<b>65%</b>
– Micro Term Loans for business	53%
– Gen. Purpose Loans to SHGs, federations	9%
– Housing Loan	1%
– Other Loans	2%

# Portfolio- Agri and Insurance

Extended Customer Services	No. of active customers
Insurance	75,892
- Credit Plus	47,994
- Live stock	2,023
- Micro Enterprise Shield	14,790
- Saving Plus (non-credit)	11,085
Ag/BIDS	10,000+

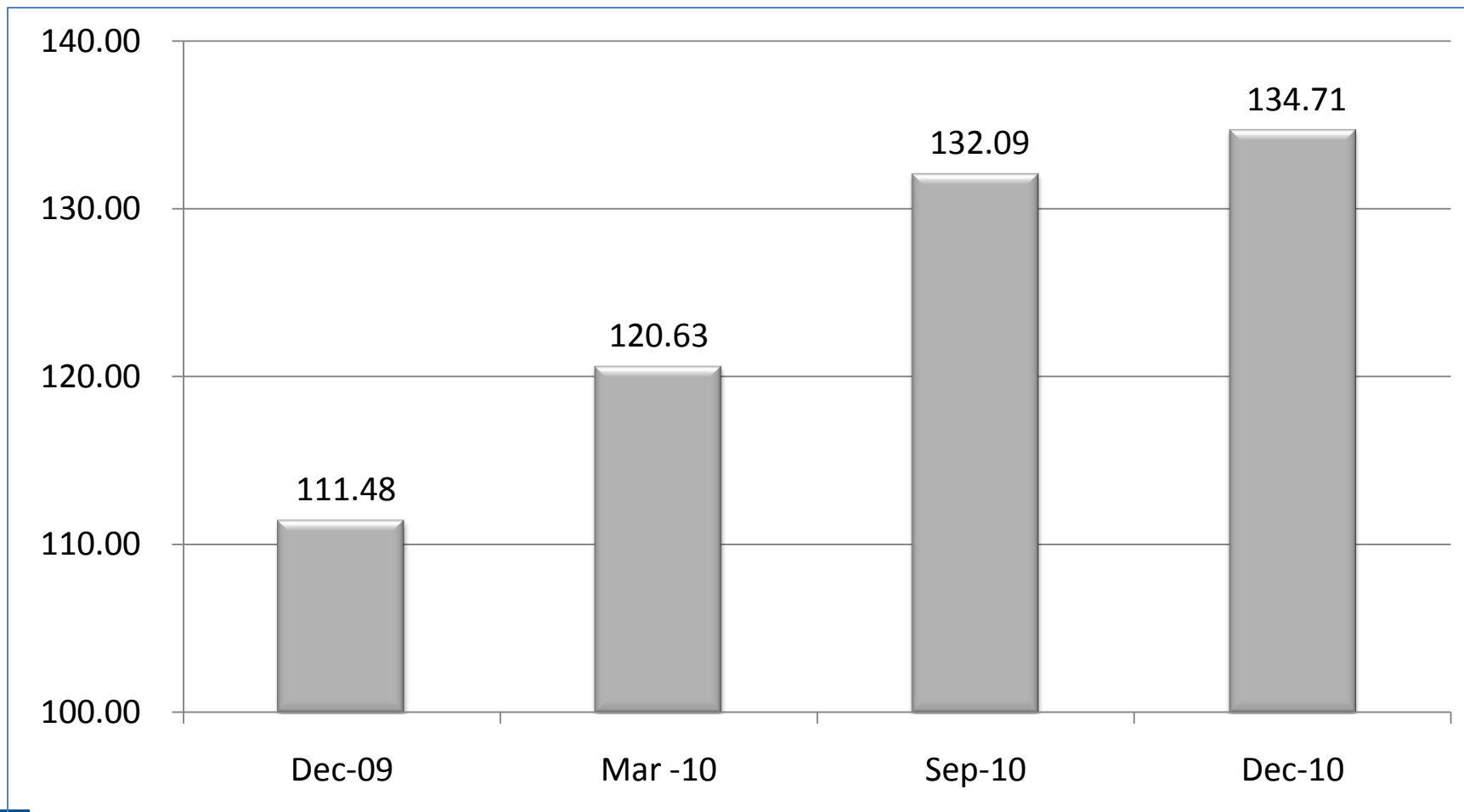
# Product Partners

- ICICI Bank - money transfer.
- AVIVA - life insurance
- Royal Sundaram - health and livestock insurance
- ICICI Lombard - rainfall insurance
- UTI Mutual Fund - micro pension.

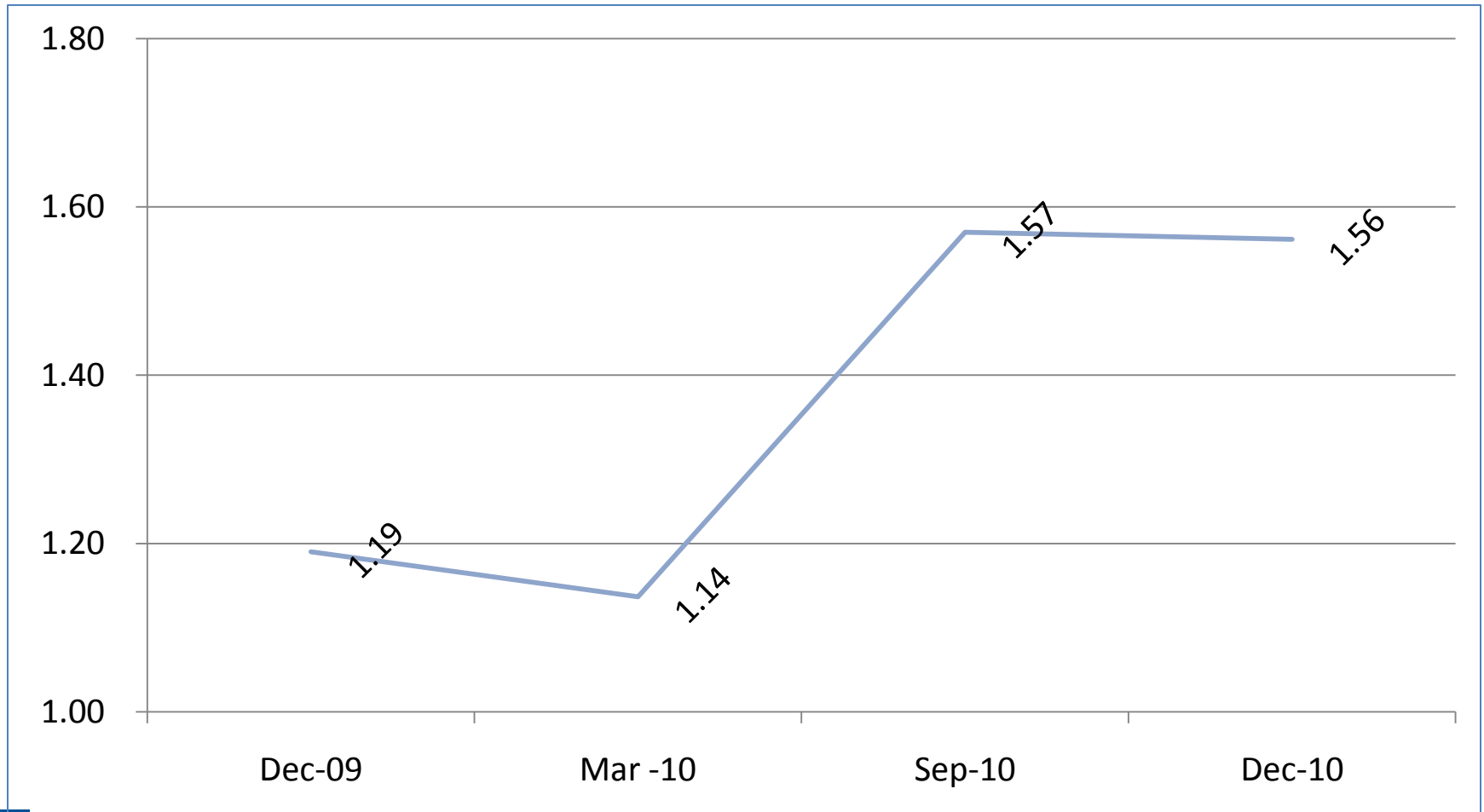


# Financial performance

# Total Assets

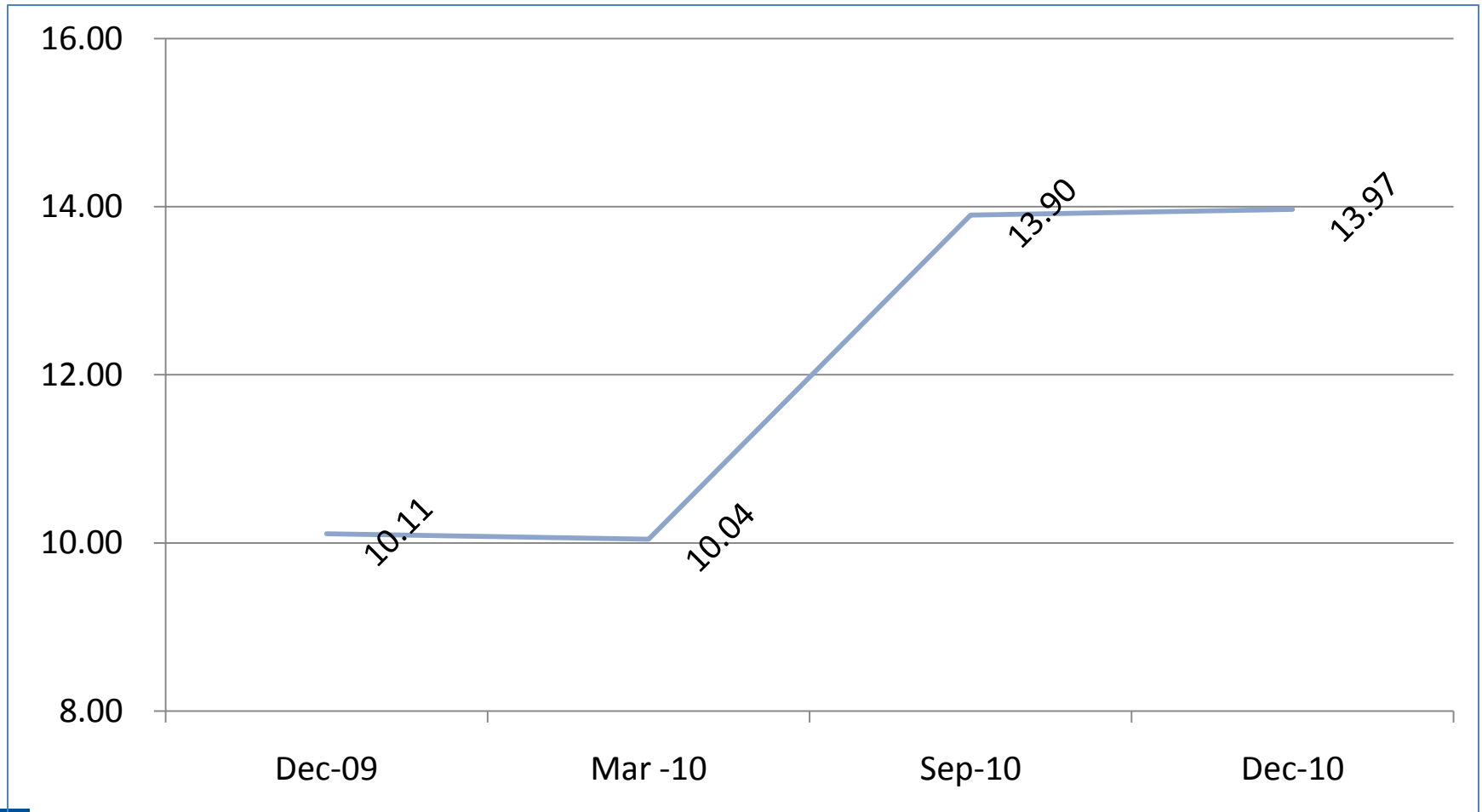


# Return on Assets

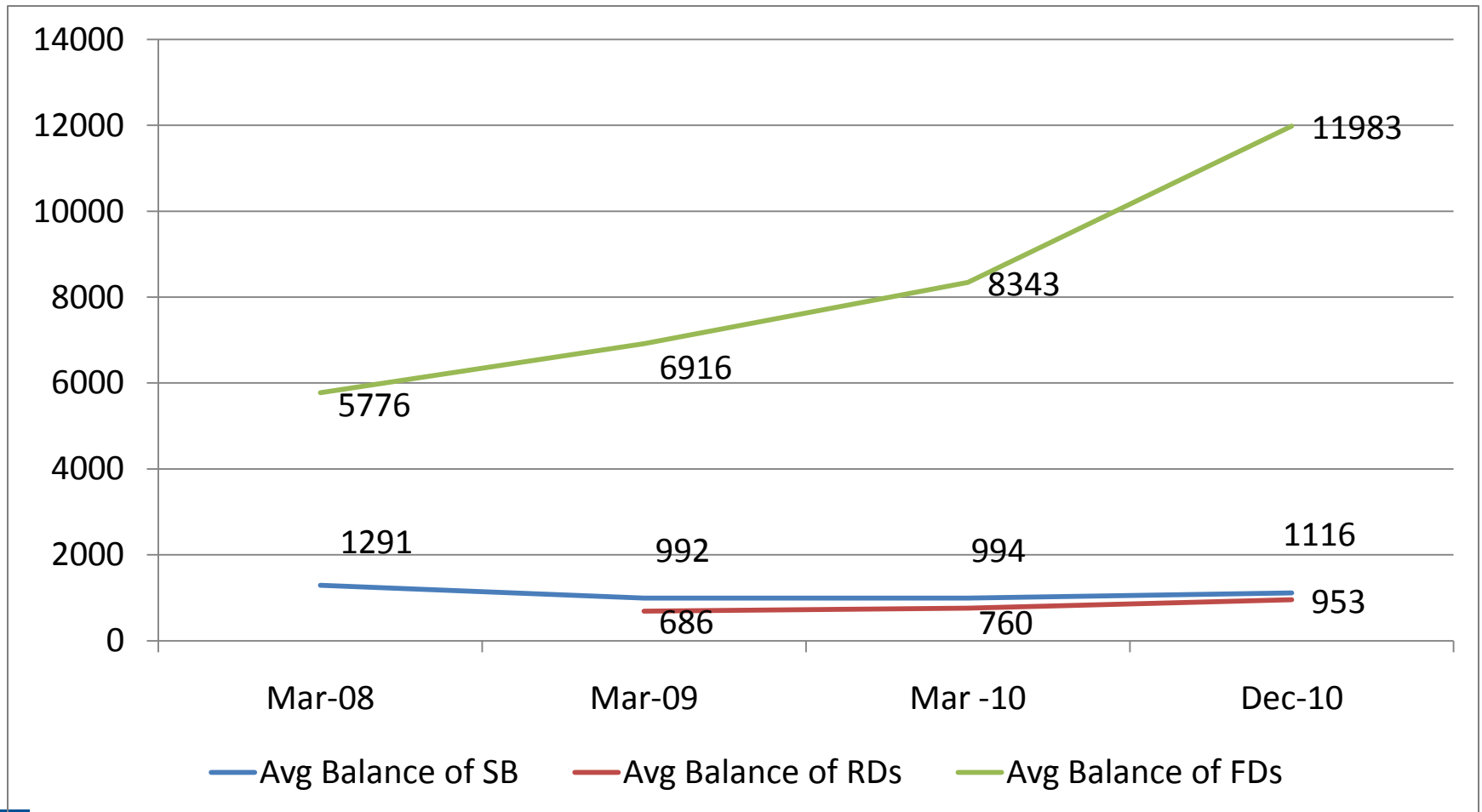




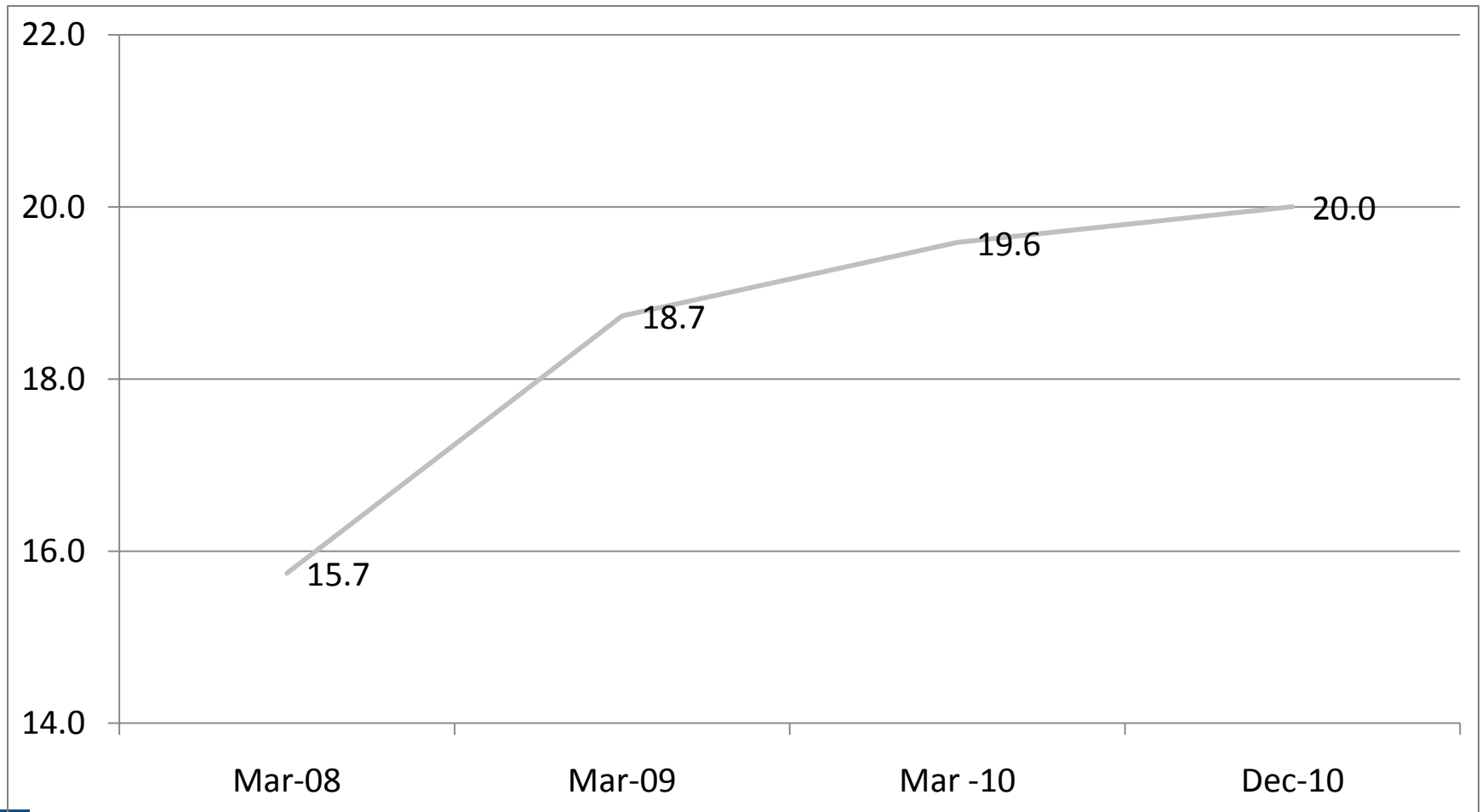
# Return on Equity



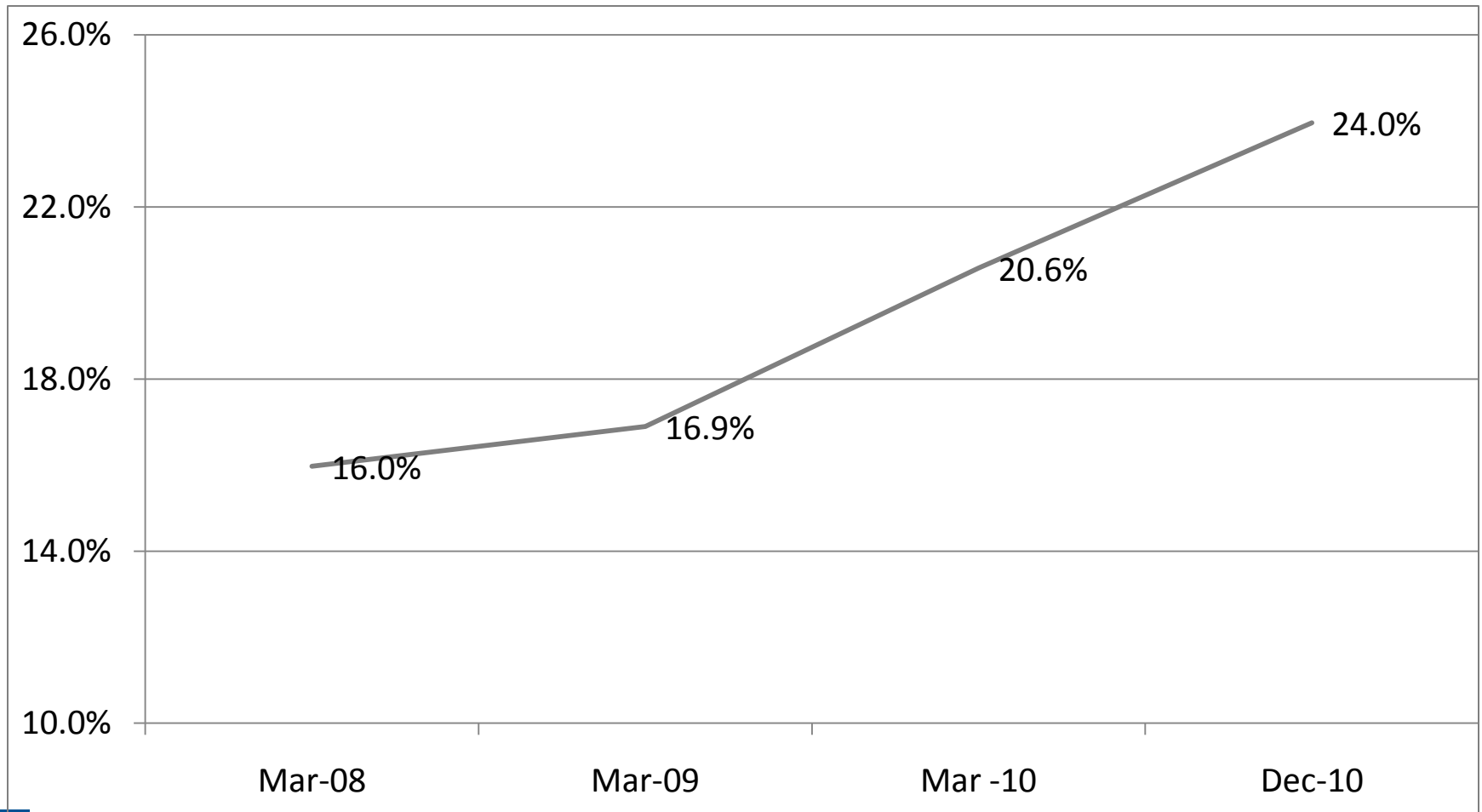
# Average Deposit Size



# Average loan size (disbursement)

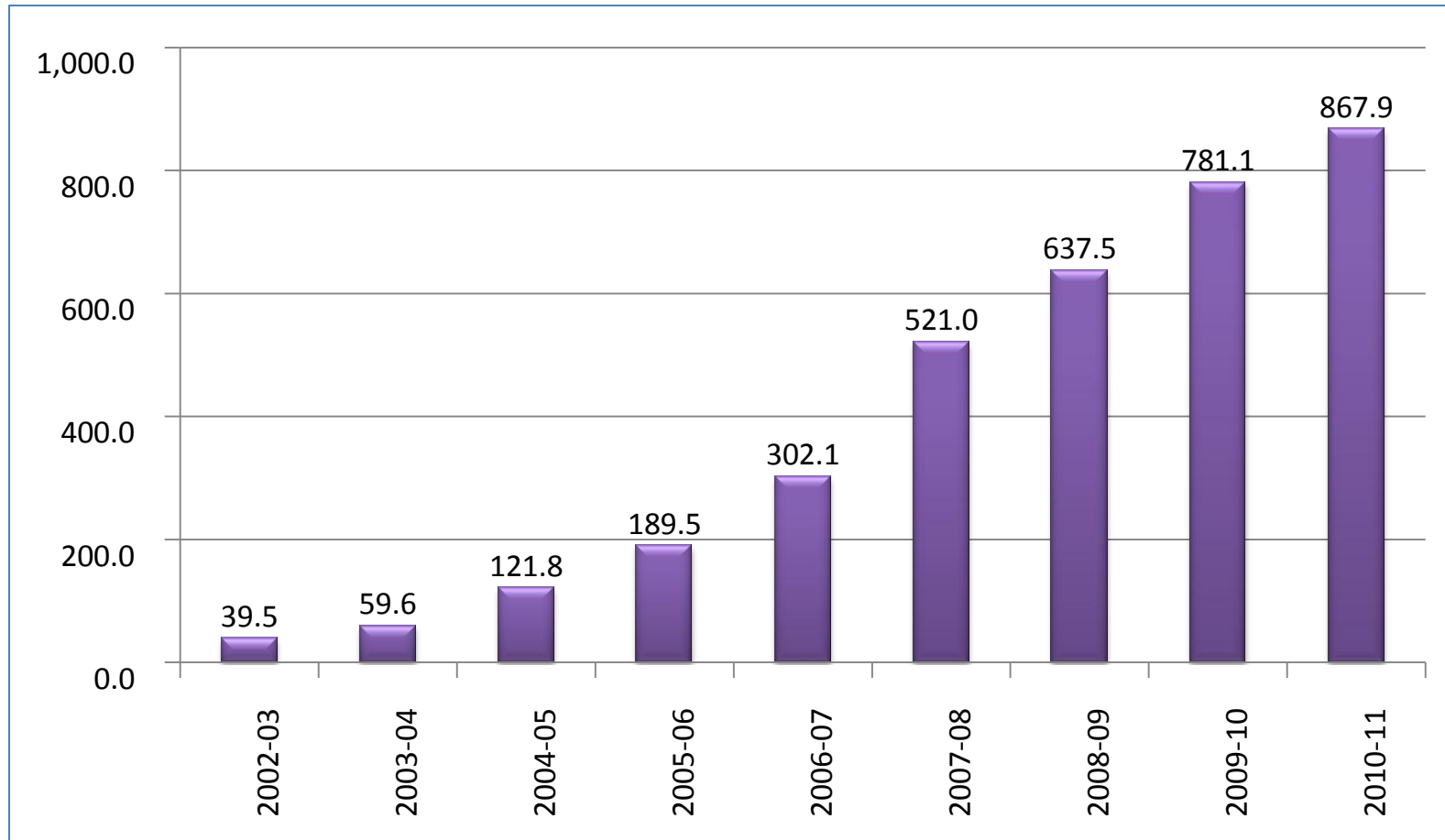


# Densification in Rural Areas



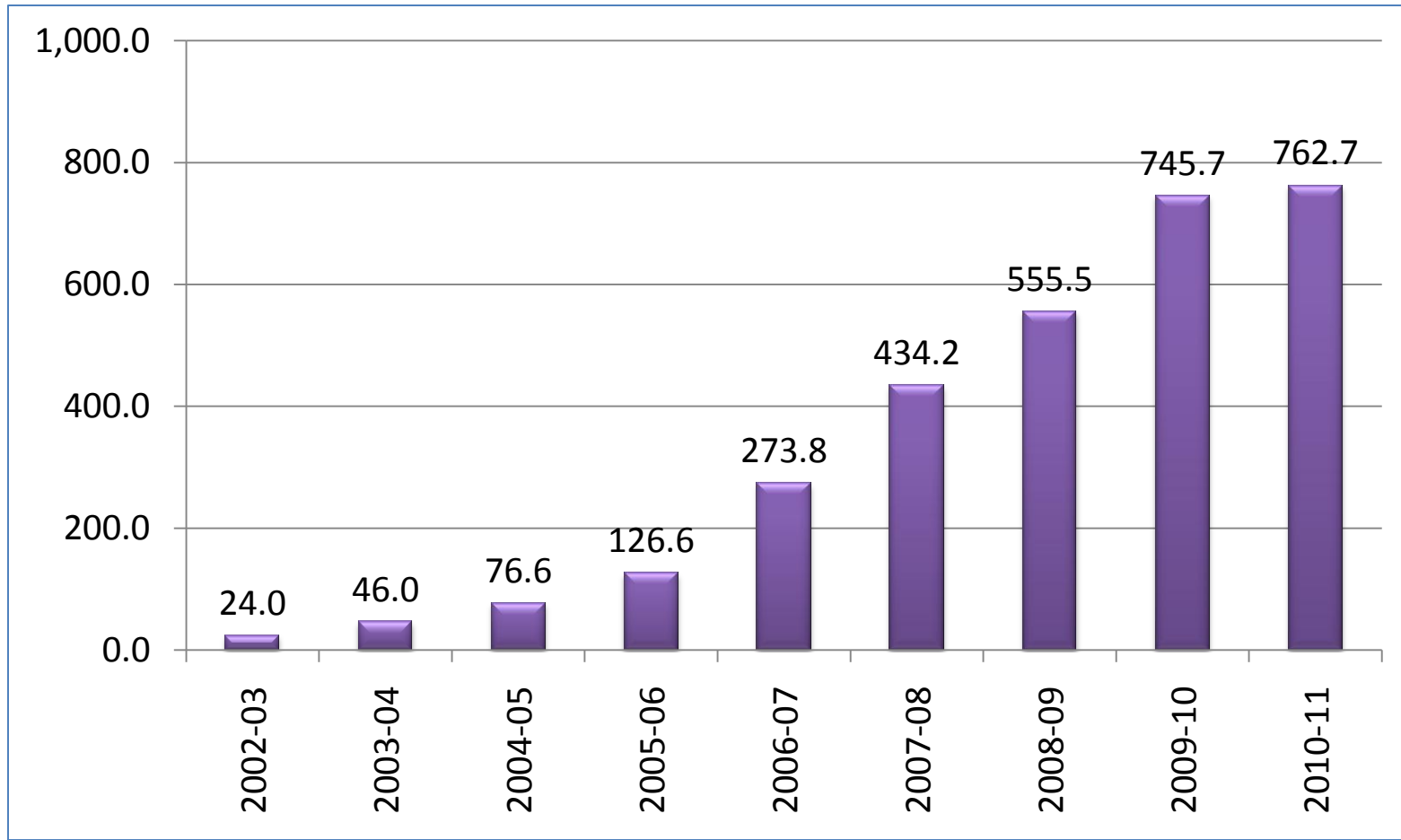
# Loans – Portfolio Growth YoY

In Millions



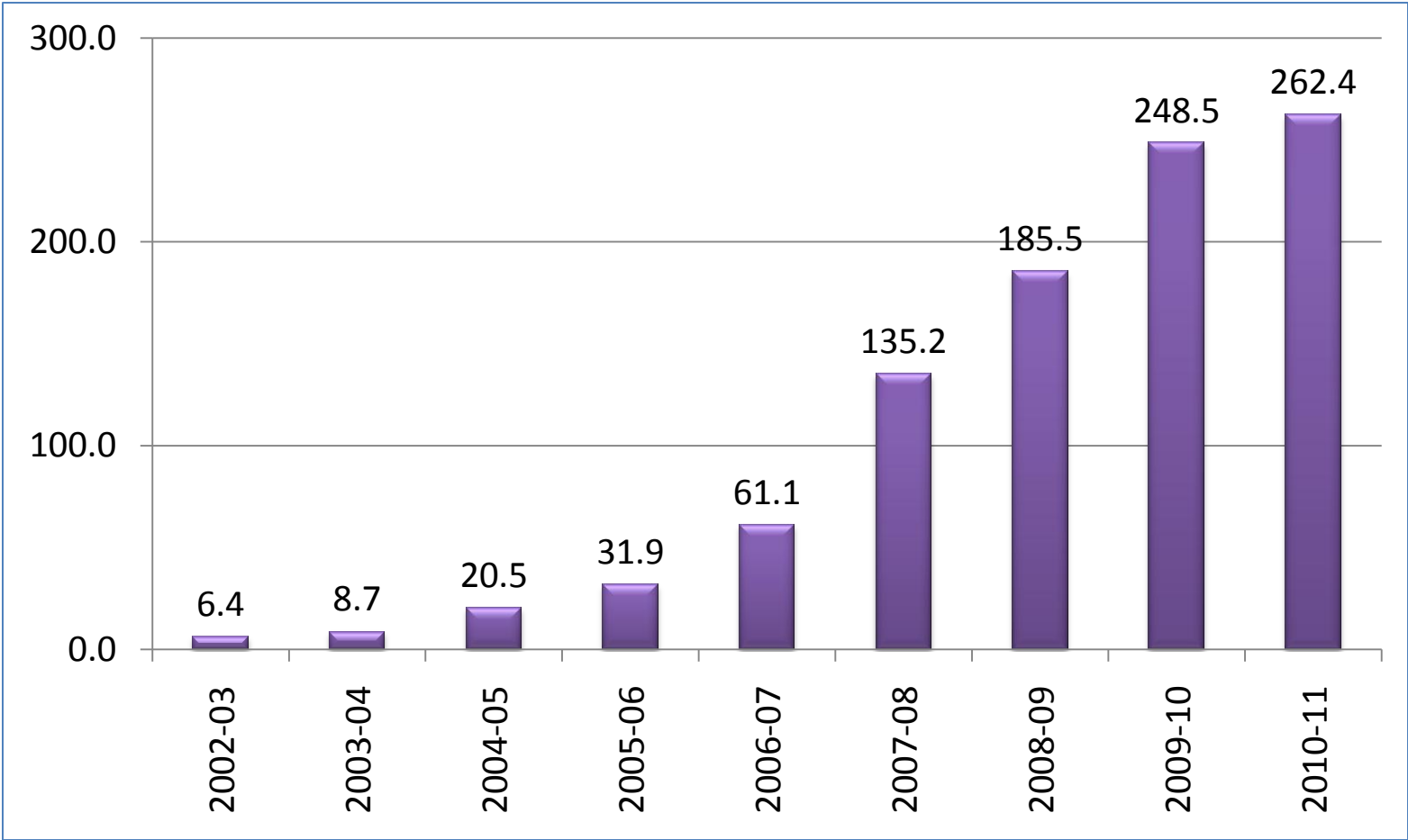
# Deposit – Portfolio Growth YoY

In Millions

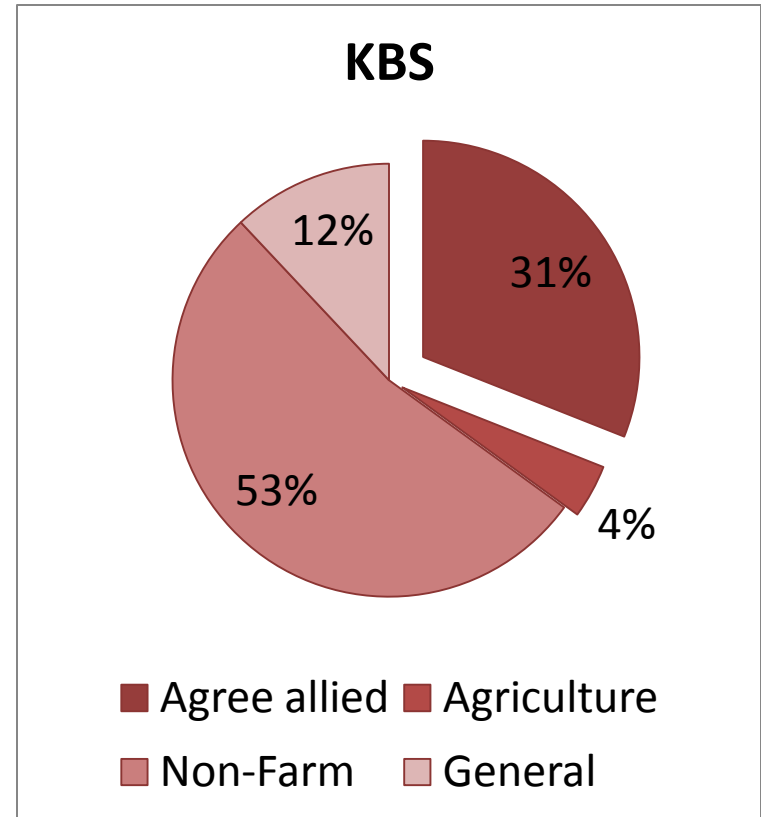
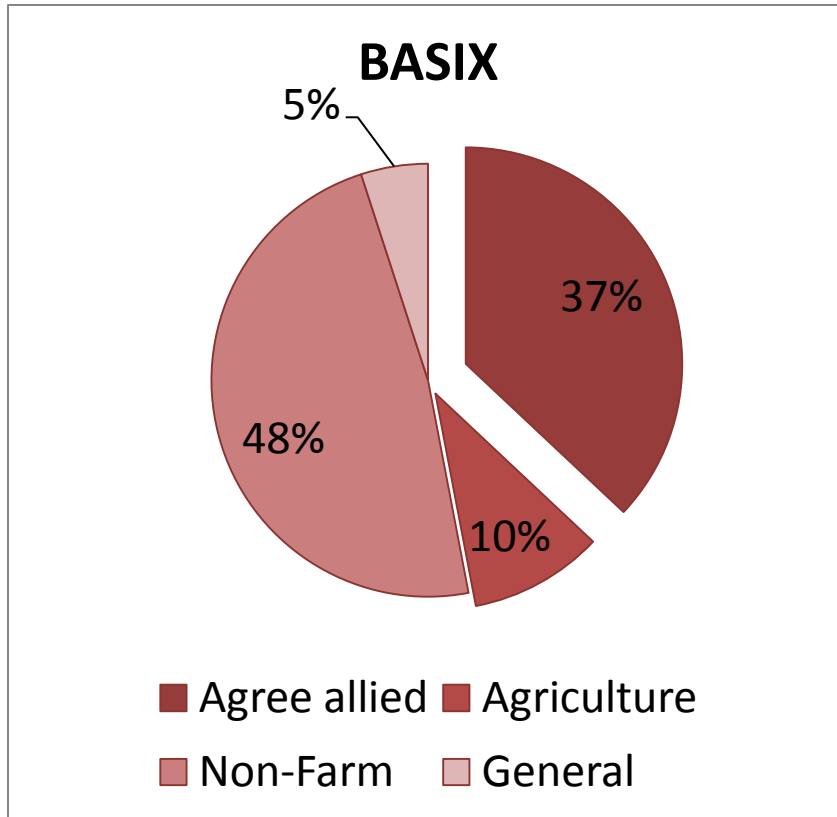


# Accounts Growth YoY

In '000'



# Portfolio share





# Ag/BIDS – supplementing credit

## Agriculture/Business and Institutional Development Services

- Service provided for a fee
- Productivity enhancement
- Risk mitigation (non-insurance)
- Market Linkages –input & output
- Formation and development of Producer Groups/Farmers Clubs

# Animal Health Camps & Fodder seed supply



- Health camps on need based
- Fodder supply done through dept coordination
- Collaboration with local veterinary departments

# De-worming & Vaccination



- The services are offered at customer doorstep!!



# Artificial Insemination (AI) Services through Samruddhi Livestock Development Centers (SLDC)



- Established 2 SLDCs in MBNR District (Gopanpet & Eklaspur) to help improve the breed
- 212 AI born calves are in field

# Azolla Beds preparation



- Very good feed supplement for milch animals



# Bio inputs supply and Seed Treatment demonstrations



- Helps reduce the cost of pest and disease management activities

# Pheromone traps distribution



- Pheromone traps are normally not available in conventional agri input shops
- The deadly pod borer moths are trapped – Redgram crop



# Farmer Trainings & Exposure visits



- Facilitated Farmer Field visits for best practices experience learning by practice



# MACTS & Farmer Clubs



- Two MACTS in place ( Maldakal, Singampet)
- Farmer Clubs are supported by NABARD and have promoted 70 farmer clubs till date

## Dairy Market Linkages with Reliance – Village Collection Center



- One Bulk Milk Cooling Unit covers 10 villages , set up by Reliance
- Price incentive mechanism is introduced based on FAT and SNF content
- We provide AGLSDS and Financial assistance services to farmers

# Dairy Market Linkages – Reliance BMC



- Direct source of Milk Market Linkages to KBS Dairy customers (Loan or Ag/BIDS)
- Helps in protecting their monthly income on regular basis
- Improves the cash flows as the payment is made in once in 10 days
- This experience was shared in Kenya in international Writeshop on Value Chain Financing



# Paddy Foundation Seed Linkages – new initiative



- First of its kind in the District to provide direct linkage from University to farmers with support from NABARD
- BPT 5204 Paddy Foundation seed supplied (118 bags supplied)
- 108 acres in cultivation by 40 farmers from 2 villages (Singampet & Dupally)
- Foundation Seed has yielded 5 bags additional and farmer benefited around Rs.5 K per acre

# Foundation Seed Production- NABARD FTTF Program – knowledge sharing



our take so far...

# Learnings..

- Only Credit is not enough
- Not so good performance of Co-op and RRBs means channels of distribution need a re-look.
- SBLP - Bank Linkage may not be enough
- MF – irrespective of growth rate , limited in impact
- What is needed is structural change- delivery , market linkage and risk mitigation

# Reason why the impact is slowing--

- Agri Financing lacking the “glamour” quotient , keeping both people and enterprise away.
- Investors even preferred Social development sectors rather than Primary agriculture
- “Loan Waivers” seemingly accorded “non –refundable” character
- Absence of adequate Risk coverage possibilities, both for the lender and borrower
- Political expediency and “holy cow” status .



## Reasons ..

- Land holdings are small. 70% of the land holdings are in small and marginal farm category. Eastern states have nearly 90%.
- With the families getting divided , the holdings are getting further fragmented
- Small size of the holdings make modern farming , Farm mechanisation an impossibility
- Holdings size and regulation are not optimal for availing credit by small farmers

# Reasons ...

- The hitherto 'agri intensive' states are showing signs of fatigue due to severe de-gradation of the land fertility which is the outcome of excessive usage of Fertilisers and pesticides over the years.
- Severe Ground water depletion in major agri intensive area
- Farm labour availability is a big constraint – thanks to rising literacy level leading to increased migration to urban areas.
- Social Security projects like NREG and other employment and benefit program leading to migration of labour from private farms
- Gen X is not willing to take to Farming due to its 'de-glam' status

# Reasons ....

- Farm land is yielding space to ever increasing demand of space for housing – both commercial and commercial
- Holding onto land ,is an emotive issue for most families. Will not part unless the compulsions are strong. Stops consolidation
- At the same time, one time lucrative cash is too attractive for the small farmer to resist selling the holdings.
- Retail credit flow to the sector is getting more ‘socialistic’ in character and the private sector is doing it reluctantly than ever.
- Market linkage is very inefficient leading to huge wastage at procurement stage.

# Missing Link !!!

- Private Sector “Active” participation
- Agri financing be ‘enterprise’ driven rather than “Policy” driven
- Risk coverage for the lender – currently inadequate
- Public Private Participation Institutional framework – specialised institution in Pvt sector, equity funded.
- **Aggregation is the key** – Corporate Farming could change the game

AGRI FINANCING DESPERATELY NEED BE RE-  
ENGINEERED TO SUPPORT THE TAKE-OFF  
WHICH IS SO CRUCIAL TO ALL OF US FOR OUR  
FOOD SECURITY... Thanks.

**More, Next Time!!**