HNB’s Micro Agri-Lending in Rural Sri Lanka

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Agriculture Finance Forum 2012
Summary

- Country overview
- Development focus of country
- Current position of HNB agri lending
- Products & services
- Delivery mechanism
- Risk management
- Revenue model
- Critical success factors
- Priorities for scaling up
Country Overview

Year 2010

- Population – 20.65 Mn
- GDP per capita – US$ 2,399
- GDP growth rate – 8%
- Sectorial composition
  - Agriculture 11.9%
  - Industry 28.7%
  - Services 59.3%
- Life expectancy – 74 (male - 70.3 & female - 77.9)
- Literacy rate – 91.4%
- Among the top 5 travel destination for 2012 (Kuoni Annual report)
Development Focus of Country

- Increase per capita income to US$ 4,000 by 2016
- 05 hub concept (naval, aviation, commercial, energy, knowledge)
- Reinstating under utilized corporation and resources
- Tax concession for agri & development lending organizations
- Encouraging local agri produce by imposing tax on agri imports
# HNB Micro Agri Lending Snapshot as at Dec 2011

<table>
<thead>
<tr>
<th>Description</th>
<th>No of Loan</th>
<th>Portfolio (US$.Mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultivation</td>
<td>19,137</td>
<td>31.26</td>
</tr>
<tr>
<td>Agri process</td>
<td>5,152</td>
<td>20.7</td>
</tr>
<tr>
<td>Storage</td>
<td>132</td>
<td>2.57</td>
</tr>
<tr>
<td>Animal Husbandry</td>
<td>2,545</td>
<td>3.07</td>
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<tr>
<td>Fisheries</td>
<td>327</td>
<td>1.22</td>
</tr>
<tr>
<td>Farm Machinery</td>
<td>393</td>
<td>1.21</td>
</tr>
<tr>
<td>Development others</td>
<td>13,106</td>
<td>45.62</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>40,792</strong></td>
<td><strong>105.65</strong></td>
</tr>
</tbody>
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Products and Services

• Short, medium, long term and seasonal Agri loans (farming, cultivation, livestock etc)
• Tailor-made loan packages for small farmers
• Refinance / Interest subsidy loans (rangovi saviya, agro livestock development etc)
• Micro insurance
• Divisaviya Training programs
  - Financial education
  - Personal development
  - Entrepreneur development
  - Modern agri technology
• Assisting buyback arrangements through corporate partners
• Youth and migrant worker families inclusion for agri sector (Yauwanabhimana & Adishtana)
Financial Literacy Program for Short Term Crop Cultivators
Farmer Awareness Program
and handing over a harvester machine

Launch of Rangovi Saviya
Delivery Mechanisms

Agri Outreach & Delivery channels

• Bank has a network of
  - 240 customer centers
  - 122 Microfinance units
  - 400 ATMs
  - 7 Mobile vehicles
  - Online Banking facility

• Field strength - 140 field officers
Credit Risk Management

• Technical competency on bank Risk Management process and the team right down to branch management through to AO’s and FO’s
• Corporate Partnerships as Stakeholders (Alternate Risk Transfer-ART)
• Graduating smallholder farmers to be commercially viable entrepreneurs.
• Close monitoring of the growth and set-backs and adherence to quick remedial actions. Managing disaster situations, arrange possible relief and re-scheduling of facilities when necessary.
• Mitigate production risks and market risks through its client training programs and linkages with corporate partners.
Revenue Model for the Agri Finance Business Line

- Diversity of agri sector (tea, rubber, coconut, spices, farming, cultivation, poultry, dairy, fisheries)
- Direct finance to sectors
- Support services finance (fertilizer, machinery, processing, transport etc)
- Tailor-made packages & pricing based on project s& cash flows
- Spreading risk
  - Market creation
  - Focus on economically viable sectors with continuous demand and cash flow
  - Graduating from micro to SME and commercial levels
- Well organized / follow-up mechanism
- Actively participating government sponsors credit lines (krushi navodaya, kapruka ayojana,)
Three Most Critical Success Factors

• Commitment and conviction of HNB
  – 120 year history
  – 40 years of commercially viable agri finance
  – Barefoot banker / Gami pubuduwa
  – Trusted partner in progress

• Expertise of staff
  – Experienced / Agri qualified field staff
  – Commitment
  – Continuous and string linkage

• Corporate partnerships
  – MOUs Agri producing / promoting organization
  – Transfer of knowledge and technical expertise
Signing of MOU with CIC

Signing of MOU with Hayleys
Priorities for Scaling up the Model

• Increase corporate partnerships
  – Quality products meeting industry standards
  – Commercially viable agri products
  – Creation of ready markets for produce
• Continuous innovation & economic development
  – Complete financial services
  – Financial services for farmers families & community
• Update on technical know-how for both entrepreneurs & field staff
• Traditional to commercially viable agriculture
  – Graduating farmers towards agriculture entrepreneurs
  – Use of modern technology to maximize output
Enhance
Empower
Enrich

Thank you!