

Agrifinancing in India – Gaps and Overlaps¹

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1. Good afternoon to all. CAB conducts the annual Conference on Priority Sector, which is very important, as many points that gets crystalized here may find some place in the policies of RBI. I had the privilege to be here in 2015 and this is the second occasion, I am addressing the participants of this important conference. I am given to understand that there are only four delegates who are attending the conference the second time thereby reflecting the rotation that we have in our own institutions in terms of how long we continue to nurture this portfolio.

2. Within the priority sector, today's theme is primarily to discuss on agriculture and since you all are at a senior position, I thought I will not get into the smaller details but would focus on some of the macro-economic aspects of agriculture because changes in the macro-economic aspects in agriculture enable us to re-design our portfolio, re-position our portfolio and to some extent re-price our portfolio. Largely, I have divided this address in two parts (PPT Shared). As we go along, I shall certainly like to hear from you on aspects that require a change and the challenges that the sector faces. To start with let me set the context by discussing some overall trends aspects in agriculture.

Part 1 - Agrifinancing in India: Some Issues

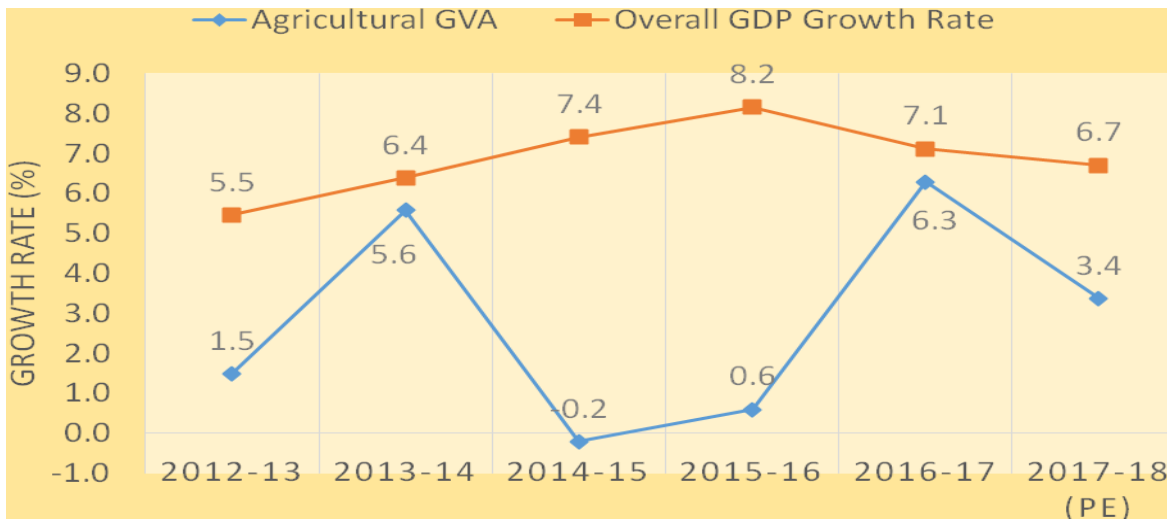
Trends in Overall GDP and Agriculture Growth

3. Looking at the trends in overall GDP and the agricultural growth (Fig 1) we find that as far as agriculture is concerned there exists huge volatility in its contribution to GDP growth(now GVA).When we lend to this sector, therefore, we must keep this in mind that there is going to be uncertainty involved. These are natural and nature induced

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volatility, there are political and policy induced volatility also and if we superimpose all of these we have a better understanding of the functioning of the sector. But this is the segment on which 50 per cent of India's population depends, directly or indirectly and from this perspective it is important to know what happens 'in' and 'to' agriculture.

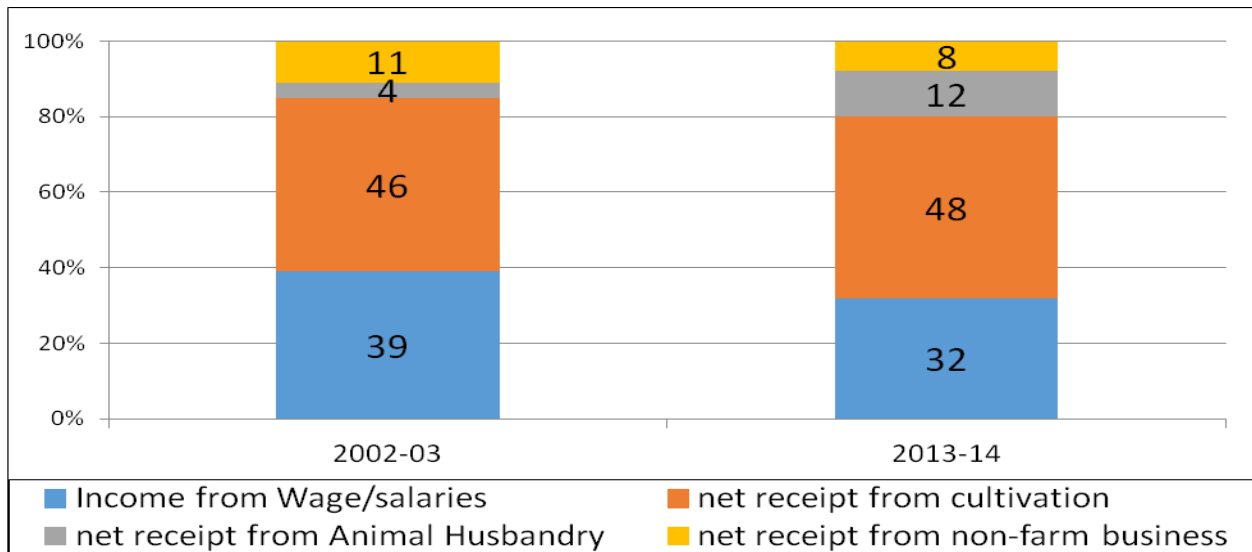
Fig 1: Trends in overall GDP and the agricultural growth



Trends in income of farmers

4. Let's reflect on what is happening to farmers' income as it's the net income which the farmer uses for servicing the debt. Among the various sources of farmer's net income change is primarily eminent in the animal husbandry segment. (Fig 2). The income which a farmer earns from animal husbandry is growing and there is substantial increase in the income from animal husbandry as compared to cultivation. If we analyse the growth story of different States of India, agriculture has sustainably grown at over 10 per cent, not core agriculture but in terms of diversified agriculture, viz., horticulture, dairy, poultry, and fishery. When we design, and strategize our intervention, should we not look at some of the sub segments especially the ones which are growing at a faster rate.

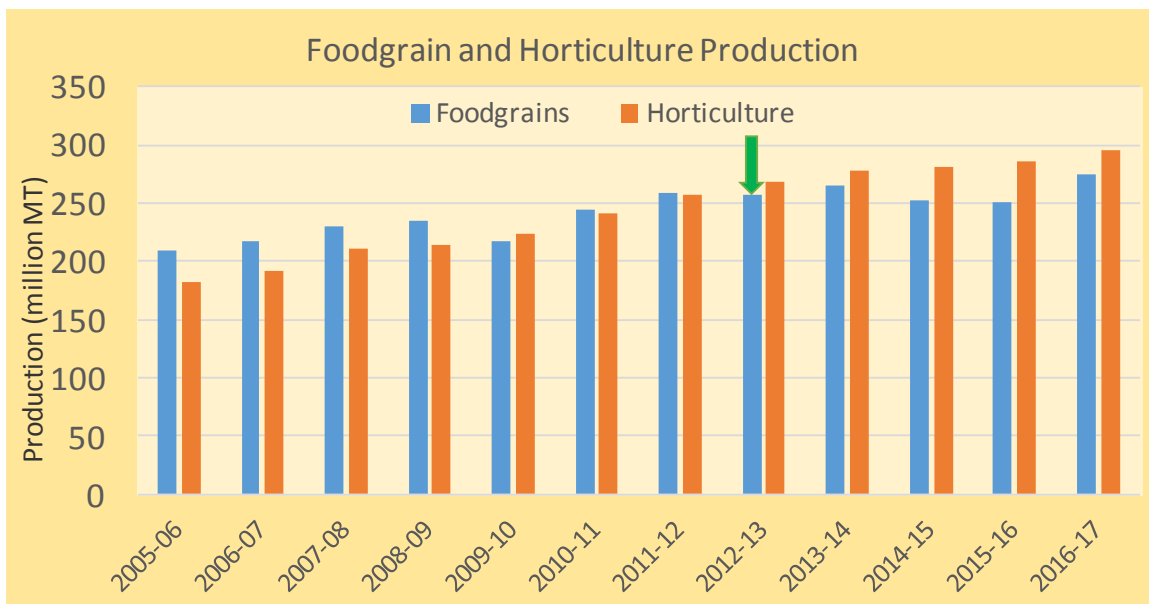
Fig 2: Sources of Farmers' Income - Shares



Compositional Shift in Agriculture

5. Between food grains and horticulture, till 2012-13, the food grain growth was higher than horticulture (Fig 3).

Fig 3: Compositional Shift in Agriculture

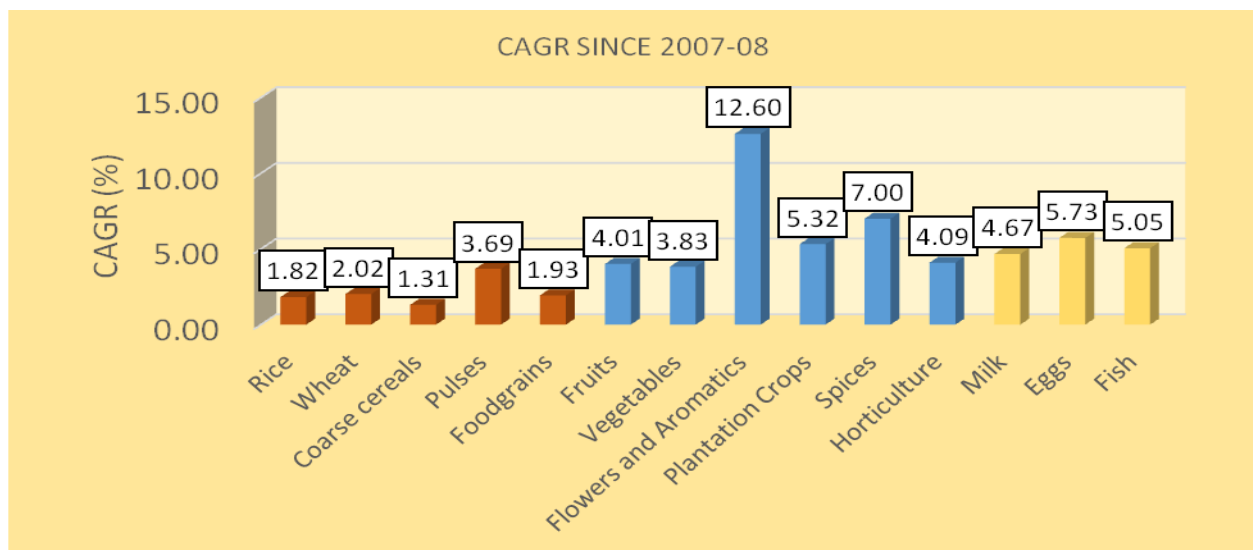


Post 2012-13, horticulture has taken over the growth rate of food grains, in terms of quantity of production. This indicates that horticulture sector is growing at a fast pace and because it is capital intensive sector banks need to prioritize it adequately for term loans disbursements for this segment.

Sub-sectoral Growth Rates

6. Sub-sectoral growth rates during 2007-08 and 2016-17 for agriculture and allied and horticulture provide insights on what sub-segments to look for while financing in terms of growth. (Fig 4). Crops like rice, wheat, coarse cereals, and to some extent fruits are not the ones which exhibit high growth rates but it is floriculture that has experienced tremendous growth. Plantation crops, spices, horticulture are also sub segments which have which have grown faster than the coarse cereal. These growth rates need to be interpreted to prioritise portfolio by Banks and have important lessons.

Fig 4: Sub Sectoral and Crop wise Growth rates

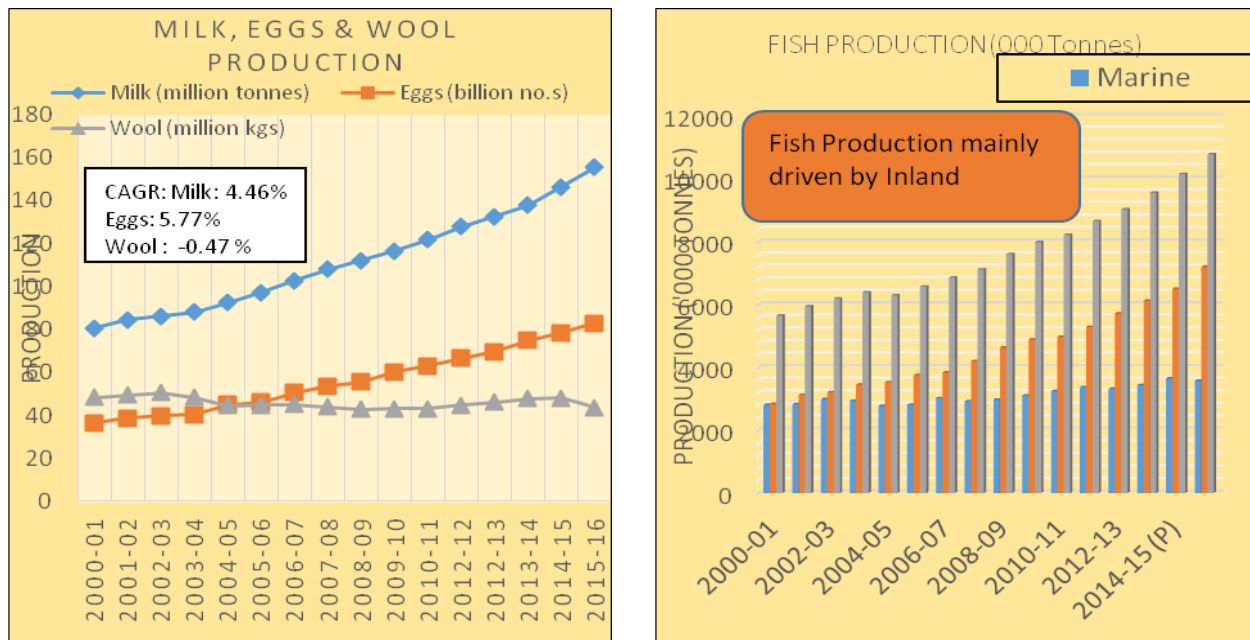


Allied Agriculture Sector: Current Trends

7. It would be worthwhile to analyse the growth in the allied sector. (Fig 5). While milk and poultry have grown substantially in the last few years wool has not grown and in fact growth was negative. Fisheries with Government focus on blue revolution has seen

especially inland fishery is generating a lot of surplus as opposed to marine sub-segment. So, within the fisheries sector it is the inland segment that may offer bright business potential.

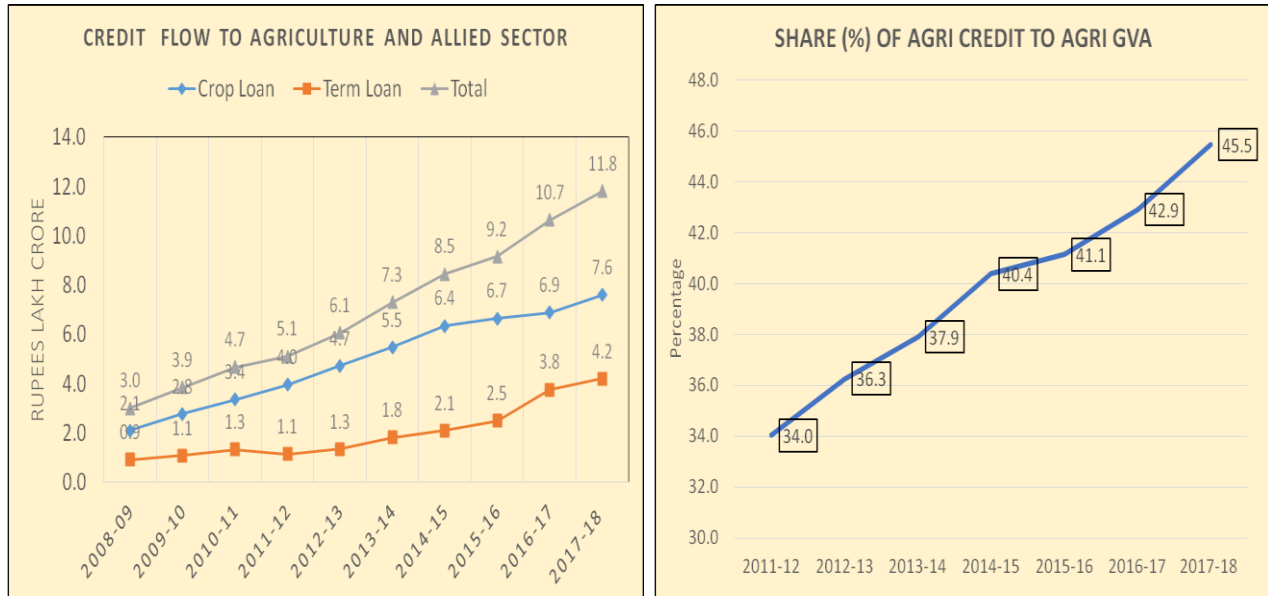
Fig 5: Allied Agriculture Sector: Current Trends



Credit Flow to Agriculture and Allied Sector

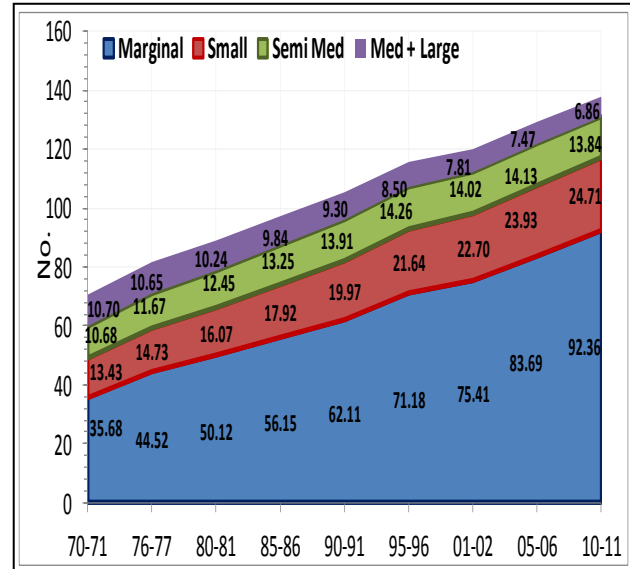
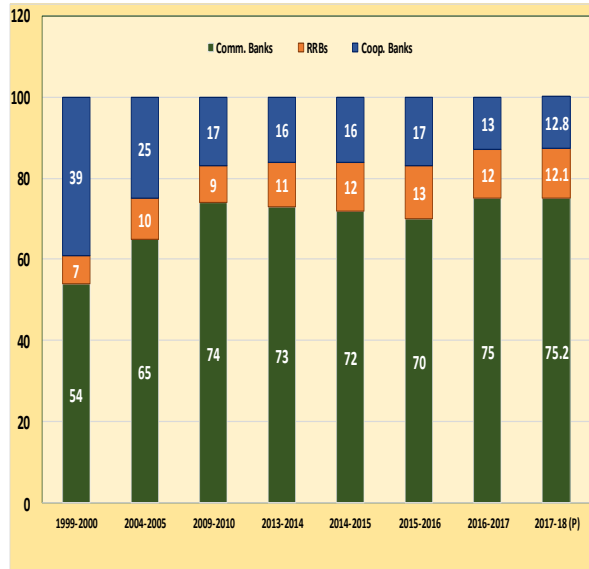
8. Let me move my discussion to agricultural credit. The ratio of agriculture credit to Gross Value Added (GVA) in agriculture is increasing steadily over the years (Fig. 6). Thereby indicating that Indian banks have stepped up lending to agriculture and also depicting greater formalization of credit vis a vis informal sources of credit. During this FY. i.e., by March 31, 2018, banks have disbursed almost Rs.12 lakh crore of agricultural credit. Definitional changes effected to priority sector concept has also resulted in increasing term lending.

Fig 6: Credit Flow to Agriculture and Allied Sector



Ratio of Term Credit to Total Agricultural Credit

9. It is heartening to note that the ratio of term loan to total loan depicted in the green portion of the bar has increased for commercial banks and is your contribution-commercial banks' share which has grown from 54 per cent to 75 per cent. This share has been weaned from cooperatives and RRBs by commercial banks. The RRBs portion depicted in orange hovered around 12-13 percent. The cooperative credit structure had earlier the largest share in agricultural credit as compared to commercial banks. Many banks classify MFI loans under agriculture. Commercial banks lending to MFIs, is mostly for short term and do not necessarily for capital creation though the portfolio may get classified under agriculture for term loans. This is a grey area that we need to analyse further and look into.



Shrinking Land holdings Size

10. The customer base is changing and changing faster than one can imagine. What has happened to Indian agriculture in terms of the land holding size, 1970-71 onwards? By 2010-11, we had only six per cent medium and large category farmers. So, what are the policy implications and strategic implications with respect to the portfolio and its nurturing? The facts indicate this reality and we need to increase agricultural credit only by financing small and marginal farmers.

11. There is data available on how many owners of land actually cultivate. Another dimension which one needs to take note of is that many farmers are not cultivating land themselves. The issue of oral leasee and legalising tenancy needs to be addressed though lending aggressively to this category is being done through Joint Liability Groups (JLGs). It is important for Lead Banks and SLBCs to drive home this point with the State Government more aggressively. Let me drive the point through an example of crop loan. For lending the branch manager requires a certificate stating that 'X' is a farmer and n number of crops is being grown in his piece of land. Since 'X' does not have any title what options does he /she has to access formal institutional credit? States like Andhra Pradesh did try through loan eligibility certificate for extending formal credit

to tenants/oral lessees but I am told that experience has not been very successful as it's just a one-year lease, which is legalized. Now why this issue is important? In states like Bihar, Eastern Uttar Pradesh, Andhra Pradesh and many other States, the percentage of land under oral lease ranges anywhere between 25-40%. So the question arises - Can one afford to ignore a from lending perspective a situation, where 40 per cent of land does not conform to normal lending conditions? So, what is the new engineering that needs to put in place when we go for a product design? We as bankers need to set an agenda for this and gets the State Governments on board. A Conference like this can contemplate a declaration, stating say CAB Declaration 2018 *"let all efforts go for increasing credit flow to tenant farmers and will bring about policy shift towards that end."* When one declares something such an action it becomes a point on which really RBI, NABARD and others will also rally around. Certainly, crystallising the wish list with needed support is a requirement.

Credit flow to agriculture - Regional Imbalance persist!

12. There are some worrying trends with regard to distribution of agriculture credit. Take the case of Central India. During 2016-17, 14.5 per cent credit has gone into Central India (Table 1) and in terms of accounts, 17 per cent of total accounts are in Central India. However its share in gross cropped area is 27 per cent. Central region accounts for 31 per cent of total irrigated area contributes 31 per cent of total foodgrain production. Thus, the credit flow does not mirror the real contribution of central region. Come to Southern India, 42 per cent credit and 43 per cent of total agri-accounts are in this region. But only 16 per cent of total irrigated area and gross cropped area is only 18 per cent and contributes around 16 per cent of total food grain production. So, would the banks like to repeat the success story of southern India in Central and eastern India? Another Declaration of this summit can be to resolve ourselves to focus on these three regions, i.e., central India, east and north-east region. NABARD recently had meetings with honorable Chief Ministers of Assam and Uttar Pradesh recently and this point has been brought to their notice where it was emphasized that banks will be willing to lend more subject to State doing a facilitation role.

Table 1: Linkage between Real Sector and Credit Flow

	Agri. Disbs 2016-17	Agri. A/Cs (2016-17)	Gross Cropped Area	Gross Irrigated Area	Food grain prod.	Rural/ semi urban branches
Northern	21.85	12.71	20.11	26.32	26.58	16.62
North Eastern	0.82	1.37	2.83	0.68	2.02	3.16
Eastern	8.15	14.29	14.65	15.25	16.37	17.99
Central	14.68	17.63	27.26	31.66	30.55	21.51
Western	12.83	10.96	16.47	9.74	8.31	12.98
Southern	41.67	43.04	18.68	16.35	16.17	27.74
Total	100.00	100.00	100.00	100.00	100.00	100.00

13. Commercial banks have done well in recent years with respect to coverage of small farmer loan accounts (Table 2), due to two reasons. One reason is obvious that since majority of farmers in India are of the small and marginal category so they necessarily gets financed and the second is the RBI's directive that 8% should flow to small and marginal farmers.,

Table 2: Coverage of small and marginal farmers

Year	SF/MF accounts (lakhs)				SF/MF loan disbursed (Rs. Crore)			
	CBs	Coop. Banks	RRBs	Total	CBs	Coop. Banks	RRBs	Total
2014-15	195.4 (426)	202.8 (307)	87.8 (121)	486 (854)	1,97,540	78,736	70,390	3,46,666
2015-16	210.2 (442)	232.9 (324)	97 (133)	540 (899)	2,00,346	97,999	81,653	3,79,998
2016-17	451.9 (618)	171.2 (236)	87.4 (119)	710.5 (974)	3,14,651	78,842	70,333	4,63,827
2017-18 (P)	534.6 (734)	170 (256)	105.5 (151)	810.2 (1141)	3,90,323	97,929	94,034	5,82,285

Let me now quickly go to the part II of my address.

Part II – Way Forward

Joint Liability Groups (JLGs)

14. It is always desirable to analyze data and draw conclusions from it before arriving at decision to lend. I believe that If P for profit does not work, P for Passion need to work. And one cannot afford to ignore this important segment. Let me take an example, NABARD has supported most of the banks handsomely through the Financial Inclusion Fund (FIF) for promotion of Joint Liability Groups (JLGs). I have been asking my colleagues, do commercial banks need Rs.2000 assistance per JLG? The point is that at the initial stages handholding is needed and gives the priority sector in-charge a comfort to convince his/her boss that *main apna paisa nehin laga raha hun*, somebody else is footing the bill. Yes, I think JLG financing has passed that stage as so far 14 lakh JLGs have been financed. Given that average size of land holdings is reducing, community agriculture, economies of scale, and custom hiring of farm equipment. Farmers are not going to buy tractors with bank loans as was the case before. Reading this reality, companies like Mahindra have consciously strategized to build a new delivery line, i.e., customer hiring model. The point I am trying to drive is that innovations need to be encouraged within our systems.

Issue of Water

15. NABARD had initiated a massive water campaign last year and requested all CMDs of Banks to join in the water campaign. NABARD had identified and reached 250 water stressed districts of India, 105 thousand villages, 8000 "*Jaldoots*" were trained, in 30,000 villages, and bank officials visited these places. It was entirely digitally monitored campaign covering 1 lakh villages. NABARD documented through a 20 second videos of each village covering what happened there and 100 thousand maps prepared by communities on the agenda of water, where new structures can come up, where existing structures can be renovated, where private investment can happen on private lands.

16. If the issue of water is not timely dealt it can reach critical proportions for all of us including from the agriculture lending perspective. As a Development bank and for the portfolio of agriculture credit, water is essential. If agriculture fails, agricultural credit is going to fail. How many of us here have prioritized lending for micro irrigation? How many have prioritized lending for farm ponds and farm forestry? These questions are critical if we want to safeguard our portfolio and hedge the risks involved. NABARD has been working very closely on the issue of water - Prof. Ashok Gulati and his team from ICRIER have worked out water-use efficiency of 10 major Indian crops across India.

17. The area of counselling farmers assumes importance and the Financial Literacy Centers (FLCs) need to orient their intervention with questions which are relevant locally. For example, FLCs in Marathwada should tell farmers that sugarcane is not the right crop and should not be grown in Marathwada. Inputs like these in the FLCs would also help in protecting the interest of the bank itself by protecting the interest of the farmers. How much of money you would like to pump in on sugarcane?

Farmer Producer Organizations (FPOs)

18. FPO financing is the answer to smaller holdings. Within agriculture, ten years down the line, some of us will not be here, but this is the only way forward that looks promising to overcome the problem of uneconomic size of landholdings. For the current year NABARD through its Regional Offices shall pick up a theme which is relevant to each State and reach out to every corner of the State with FPO agenda. I firmly believe producers' organization is the solution to look for and every village can resolve to establish one FPO and even FLCs of banks can contribute in building these.

Crystalizing Green Policy

19. Climate change issues are increasingly going to dominate the agriculture sector and thereby will have its effect on agriculture lending. NABARD is the only accredited entity in India for receiving money from Green Climate Fund to India. In Odisha, NABARD has supported the first project in India for de-silting of ponds and putting solar pump sets. But as Priority Sector Chiefs, would you like to push this agenda within your bank asking your bank to crystalize your own green policies? NABARD is setting up a

Climate Change Centre at BIRD, Lucknow with the help of German Government and would be more than happy to support banks in defining their green policy.

E-Shakti: Digitizing SHGs

19. Let me just take a few minute to share with you the immense possibilities that digitization of SHGs offer. How many of you are not familiar with E-Shakti? This is the way forward. Today, SHG women manage a portfolio of Rs.1 lakh crore, comprising Rs.40,000 crore of savings, of which Rs.25,000 crore is in their saving accounts with you and balance is in rotation within SHGs plus an exposure of almost Rs.65,000 crore. The real issue is that out of 80 lakh SHGs in India, we have financed only 40 or 45 lakh. One plausible reason for this is branch manager perhaps does not have confidence on the book-keeping of SHGs and may have reservations on lending to this Group. Now, if that be the case (and moreover branch manager being a busy man) asking him/her to go to every village and do appraisal and monitoring may be asking for too much from him. The answer lies in sharing with him/her the credit history of all SHGs at the click of mouse on his desktop. If the profile is available to bankers in their regional office/s or in branch by mere clicking to E-Shakti portal for which NABARD has already requested banks to allow access to your branches so that they log in to the portal. This can also act as a mechanism to serve as the early warning system. There will be downgrade of certain SHGs or some SHGs may come up. NABARD is currently implementing this project in 100 districts of India, shortly we will cover another 100 to cover all aspirational districts and in next two years entire India. There is something parallel going on NRLM side too. Unique feature here is, it is a transactional advisory that a branch manager gets sitting in a remote village. Further, NABARD is linking E-Shakti to four Credit Bureaus. NABARD has already held two rounds of discussions with all the Credit Bureaus in which RBI a few major banks were also present. RBI's requirement of credit history linking of all SHGs and all members of SHGs to credit bureau will automatically be calibrated. Branch managers are already seeing the comfort in this arrangement and Credit has started growing. SBI, BOB, UCO Bank have already allowed their branches to access the portal. A total of 17 commercial Banks have already enabled use of E-

Shakti. Support is available to Group to upload the monthly data using a mobile and It goes to E-Shakti portal wherefrom users like, Banks, NGOs, NABARD, Government can access. About 70 per cent women have given their mobile numbers. Out of three lakh SHGs and 43 lakh women members who have been digitized, 28 lakh have given their mobile numbers. Initially, they were reluctant. Our assessment is that credit linkage has improved from 38 per cent to 59 per cent of the groups in the pilot districts within a short span. .

Village Panchayats: Brining Transparency in Credit Operations

20. Last point that I want to delve about is how we make use of the democratic grass root institution of Village Panchayats. In Panchayats across various States lot of decentralizations of power has been effected. Can we think of devising some arrangements wherein one can leverage this institution and along with the aspirations of youth as many young people are now involved with panchayats for development through credit. Fifty per cent private investment in a village happens only through bank loan. We cannot think of a vibrant village without these investments. Let us try a few pilots in some villages and NABARD is willing to partner with banks to take forward this agenda. The central idea is to put across the idea that how credit can be used and leveraged to develop villages and ensuring that repayment is timely done. I believe this route immense possibilities for banks to work upon.

Thank you so much for providing me this opportunity to share my thoughts on the subject.