

# Roles of the Banking Sector in Indian Agriculture

## A Paradigm Shift

Deepak Kumar

**A changing environment and government policies are forcing banks to lend more to the agricultural sector. Both private and public banks are now involving themselves in a lot of agri-based lending activities. Besides financing traditional activities, banks are also involved in training and setting up consultancies, agri clinics, the export and marketing of agricultural produce, etc. The tie up of HDFC with NAFED and SBI with Cargill India will see a new revolution in the agricultural sector in India.**

**T**he Indian banking sector consists of commercial and cooperative banks. The role of both types of banks is very significant in Indian agriculture. Cooperative banks were considered as the major source of credit flow to agriculture, but with the time, commercial banks too have come forward to extend credit to agriculture. The share of commercial banks in providing credit to agriculture has increased from 49% in 1996-97 to 52% in 2000-01. But as per RBI's estimation, commercial banks are still far behind in achieving their target of providing 18% of the total credit to agriculture and allied sectors. On the other hand, the number of bank branches at rural centers has also decreased from 35,329 in 1994 to 32,481 in 2002. This has created a flutter in the ranks of the UPA government, which promised to double the agricultural credit in the next three years. The role of the banking sector in agriculture is not limited to providing credit. This article talks about the emerging roles of banking in agriculture and allied sectors and the private-public partnership (of private or public banks and government or private sectors).

### Role of Banking in Agriculture

In a changing environment, banks are diversifying their role in the agriculture sector in order to get revenue from their significant contribution to agriculture. Some of the new roles that banks have adopted are: Marketing, training and consultancy, insurance and financing for infrastructure via private-public participation.

### Kisan Credit Card Scheme

The Kisan credit card scheme was first introduced in India by Andhra Bank in 1998. The scheme aims to facilitate access to short-term credit to farmers and to simplify the credit mechanism, so that farmers can receive credit on time. The different commercial banks, Regional Rural Banks

(RRBs) and cooperative banks issue the Kisan credit card. By September 2002, 271.81 lakh Kisan credit cards had been issued (See Table 1), which is considered a significant achievement. Rural financial institutions are not well-integrated with agriculture support systems like R&D, Extension, supply chain and processing, and their credit policy is too crop-centric. So non-crops and other high value activities are not taken care of. Only traditional crops have credit access; most banks give out only 15% or less of their total portfolio to the agri-sector as against the mandatory 18%.

It was expected that with the introduction of the Kisan credit card, the farmers' condition will improve and they will be less dependent on moneylenders, but in reality farmers now are more dependent on moneylenders because of the lack of proper implementation of the policies laid down for the benefit of farmers and bureaucratic hurdles in getting credit from banks.

### Insurance

Indian agriculture depends heavily on the monsoon. Crops often get damaged because of abrupt changes in the weather. The suicide cases of cotton growing farmers in Andhra Pradesh and Maharashtra are an everyday thing now. To overcome all these problems, microfinance and general insurance companies have come up with crop and weather policies which can be helpful to poor farmers. Example: Basix, one of the largest microfinance companies in India at Hyderabad, announced India's first rainfall insurance program in July 2003 with Krishna Bhima Samruddi Local Area Bank.

### Training and Consultancy

The ratio of extension worker:farmers is very less, i.e., 1:1000. In this case, it is very difficult for the government to provide timely information to farmers. It is praiseworthy that many banks have volunteered to train their officers regarding farm practices, which in turn help farmers. For example, SBI Rural Development, Hyderabad. Other banks which are involved in agri-consultancy services are Canara Bank and Indian Overseas Bank (IOB). IOB provides consultancy services for agro-entrepreneurs and Canara Bank provides consultancy for high value projects like medicinal plant farming.

### About the Author

**Deepak Kumar** is an Associate Consultant at The ICFAI University Press. E-mail: deepak@icfaipress.org

**Table 1: No. of Kisan Credit Cards Issued and Amount Sanctioned**

Agency	Cumulative progress upto September 2002		
	Card Issued (in Lakhs)	Share (%)	Amount Sanctioned (Rs. cr)
Cooperative Bank	175.85	64.69	40333.01
RRBs	21.20	7.79	5211.43
Commercial Bank	74.76	27.52	18521.13
Total	271.81	100.0	64065.57

*Source: Indian Economy*

### Warehousing by Banks

Vegetables, fruits and flowers are perishable in nature and these need the best environment, so that their life can be increased. To make these perishable goods available throughout the year, it is important to have the required environment. To cater to such needs, banks like Rabo Bank (India) Limited and National Housing Bank are actively involved in financing the construction of cold storage. National Housing Bank has financed such projects mostly in Tamil Nadu.

### Agri-Clinics

The Government of India has formulated a scheme to help agriculture graduates establish “agri-clinics” to provide assistance to farmers regarding soil testing, post harvest management and technology. NABARD has come forward in this regard and will facilitate bank credit on priority sector lending terms. NABARD acts as the facilitator in providing the loans based on the appraisal of the projects. The loan amount varies from Rs. 5 lakhs (in case of individual) to Rs. 50 lakhs (in case of group projects). As per RBI guidelines, there will not be any collateral security on the loan amount of Rs. 5 lakhs.

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Several banks, like Indian Bank, have come up with a scheme to provide loans for establishing agri-clinics and agribusiness centers. The loan amount varies from the interest rate of 9.5% to 11.0%. However, the rate of interest is so high that it makes farmers think twice before availing the loan facility. This high rate of interest must be reduced. However, the agri-clinic model attempts to involve agriculture graduates and it is a win-win situation for everyone: The Government of India, the agriculture graduates and the farmers.

### New Models in Banking

#### HDFC Bank and NAFED

HDFC Bank and National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) have entered into an agreement to provide finance to cooperatives associated with the Agri Marketing Federation. The scheme will be formally launched during the Rabi season of the current year 2005-06. In this case, HDFC Bank will provide loan while NAFED will act as a facilitator. Under the funding scheme, immediate financing to the extent of a maximum of 70% of the requirement will be extended to the farmers against the deposit of agricultural stock. The main objective is to join hands with an option to arrange the sale of the agri produce by NAFED and HDFC to get the loan amount return in time. However, this model needs a flexible approach as financing against the deposits of agricultural stock will be really painful to farmers.

#### First National Spot Exchange for Farm Produce

On February 10, 2005, the Government of India announced the setting up of the National Spot Exchange for Agriculture Produce (NSEAP), which will link all agri-

produce marketing committees with consumers and producers. The electronic exchange will enable agro-based industries to sell farm produce more effectively. This will help farmers sell their produce at better rates and directly to corporates. The Indian Agriculture Ministry has signed an MoU with Financial Technologies (India) and Multi Commodity Exchange (MCX) with NAFED. In this case, SBI will be the principal clearing and settlement backup for NSEAP to ensure that money can be transmitted from one center to another across the country.

### **SBI and Cargill India**

At present, Cargill India is engaged in the procurement, processing and storage of wheat in Uttar Pradesh, soyabean in Madhya Pradesh and mustard in Rajasthan. Cargill India is spread in northern India through its network of franchisees. The company is planning to expand its activities in other states. Therefore, Cargill India has tied up with SBI, whereby SBI will finance its franchisee, agri-clinics and agri-business centers of Cargill. SBI will also finance farmers against warehouse receipts and farmers who are under contract farming. The memorandum of understanding between Cargill

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India and SBI will be applicable to cover the entire operational area of the Delhi Circle—Rajasthan, western Uttar Pradesh, Uttaranchal and three districts of Haryana. By this model, Cargill India will be able to widen its activities and areas at a faster pace, and SBI will be able to increase its volume of business.

### **Prospects**

According to the Confederation of Indian Industry, Indian agriculture suffers mainly because of expensive credit, a distorted market, intermediaries (who increase cost rather than add value), controlled prices and poor infrastructure. It has also suffered because of poor irrigation facilities, use of traditional technology and practices, farmers' poor economic status, fragmented landholdings, lack of post harvest infrastructure and lack of farm extension. Banks should consider these facts to invest more in infrastructure facilities like irrigation facilities, processing, storage and marketing activities. Such agricultural infrastructure can be improved by banks, as there are ample prospects for banks to invest in the above activities.

### **Conclusion**

The above existing and new models are only indicative. The need of the hour is to leverage the existing resources and make banks more participative through policy implementation and create a conducive environment so that the agriculture sector can be cared for like any other sector. Even the existing and conducive policies are enough if they are properly implemented. Both private and public sectors are contributing to agriculture in a big way. However, there are many things that have to be implemented, especially financing aspects. ❁

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