

Emerging Dimensions of Agricultural Financing

Although the contribution of the farm sector to the country's GDP has fallen to just over 20 per cent, this sector continues to be the major source of employment, generating about 64 per cent of the country's total jobs. It accounts for about 18 per cent of the country's exports. About 70 per cent of the country's population is dependent on agriculture in one form or the other.

However, agricultural production has risen by just 2 per cent in the first quarter

ties in their annual plan outlay during this period. The share of rural development, which is directly linked to the growth process of the agricultural sector, has fallen from 9.3 per cent in 2002-03 to 8.6 per cent in 2005-06.

In the recent past, the role of agriculture in the Indian economy is seen to be diminishing. There should be successive declines in the agriculture to GDP ratio, coupled with negative year-on-year agricultural productivity growth rates. A recent NSSO survey brings

The economy would of course need substantial investment in infrastructure to sustain such growth. However, much work needs to be done on the farm/sector front to further accelerate the growth and ensure quicker distribution of the gains of the growth. The Union Government has been giving due attention to the farm sector. The factors like bad monsoon and the lack of investments in the sector have affected its growth adversely in recent years. Prime Minister Dr. Manmohan Singh has been stressing the need for reforms in agriculture in India and has suggested a number of measures to push up agricultural production, including increased investment in irrigation, development of new generation technologies, crop diversification and more credit to the sector.

Commercial Banks, rather than co-operative banks, have given the largest institutional credit to the rural population. Co-operatives reach out to 26 per cent of the farmer households indebted but account for slightly less than fifth of the loans disbursal. Banks lend to just 1 per cent more of borrowing households but account for 35.6 per cent of the outstanding debt. Money-lenders are the source of loans for 29 per cent of the households and account for nearly 26 per cent of the debt. Other non-institutional lenders such as traders, friends and relatives lend to 35 per cent of borrowing households. Thus, 6.4 of farmer households in debt borrow from non-institutional source. 5.6 per cent of indebted farmer

With the ever-increasing focus on rural development, agricultural financing has come in sharp focus particularly after corporates sensed big business scope in rural India. The Government, too, has taken several initiatives to increase agricultural production to push up the economy as a whole. It is time that Chartered Accountants, too, join the action in the arena of agricultural financing and related issues in a more vigorous and profitable manner.



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of 2005-06 as against 3.8 per cent during the corresponding period of the last year i.e. (2004-2005). As shown in Table 1, the aggregate plan outlay of the 28 states has increased by 57 per cent during the first four years of the 10th plan, from Rs. 90,992 crore in 2002-03 to Rs.1,42,571 crore in 2005-06, while that of agriculture and allied activities has increased only 30.4 per cent from Rs. 5507 crore to Rs. 7179 crore. The share of agriculture in states total annual plan outlay as a result, has fallen further from an already low 6.1 per cent to 5 per cent during the same period. As many as 17 states have witnessed a decline in the share of agriculture and allied activi-

ties to light some lesser-known aspects about what hampers agriculture growth. The findings of the study do not directly explain the poor performance of the agricultural sector but cite a few reasons, which hamper agricultural productivity.

Fiscal 2005 marked the fourth successive year of accelerated growth in the manufacturing sector. In 2004-2005 manufacturing is believed to have grown at the fastest rate in the past 8 years at 8.9 per cent. The only year in the recent past in which the growth rate was higher than this was 9.7 per cent in 1996-97.

Growth in agriculture and consequently rural incomes would drive up further growth in manufacturing and services.

TABLE – 1
Statewise total Annual Plan Outlay and Agriculture Plan Outlay during first four years of 10th Plan.

Sl. No.	Name of the State	Year 2002-03 (Rs in Crore)		% Share of Agl sector to total plan	% Share of R/D to total plan	Year 2005-06 (Rs. in crore)		% Share of Agl And allied sector to total plan	% Share of R/D to total plan
		Total outlays	Agl and allied sector			Total outlay	Agl. and allied sector		
1	Andhra Pradesh	8553.2	258.2	3.0	5.6	15650.8	671.8	4.3	4.9
2	Arunachal Pradesh	676.0	58.8	8.7	4.5	760.4	48.6	6.4	2.4
3	Assam	1750.0	179.8	10.3	9.3	3000.0	185.8	6.2	4.5
4	Bihar	2314.0	32.3	1.4	37.1	5329.7	122.6	2.3	21.8
5	Chhattisgarh	1774.5	137	7.7	10.4	4275.0	338.6	2.9	10.8
6	Goa	586.0	23.6	4.0	3.1	849.9	44.9	5.3	2.9
7	Gujarat	7600.0	534.4	7.0	4.2	11000.0	589.4	5.4	3.6
8	Haryana	1819.2	93.2	5.1	4.1	3000.0	162.3	5.4	5.5
9	Himachal Pradesh	2041.8	238.8	11.7	4.2	1600.0	167.1	10.4	4.0
10	Jamu & Kashmir	2200.0	246.8	11.2	2.8	4200.0	223.5	6.5	3.4
11	Jharkhand	2652.0	152.8	5.8	23.7	4510.1	227.9	5.1	16.9
12	Karnataka	8420.6	333.9	4.0	4.1	13535.0	857.5	6.3	5.0
13	Kerala	3425.0	201.5	5.9	5.3	5369.0	229.3	4.3	27.7
14	Madhya Pradesh	5597.7	330.9	5.9	10.8	7471.0	384.7	5.1	8.4
15	Maharashtra	11562.0	842.7	7.3	9.6	11000.0	301.4	2.7	8.8
16	Manipur	550.0	18.2	3.3	3.6	1915.0	17.1	1.9	5.9
17	Meghalaya	480.4	40.8	8.5	8.9	800.0	67.4	8.4	7.5
18	Mizoram	489.3	32.7	6.7	8.2	685.00	73.1	10.7	3.3
19	Nagaland	427.3	34.3	8.0	8.1	620.00	53.4	8.6	6.0
20	Orissa	2550.0	76.0	3.0	4.5	3000.0	44.8	1.5	4.8
21	Punjab	2793.0	123.8	4.4	10.0	3550.0	142.7	4.0	7.1
22	Rajasthan	4370.8	76.3	1.7	11.9	8350.0	220.0	2.6	8.8
23	Sikkim	370.1	27.6	2.5	10.6	500.0	28.8	5.8	12.9
24	Tamil Nadu	5754.4	376.7	6.5	10.7	9100.0	641.1	7.0	10.0
25	Tripura	625.0	44.1	7.1	13.7	804.0	59.4	7.4	13.0
26	Uttar Pradesh	6393.3	709.1	11.1	17.8	13500.0	854.7	6.3	9.3
27	Uttaranchal	1534.1	183.1	11.9	5.8	2700.0	242.7	9.0	5.5
28	West Bengal	3682.5	99.6	2.7	8.7	6476.0	128.4	2.0	8.7

Source: Statistics at a glance – Tenth Plan data

households access institutional credit.

Recently, the Dr. M.S. Swaminathan Committee has prepared an action plan for agriculture in Maharashtra for the next 25 years. He has promised

to bring an “Evergreen Revolution” in the Agricultural sector by understanding four types of revolution. If the plan succeeds, then this model can be applied to the rest of India. The four revolutions as presented by Dr.

Swaminathan are:

- (i) **Productivity Revolution:** To undertake large-scale Research and Development to produce high yielding pest and drought resistant seeds

and planting crop to suit the area climate and the soil chemistry of the land.

- (ii) **Quality Revolution:** Through sorting and grading cold storage and refrigerated transport of perishables and cultivating varieties to global standards.
- (iii) **Profitability Revolutions:** Through export of flowers, herbal products, sea food, processed food, etc. giving farmers knowledge of best rates they can obtain through rural information centres, through e-chaupal system and allowing free movement across state and international borders.
- (iv) **A Sustained Revolution:** Through watershed development and rain-water harvesting, micro-irrigation, organic farming, contract farming and biodiversity.

The Government has taken several initiatives to increase the agricultural production. These include:

(a) Second Bhoodan Movement: Prime Minister Dr. Manmohan Singh has accorded special importance to the land-gift movement to empower the landless. The Government has decided to distribute 60 million hectares of wasteland to the landless poor. The land will be used for tree plantation or agro-forestry. Wastelands are the graded lands, which can be brought under vegetative cover with reasonable efforts.

A plan has already been prepared for the distribution of such lands under National Mission on Bamboo technology and trade developments.

(b) Farm Insurance: The agriculture ministry is gearing up to present a draft bill of Rs.7171 crore to the Planning

Commission for offering 50 per cent of the farming community some forms of insurance cover. According to a survey made by NSSO in 2003 about 4 per cent of the farming community has now access to insurance.

There is a plan to give the private sector a tax exemption, which could be 150 per cent of its expenditure as extension activities in the agricultural sector. Companies like Mahindra and Mahindra, Rallis and ITC have already availed of the current initiatives offered by the Government. Environment friendly bio-pesticides will get sops in the shape of sales tax waivers and VAT, excise and import duty exemptions. These strategies are likely to raise the art of farm input from chemical pesticides to bio-pesticides, which will help the farming community in the next several years.

(c) Diversification of Domestic Agriculture: Domestic agriculture, which is grain-based, must move towards diversification. It is high time that states amend the Agricultural Marketing Committee Act and allow for contract and true marketing, organised retailing, competitive trading and adoption of innovative marketing systems and technologies. Almost all the states are set to amend the relevant APMC Acts by March 2006 based on the model circulated by the Union Government. There is a need to redefine the role of the present APMC, which promotes an alternative marketing system (direct marketing to corporates and setting up of farmers/consumers markets) and contract farming. Under the present APMC Act, only state governments are permitted to set up markets. Monopolistic practices of state-controlled markets have prevented private investment in this sector.

Only Tamil Nadu has APMC laws, which have contributed much to holistic reforms.

(d) Adoption of Contract Farming: In the emerging business of contract farming, banks fund a group of farmers whose loans are repaid by corporates, who tie up with farmers to buy their produce. For corporates it works well as the companies are assured of farm produce of their choice and quality. In some cases, they provide the bank with a list of farmers to be financed. In such a scenario, the farmers don't have to worry about their income as they are paid long before the crop is harvested. The loans are generally extended for a year or less and are usually priced at 9 per cent to 9.5 per cent, which is below the prime-lending rate. The margins are around 3 per cent under contract farming, which is similar to that in an agricultural loan. The advantage for the bank is that when the lending risk is reduced, farmers have an assured market and corporates get the benefits of monitoring crop quality. The scope of loans turning bad is minimised because the corporate repays bank loans and then makes the payment to the farmer. This also brings down a part of the establishment costs. Sometimes, banks also provide extra inputs, which are useful in improving crop quality. Farmers have an assured buyer since corporates have a better understanding of the agri-products.

The new initiatives by PSU banks and private sector banks to fund contract farming is the result of the move by many Indian corporates to get into the food processing business with an eye on the overseas markets. Now, Pepsi is also entering into the growing potato market for making chips in the country's farm bowl. In the sugar belts

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of the North, especially Uttar Pradesh, besides Punjab and down south in Tamil Nadu, to the cotton and rice growing areas in Andhra Pradesh, banks are steadily at work to fund farmers on the basis of the understandings furnished by corporates.

Table - 2 Cash For CROP	
Products	States
Gherkin	AP, Karnataka, Tamil Nadu
Grapes	Maharashtra
Vegetables	Punjab, Gujarat
Spices	Gujarat
Potatoes	Punjab, Uttar Pradesh, Madhya Pradesh, West Bengal, Karnataka, Maharashtra
Basmati	Punjab, Haryana, Uttar Pradesh, Uttaranchal, Karnataka
Sugarcane	Tamil Nadu, Andhra Pradesh, Maharashtra, Karnataka, Gujarat, Uttar Pradesh, Haryana, Punjab.

Table 2 shows the cash for crop products, which are available in plenty in different states for exports as food products to the foreign markets.

Banks can now hope to offer a range of loan products like financing the purchase of two-wheelers and personal loans. Apart from these, savings products and deposit mobilisations are other attractive incentives.

Some state governments are planning to introduce legislations to make contract farming legally binding upon corporates. In case there is any breach of promise, the farmer can sell the crop and drag the corporate to court to recover the difference between the price at which the crop is sold and the price that was committed by the company.

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New Areas of Contract Farming

Jatrophe: SBI has tied up with Growell Agro Forest Trees Corporation, which agrees to buy Jatrophe from farmers. The bank will finance 1300 farmers from 46 villages covering 5,200 acres.

Seed Plantation: Corporates want one set of farmers to grow hi-grade set of seeds, which are subsequently purchased and sold to another set of farmers for the cultivation of high-grade crops. This trend is catching as in oil seeds, groundnuts, cotton, pulses and vegetables.

Farm Forest: The paper industry is banking on this largely due to the restriction on cutting down of trees. SBI has tied up with Ballarapur Paper Industries according to which the farmers grow bamboos and eucalyptus trees for the company. The agreement covers 2000 farmers who are growing the trees in over 5000 acres.

White Card Scheme:

The RBI has introduced such a scheme in which funds are provided to the farmer to buy cows or reconstruct a cowshed, provided the farmer ties up with the milk-collecting agency. The Bank has disbursed up to Rs.35 crore under the white card scheme and covers 10,000 farmers.

The current contract farming corporates include Himalaya Health care, Mysore SNC oil company, Sami Labs Pvt. Ltd., Ion Exchange (Enviro Farms) UB, Satram Overseas (Basmati Rice) Amira Foods, Appachi Cotton Company, M/s. Mandm, Cadbury, Godrej, ACE Agrotech, Larsen and Toubro, BECCO, Reliance Group, JK Paper, Shakti Sugar, etc.

E-Choupal Model of ITC:

Its objective is to link millions of villages to a single In-

ternet-based network for selling a gamut of commodities on a single e-commerce platform. ITC has been swiftly expanding its network of malls across rural India- malls that ITC hopes will soon sell everything a farmer needs, from bikes to tractors, to diesel to groceries, to seeds, or pumps, generators or even financial products. E-choupal seems to be doing well with the country folks, especially in Madhya Pradesh, Uttar Pradesh, Rajasthan, Karnataka, Maharashtra, AP and Kerala. Within the ever-expanding e-choupal loop today, are over 31,000 villages and three million farmers, fired by the glint of gold at the end of the rainbow. ITC claims its e-choupal initiative has rearranged the lives of millions of farmers who have managed to beat poverty. India's first rural hypermarket "choupal sagar" has permanently altered the rural shoppers experience.

Government initiative for granting poultry farming the agri-status:

By according agriculture status to poultry farming as per the directives of the Central Government, Orissa is the first state to issue a notification. The new status would go a long way in making available subsidies, loans and other benefits to poultry farmers at par with their agriculture counterparts. It will certainly boost rural employment. These units usually employ people from their local area. Poultry sector employees average about 2 people for every 300 broiler chicken produced and six people for every 1,000 eggs. The Government is serious about the sector now. But as far as Banks are concerned they are already treating this as a priority area under agriculture and allied activities.

Government initiative for tribal development through Organic Farming Project:

Organising farm project consisting of 2281 farmers of Sonapur and Dimoria of Guwahati is the country's biggest organic farming projects working for almost three years. Farmers have planted 6,50,000 seedling of orange and lemon in 1713 hectares of land. Having started in 2002, the project cost was 1.3 crore. The Israel Corporation of Agriculture Application (ICAA), an organic consultancy firm, is providing technical consultancy on the project. A German organic food-marketing firm, Ulrick Walter, has given consent for purchasing organic fruits produced by the project. Bangladesh has given assurance to purchase one lakh oranges daily for nearly three months during the production season of October to December.

President of the project A.K. Absar Hazarika is hoping that the project will benefit thousands of tribals of the Sonapur area. Ninety five per cent of farmers working in the project are tribals. The proposal of Rs.5 crore to set up a food-processing unit was also submitted to the NEC.

RECOMMENDATIONS

Rural infrastructure development: Roads and electricity are basic ingredients for the development of rural infrastructure. In this connection: "Bharat Nirman" strategy for rural development of the UPA Government should be properly implemented by the state governments. Participation of local people will help the state governments in the development of the economy of the respective states. Establishment of storage facilities by way of godowns and cold storages can also help the farms in getting better price realisation



The perception is that the poor are not bankable and belong to the high-risk category.

for agricultural produce. Telephone lines, which will facilitate communication and Internet facilities can provide access to information in rural areas.

Adoption of flexible delivery system: Union Government and Central Bank authorities are not satisfied with banks' efforts in lending money to farmers for agricultural development. Even now the village money-lender still thrives because of the flexibility of credit that he offers. He works as the ATM (any time money) for the villager and 30 per cent of the rural household needs are being fulfilled by these unorganised players. It is now high time to devise a flexible delivery system, which will match the moneylenders' age-old method. We need rural branches, which can offer flexible working hours to suit the requirements of the farmer.

Modification of Recruitment Policy of Banks: We

need staff who have empathy and respect for rural people. We need a set of people who are reconciled to work in rural areas. In recruitment policy of banks "staff cadre" may be split into two parts namely "Rural Cadre Staffs" and "Urban Cadre Staffs". Some special incentives may be provided to the rural cadre staffs like earlier promotion, special increments, motivation incentives, etc. so that we can divert some efficient and needy staff from urban sector to rural sector to fulfil our prime objective for development in the rural sector.

Micro Finance Mechanism to BOP: At the bottom of the pyramid is a socio-economic designation. The perception is that the poor are not bankable and belong to the high-risk category. Now it has been proved that the poor are bankable in terms of capacity to save and repay the loans provided the same are col-

lected at the doorstep in small amounts at frequent intervals. This is the basic principle of micro finance. Micro financing through the SHGs (Self Help Group) route will address the identified impediments and augment flow of credit to BOP segment for alleviation of poverty.

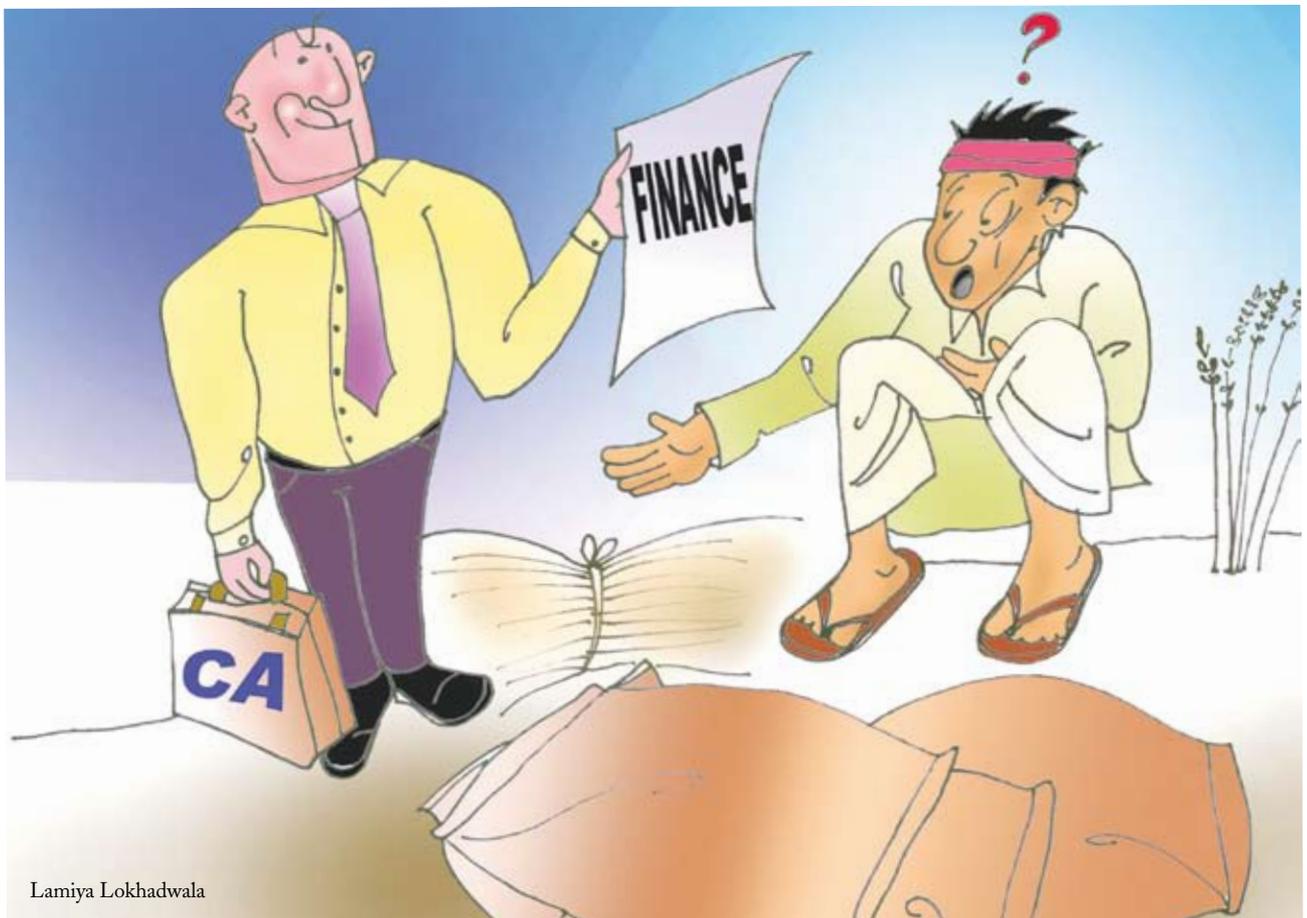
Future Trading Through Commodity Exchanges: A farmer undertakes production only when he foresees good returns from his estimated crop output. The farmer can protect himself from the price changes by contracting to sell the expected produce in the future market at a specified price at the time the resources are committed for production. The future prices are readily available for farmers in commodity exchanges. Future market also provides a perfect collateral for the lenders to advance

larger loans on easier terms to the farmers, thereby ensuring a minimum risk business for both the lender and the farmer. The Government of India has set up nationwide online commodity exchanges and allowed future trading in a variety of commodities. Currently there are about two dozen commodity exchanges, of which there are national on line commodity future exchanges while the rest are regional.

The farmers may not understand derivatives and concepts of margins and mark-to-market would be cumbersome to grasp. Here, banks could play a leading role by aggregating the produce for farmers and hedging through their central office treasuries. Suitable changes in the Banking Regulations Act are required again to enable this scene. Commodity derivative may not be a

panacea for agrarian problems but it is a very powerful tool to mitigate risk for all concerned parties along the agri-chain.

Co-operative Initiatives in Credit Supervision: Improved competitiveness, high quality and high safety farm products and co-operative marketing schemes are essential so that the small producers will be benefited more. Credit instalments should not merely focus on primary production but also on augmentation of the entire value chain such as food processing or value addition for commercial crops. As stated by Prof. Anup Sinha of IIM, Calcutta, "The global economy must be made to prosper for the people at the bottom of the pyramid. The gold that is there must be augmented to strengthen the base. If, on the other hand, all the gold is depleted, then the



Lamiya Lokhadwala

pyramid is bound to totter and tumble.”

Amendment of Land laws:

Large size of holdings, in turn, shall increase the productivity of the land with improved technologies of a modernised system of mechanism. Instead of dividing the land, we may insist on dividing the yield among the holders proportionately. When more emphasis will be given on productivity of the land, partners or holders of the land, jointly or on co-operative basis, will look to the supervision of the management of the credit operation. Fragmentation of agricultural land needs to be checked to attract bankers to invest a bigger amount in the agricultural sector.

Agricultural Research:

Agricultural research has a vital role to play in the strategy for reviving and encouraging diversification.

Our agricultural universities and research institutions need to be strengthened and modernised. Agricultural research scientists have a pivotal role to play in order to boost the agricultural production with the modern techniques, and they are the real drivers to go further for bringing a stable economy in our country. A substantial amount should be made available from the total budgetary allocation for the improvement in the research and development sector and UGC, the apex body, should devise its own formula for distributing the amount among the universities, which are taking special interest for agricultural research.

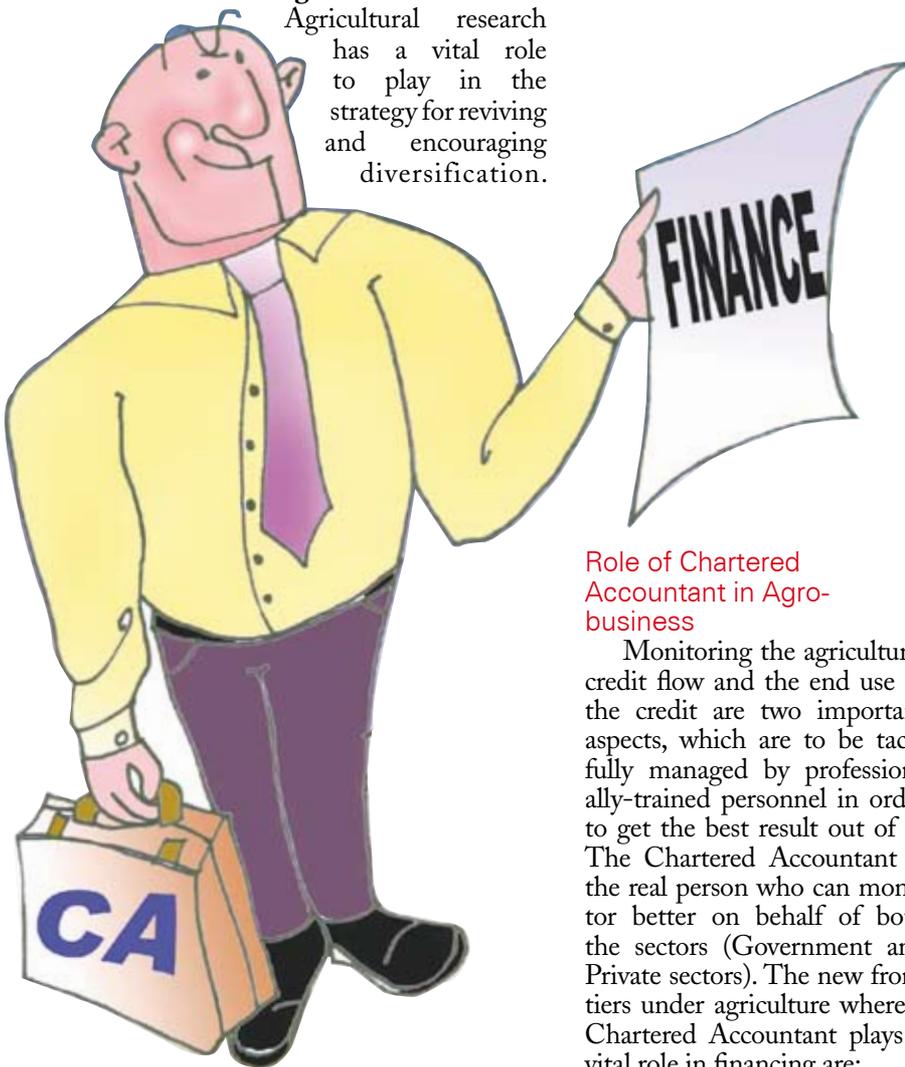
Management Ventures:

The huge domestic market and large international market have thrown open great avenues for financing the agro-business sector. India has all the advantages viz. varied agro climatic conditions to produce every product in demand, easily available labour, abundant natural resources and large agricultural research institutions. What is required is the initiative to make huge investments comply with strong monitoring support both from the side of the Government and Private sectors. The Chartered Accountant plays a vital role in public and private partnership management ventures involved in agro-business sector. Having expert knowledge in the field of accounting and finance a Chartered Accountant can no doubt influence the investors to invest a lion's share in the agro-business sector.

Post Harvest Management:

To preserve the post harvest produce there is the need for establishment of sophisticated cold storages in strategic locations for long storage fruits and vegetables. There is also a need for a large number of refrigerated vehicles and containers to carry the perishable produce. Maintenance of proper stock records, sale proceeds, maintenance of store, etc. requires a thorough knowledge in the field of accounting and finance. Commercial banks are now ready to finance such cold storages, but they need timely repayment for which a Chartered Accountant having expertise in the accounting field can provide specialised accounting service for the financing of such projects.

Milkvalue chain is extremely promising and can produce high quality dairy products conforming to the best global standards. Establishing privately owned milk chilling plants under contract with large players in every village is an innovative step in



Role of Chartered Accountant in Agro-business

Monitoring the agricultural credit flow and the end use of the credit are two important aspects, which are to be tactfully managed by professionally-trained personnel in order to get the best result out of it. The Chartered Accountant is the real person who can monitor better on behalf of both the sectors (Government and Private sectors). The new frontiers under agriculture where a Chartered Accountant plays a vital role in financing are:

which a Chartered Accountant can provide specialised services like the profit volume analysis and BEP (Break Even Point) of rural based plants for better future earnings. Rural entrepreneurs will gradually establish such plants, which will help in increasing the rural income for the future.

Agro based industries:

The agro-processing industry is emerging as a strong economic activity across the globe in view of the development of new technological capabilities in processing storage, etc. The potential of agro-processing in India is vast due to the abundance of diversified crops and availability of manpower. Another area of opportunity for lending is modernisation of existing facilities where the advice of the Chartered Accountant is of utmost importance. How much finance is needed for the process of modernisation? Will it be profitable or not? How will the repayment be made? What are the future prospects? Will it solve some unemployment problem in a particular season? These questions can be better answered by a Chartered Accountant, and finally a wise decision can be made for the fulfilment of the major objectives of a business enterprise.

Contract and Organic

Farming: Contract farming provides a good framework for flow of credit to marginal and small farmers. In the days to come, contract farming will become the buzzword and offer a good potential for the Chartered Accountant to extend his services in these fields. Similarly, in the field of organic farming where now risk is transformed from the farmers to the corporates, specialised services from a Chartered Accountant play a vital role. A Chartered Accountant acts as the watchdog on behalf of the share-holders and investors for preserving their financial interest for the benefit of all. A Chartered Accountant

plays the role an intermediary between the corporates and the farmers. He has to provide his specialised accounting and finance knowledge and technique by which both of them (corporates and farmers group) are mutually benefited and these corporations create valuable assets for the Growth of GDP of the nation as a whole.

Price Risk Mitigation

Products: With commodity exchanges in India now spreading and covering a large number of commodities, it is time to make available the benefit of commodity markets available to the farmers. A Chartered Accountant, having thorough knowledge, can educate rural farmers about the role of commodity markets and the benefits they are rendering towards agricultural sectors, and thus make available the benefits of price risk insurance to large sections of the farmers.

Food Parks: It is a concept where there will be a decentralised system of production and centralised system of processing and marketing. In many countries the concept has been found viable. A Chartered Accountant can spread this concept among the farmers for a better market for the agricultural produce. Better marketability means more profit for the poor farmer. Rising of the income level of the rural sector means a step towards reduction of regional imbalance in the economy of the nation.

Today's second round of Green Revolution can be successful through Agro-business, Agro-processing and crop diversification. For making these businesses successful there is an urgent need for an efficient financial advisor i.e. "Chartered Accountant" who can drive the vehicle smoothly to reach the ultimate goal of boosting agricultural production and moving the nation with a short span period towards a double-digit growth of GDP. □