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The farmer's banker

NABARD plays a key role in developing infrastructure in rural India

Should a prudent commercial bank chase profitable growth and offer loans to prosperous pockets of rural India? Or from a nation-building perspective, should loans be offered to a vast number of people in these regions to unlock potential and usher in prosperity?

For Harsh Kumar Bhanwala, 55, chairman, National Bank for Agriculture & Rural Development (NABARD), a government-owned financial institution, there is no such dilemma. In a country, which has a population of over a billion people, of whom many are small and marginal farmers, he wants to see their income double by 2022. But that cannot be done without out-of-the-box thinking, for most of these farmers have marginal land holdings and depend on a regular pour of rain to feed their crops.

So NABARD is bringing together farmers in groups, Farmer Producer Organisations, to buy resources and sell their products at competitive prices. Since a parcel of land can produce only so much, it is trying to get farmers to expand into domesticating cattle.

Bhanwala has spent the last three years at the helm of NABARD, after a stint at the India Infrastructure Finance Co, as its managing director and another at IL&FS Water. A graduate from IIM Ahmedabad, he has a doctorate in management on the application of IT in branches in rural areas. At IIFCL, he helped infrastructure special purpose vehicles improve their ratings through a partial credit guarantee, backstopped by the Asian Development Bank. This is his second stint at NABARD, which he had quit earlier as deputy general manager for personal reasons.

Unlike other banks that must be run for commercial gain, NABARD has development in its name making sustainable growth more important than profitability. The firm was hived out of the Reserve Bank of India (RBI) in 1982 through an Act of Parliament and is focussed on financing agricultural and allied activities in rural India. It is not the average development bank either, being supervisor and quasi-regulator (under the RBI) to rural co-operative banks across the country.

NABARD's importance was underlined in the finance minister's budget document this year, when the government committed to double the corpus of a 'long-term irrigation fund', which is managed by the bank to ₹40,000 crore. Out of the original ₹20,000 crore, about ₹5,600 crore has been raised under this fund so far and it has financed projects like the linking of the Krishna and Godavari rivers in the state of Andhra Pradesh.

Expected to be completed in three years, this will directly benefit four districts in the region. Another 99 irrigation projects have been identified which will cover a total seven million hectares of land on completion. "The state governments need to tell us when they need the funds and we will raise it for them in 15 days," says Bhanwala.

Last mile delivery

Irrigation projects, however, are incomplete without last mile delivery. So, another ₹5,000 crore micro-irrigation fund has been set aside in the budget for state government subsidised projects linked with drip irrigation, farm ponds and related measures, to be implemented through NABARD. This will bring the cost down for the farmer to as low as 20 per cent of the original cost. "It can increase the seven million hectares to 12," he adds.

With share capital of ₹5,300 crore, NABARD is today richer than its small industries counterpart SIDBI. Two funds formed in the RBI days, consisting mostly of contributions from accrued profits now, add another ₹22,000 crore to its armour.

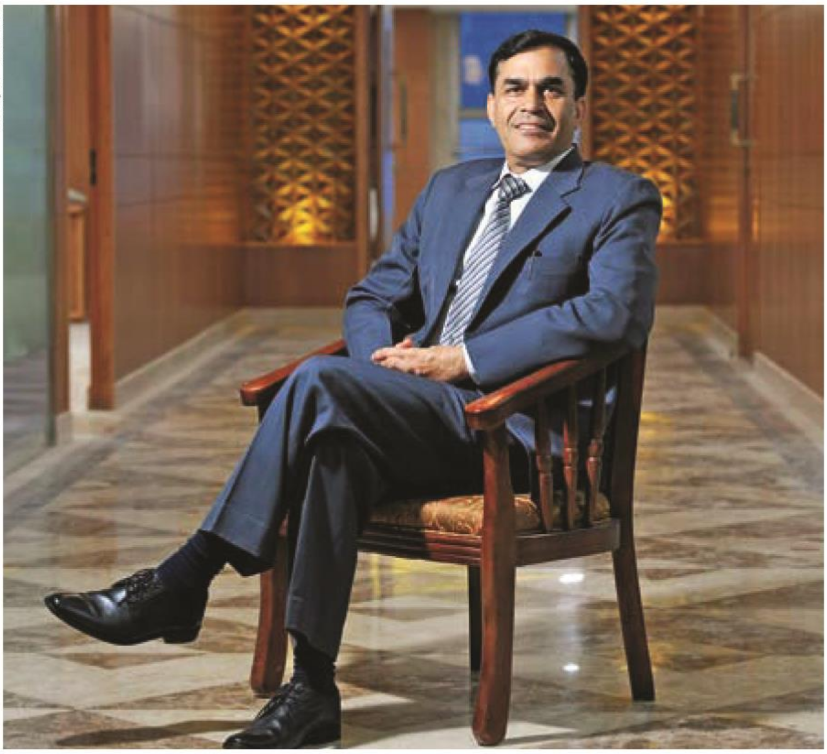
Against this capital, NABARD raises funds from market players including insurance companies, pension funds and international multilateral agencies. It also raises funds that are guaranteed by the government, and sometimes mixes and matches the two. It lends these monies onward to state governments and banks towards development projects such as irrigation, where its own margins are fixed and nominal.

NABARD posted a balance sheet size of ₹310,000 crore in 2015-16 against a net profit of ₹2,524 crore. Its employee base is about 4,000. One third of its balance sheet is linked to loans to state governments at roughly 5.25 per cent for rural development, which they would otherwise have to raise from the open markets at 7 per cent plus.

The state governments also benefit from a Rural Infrastructure Development Fund (RIDF), formed by contributions from commercial banks that fail to meet with the RBI's priority sector lending rules and must close shortfalls by such contributions to NABARD at bank rate minus 2 per cent. In turn, NABARD lends these monies to state governments and banks towards the building of rural roads, warehouses, micro-irrigation projects, veterinary hospitals and health centres across the country.

A part of the RIDF is used to refinance commercial and co-operative banks that outperform in priority

SANJAY BORADE



Bhanwala: banking on the multiplier effect

The enablers

Over the years, NABARD has built four subsidiaries, which act as enablers to financial inclusion. Some of the lending banks in rural areas did not have inhouse technical ability to formulate and appraise projects, while the state governments lacked the wherewithal to have a separate appraisal and monitoring arm. Thus came up NABARD Consultancy Services in 2004 to fill in this gap.

Another Bengaluru-based subsidiary, NAB Financial Services specialises in low cost microfinance . It doesn't compete with existing microfinance organisations but sets a benchmark for the industry, raising funds at 9 per cent and onward lending it at 16 per cent. Through a doorstep delivery model, the subsidiary has a book size of Rs1,200 crore.

There is also NAB Samruddhi, which focusses on non-farm sector opportunities in rural India which are growing faster than agriculture. This includes financing of rural services like health, education and transport.

NAB Kisan is another subsidiary, which offers immense potential to build on a co-operative framework of farmers, who bring their produce together under a farmers' producer organisation (FPO). Similar to the milk movement, the FPOs bring together commodities and vegetables. "All the farmers put together individually without collateral," says deputy managing director R. Amalorpavanathan. "We took the initial risk of mutual understanding".

NAB Kisan has now formed 2,100 FPOs in two years' time with 1,800 of them already registered as companies. "They get together for aggregation of their produce," says Dave. "Once they come together, a lot of possiblities gets unclocked. Shepherds from Kutch will ask for a loan of Rs7 lakh to buy two truck-loads of cattle-feed from Rajkot. There was another call from a truck owners' organisation with half empty trucks travelling from Nashik to Chennai. They wanted to know if the FPOs needed goods to be transported." ◆

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Amalorpavanathan: taking the initial risk

lending, freeing up their loan books for further lending. A total of ₹160,000 crore, about half of this amount is directed towards crop loans of less than 18-month duration. About ₹65,000 crore of this amount goes towards the co-operative banks and about ₹30,000 crore towards regional rural banks.

Market economy mandarins may cry foul and fault government mechanisms that provide cheap funds to state governments that fuel their profligacy, but NABARD-funded projects are in areas where commercial firms aren't ready to step in yet. "The flow of credit is slow in rural India because there isn't any infrastructure," says Bhanwala. "The multiplier effect of infrastructure on the other hand is phenomenal. The moment you have a rural road there will be farm mechanisation, transport and ancillary activities."

Think of this the other way round. If funds raised in rural areas are not deployed there, it will add that much pressure to civic amenities in urban areas. There is such a glaring gap in Indian infrastructure that commercial funds raise tax free bonds and can enhance their margins. Under RIDF, NABARD gets only a 50 basis point margin.

The truth is NABARD is the elephant in the room, which isn't appreciated enough. It has directly and indirectly funded watershed development programmes and watched villages with *kuchha* houses transform to *pukka* ones. It has funded silos in states like Punjab and Madhya Pradesh, and has disbursed close to ₹3,000 crore towards warehouse financing. It has funded solar-based V-SATs in remote locations for which commercial banks are beneficiaries. Through a financial inclusion fund, it supports the Government-led Digi Dhan Lottery Scheme to promote digital payments, offers grants and has committed expenses of over ₹300 crore annually – with about ₹200 crore spent recently on 200,000 point of sale devices that were given to banks as a grant.

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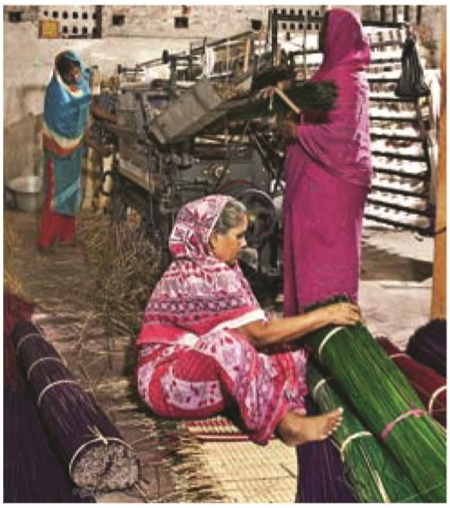
Dave: unlocking possiblities

In 1990, NABARD built a network of district development officers, when it realised that lending to rural India projects would need it to be closer to them. By 1992, it started the self-help group (SHG) movement bringing together groups of about 10 people (mostly women), who were not able to raise loans on an individual standing. When the RBI issued guidelines for SHGs in 1995, it was the first time that a commercial loan was provided to an informal entity. There are 7.9 million



Depositors on board

In this race to build a digital economy, will the co-operative banks lag behind? Bankers have consistently said that they no longer need a large network due to the rapid changes in the manner in which deposits are gathered.

"The future of any entity is dependent on the value it creates for society," says Bhanwala. "If I stop creating value for society, NABARD will not survive. So, co-operative banks will offer have to offer services which no other entity can. They have seen ups and downs, they will survive."

The co-operative banks in India have a history dating back to the British raj, who passed the Co-operative Societies Act in 1904 to build a financial architecture around agricultural credit, and to mitigate the risk and uncertainty associated with agricultural production.

That co-operative bank framework is still arranged in tiers: with state level and district level banks and below them the primary agricultural co-operative societies (PACs). While urban co-operative banks come under direct supervision of the RBI, NABARD supervises the rest of them and reports to the RBI.

All co-operative banks under NABARD have already moved to a common cloud-based core banking solution, developed by TCS and Wipro. It is now the turn of the PACs to upgrade their systems. The government has offered NABARD support to computerise and integrate 63,000 functional PACs with the core banking system of district central cooperative banks. This project

will unfold over three years at an estimated cost of ₹1,900 crore, with financial participation from state governments.

There are 92,000 PACs in the country with a total membership of close to 70 million households. Farmers are members of these societies, and the societies are members of district banks, thus bringing technology to the PACs covers the last mile of financial inclusion. The PACs are also a large vote bank with several politicians having climbed up the ladder through the system.

Bhanwala says co-operatives need regular updating of technology, which can lower the barrier for a customer to switch. So, the co-operative banks will fail only if they fail to service their customers.

While management and lending practices at co-operative banks can be influenced by state governments, Bhanwala says it is high time that depositors were given a say on the board of co-operative banks. The state of Maharashtra amended an Act last year to bring them on board. It also barred people who have a history of fraudulent practices from contesting elections on the board. "Such reforms are needed across states," says Bhanwala. "There should be representation of depositors on the board so that their interest gets protected. The banks should recruit in a transparent manner." ◆

SHGs in India today that cover 100 million households, with more than ₹50,000 crore deployed to them.

To increase the pace of lending the SHGs are being moved to a digital platform, e-Shakti – with 100,000 SHGs registered in the last 10 months. Two pilot projects run in Dhule in Maharasthra and Ramgarh in Jharkhand

have provided encouraging results. The accounts rest on the tablet of an official and are linked to a NABARD portal, with the SHGs classified by credit history. One of the biggest benefits in doing so has been better bookkeeping, which increases confidence for the bank to lend.

Dairy supplements

The banks do not have the staff to cover all of rural India, pushing financial inclusion products as well as being responsible for recovery. "We think this can be a single app," says H.R. Dave, deputy managing director, NABARD, "where any SHG can download and hook onto the NABARD e-Shakti portal. "If Dhule in Maharashtra and Ramgad in Jharkhand is anything to go by, there is already 200 per cent growth in credit expansion".

Bhanwala adds that eliminating supply chain hurdles can double farm income, but the process can be hastened if supplemented by dairy income. This is especially true for small farmers who cannot scale operations due to their marginal land holdings. A 'dairy processing & infrastructure development fund' is being set up under NABARD with a corpus of ₹2,000 crore, to upgrade existing infrastructure and to fund new milk-processing facilities across the country. It will be expanded to ₹8,000 crore over a course of three years.

Dairy is 'any time money' for a farmer, who gets paid on a daily basis, whereas payment from crops arrives after six to eight months. And, while at 150 million tonnes, India is the world's largest producer of milk, only 20 per cent of this is processed in plants. "We need to enhance this processing capacity," says Bhanwala. "The plants at the existing co-operatives need modernisation. Organisations like NDDB have advice and experience, but they do not have resources. If done right, we can be an exporter of milk products," he adds.

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