

Bank Finance for Agribusiness in a Dynamic Setting

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Agribusiness has emerged as an important area of study in recent years mainly because it serves as an instrument for realizing the benefits of interrelationships between the two vital sectors of the Indian economy viz., Agriculture and Industry. Ahluwalia, in one of her papers [1], brings out the linkages between agriculture and industry in the form of: (i) Supply of food grains from agriculture to industry to facilitate absorption of labour in the industrial sector, (ii) Interdependence of agriculture and industry for productive inputs i.e., raw materials, fertilizers, electricity and agricultural machines etc; (iii) Generation of demand for industrial consumer goods as agricultural income increases; and (iv) Possible generation of savings in agriculture which can be mobilized for investment in industry. As all these macro level possibilities are realized, the agribusiness develops and opens up the gates of opportunities for financial institutions like banks to devise their lending operations for the growth of this sector having enormous potential. The growth of this sector subsequently enhances the scope for bank finance.

The present study makes an attempt to identify the progress of agribusiness in Dakshina Kannada (also called South Kanara) district which has the credit of being hailed as the cradle of banks. This coastal district in Karnataka witnessed commercialization of agriculture on a large scale during the late 1970s and 80s [2]. In all the taluks of this district, the percentage share of rice in gross cropped area declined rapidly. The share of commercial crops like coconut, arecanut and pepper increased. A study of agriculture and industry in this district showed that, in 1988 agro business units got concentrated in Mangalore, Bantwal, Udupi, Byndoor, Karkala, Brahmavara, Kaup, Moodbidri, Puttur, Uppinangadi and Ullal [3]. As and when commercialization of agriculture gathered momentum,

the number of agro business units in the district increased.

With the establishment of Konkan Railway, Dakshina Kannada district started experiencing major transformation. This district is enjoying the advantages of all the modes of transport (air, railway, road and ocean). Until about 30 years back this was being considered as a region with the significance of agriculture as major contributor to income generation. Later it turned out to be a region with enormous investment opportunities. In fact the possibility of heavy investment here was contemplated in the late 1980s and the early 1990s. Justifying the construction of the West Coast Konkan Railway at a meeting held in Vidhana Soudha in Bangalore on April 25th of 1988, the Chief Secretary to the Government of Karnataka predicted that there would be a quantum jump in investment in the entire coastal region of Karnataka of which Dakshina Kannada is obviously a part.

The Times Research Foundation organized a seminar on the development of Coastal Karnataka at Bangalore on November 18, 1993. The erstwhile Chief Minister M. Veerappa Moily delivering the inaugural address at the seminar said that about Rs.25,000 crores could be invested for the integrated development of the coastal region in the subsequent five years [4]. He went on to add that due to heavy investment quite likely to occur in Coastal Karnataka, the region had the potential to become the country's second commercial capital in the foreseeable future. Such heavy investment would take place in industry, transport and also agriculture and horticulture. Agribusiness also found a place in the list of various sectors and subsectors identified by Moily.

On January 4-5, 2012 Coastal Development Business Summit was organized at Mangalore. This was an

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important Summit organized by the Federation of Karnataka Chambers of Commerce and Industry, Kanara Chamber of Commerce and Industry, Mangalore and the Department of Industry and Commerce in Karnataka, Department of Infrastructure Development, (Government of Karnataka), NRI Forum, Karnataka and Coastal Development Authority, Mangalore. This Summit received thirty eight investment proposals with estimated amount of Rs.1,506 crores. These proposals are in the areas of hospitality, sea food processing, and also agrobased industries. The participants in the Summit pointed out that there is scope for tremendous development of various sectors in the coastal region with the fast emerging enterprises covering agribusiness also. One of the representatives of NRI forum pointed out that the state government has decided to sanction Rs.145 crores for hospitality, Rs.113 crores for sea food, Rs.41.5 crores for pharmaceuticals, Rs.37 crores for agriculture, Rs.15 crores for ice plants and Rs.21 crores for plywood. Thus Dakshina Kannada with a dynamic setting provided good scope for making a study of the role of bank finance in agribusiness.

Another reason which deserves to be mentioned in this context is the fact that this district is the nursery of modern banking. Tracing the history of banking in this district Thingalaya wrote in 1999: "South Kanara in Karnataka has a unique position in the banking map of the country. It has one of the largest numbers of branches operating in any district. It is the cradle of twenty three banks. Four out of the 19 nationalized banks have originated from this district. These banks came into existence through private initiative and supported by an enlightened society. There were no industrial houses in the district nor was it very prosperous when the banks started appearing on the scene. Many districts in India were devoid of banking facilities when the South Kanara Banks were spreading out into district, far and near"[5]. The long history of banking also provided scope for making this study.

Agribusiness and its Increased Importance

K.C. Chakrabarthy, Deputy Governor, Reserve Bank of India, in his lecture delivered at National Seminar on

productivity in Indian agriculture at CAB at Pune on September 2, 2011 strongly argued for creation of opportunities in agro industries and agro services to absorb the surplus workforce found in agriculture at present. To quote him, "..... a meaningful and comprehensive analysis of productivity of all segments of agriculture is needed for effective policy intervention. Also, creation of opportunities and efforts to shift workforce engaged in agriculture sector to agro-industries and agro services to increase employment would have to be made" [6].

The need for imparting additional dynamism to the agricultural sector through the development of agro based industries is well brought out by Hanumatha Rao. In the course of his analysis of certain major issues and approaches concerning liberalization of agriculture as a part of the ongoing economic reform process in India, he states that the agricultural product mix can change in response to changing foreign demand. Apart from this, food grains, horticultural products, floricultural and agro processing in general are likely to emerge as promising sectors [7].

In 1985, Choudury and Das Gupta made an analysis of relations between agriculture and development process in the Punjab. Industries constituting the bulk of manufacturing sector activities were food products, edible oil, textile products and wool textile. These were all agro based industries which accounted for nearly half of the industrial employment there. Linkages of these industries with agricultural sector were reasonably strong, both regionally and nationally. More or less similar linkages are to be identified in the exports generated in agricultural sector, which was expected to play a distinct role in the context of overall growth of the country aspiring at greater and more visible generation of employment opportunities [8].

With the operation of Agreement on Agriculture (AoA), a part of World Trade Organisation (WTO) agreements, agriculture was also being conceived as business with a scope for generating export earnings. This thinking

had much to do with the overall policy initiative of treating trade as an engine of growth. Economic development of a country is accompanied by transformation of agricultural sector from a subsistence primary product- oriented system to commercialized agriculture producing high value and processed products. With economic growth expected to reach 9 percent p.a. in the 12th Five Year Plan (2012-2017) the scope for high value crops is likely to increase. Agribusiness is widely recognized as a 'sunrise industry' with a vision to make India to lead in the forefront in achieving what has been achieved in the software sector. Several measures are being contemplated which, among others, include post- harvest infrastructure, processing and packing houses for fresh produces, creation of agri food parks, centers for value addition for agriculture and exploring the possibilities generating surplus for export [9]. Obviously with the execution of these measures the need for infusing bank credit into agribusiness will become conspicuous.

In the Seventh Five Year Plan (1985-1990), the Planning Commission identified four criteria for industries in India. They are those (a) which encourage greater input into agriculture; (b) which lead to better processing and conversion of agricultural commodities; (c) which ensure high returns on processed goods; and/or (d) which lead to increase in agricultural production [10]. The supply of modern inputs, improvement in food processing, channelizing the impulses of growth and value addition for exports would naturally call for greater involvement of banking institutions in the agribusiness sector.

The Central Food Technological Research Institute (CFTRI), Mysore long back listed the advantages that the agro based industries can confer through forward and backward linkages. It established the fact that one of the most promising avenues of employment in the rural areas is the development of agro based industries. The Eighth Five Year Plan (1992-1997) classified the small scale industries and traditional industries into two sub-sectors: viz., modern small industries and traditional industries. The former covered small scale

industries, handloom, sericulture, handicrafts and coir industry. One of the areas of priority of the Eighth Plan was the generation of adequate employment to achieve near full employment level by the turn of the earlier century. Several activities pertaining to this sector like processing of agricultural produces in rural areas, sericulture and allied activities had been identified as critical goals in priority sectors. Therefore the study of agro based industries to know its employment potential at the micro level can become important to see to what extent the expectations of the planners could be fulfilled. Again the role of bank finance in the development of agribusiness sector would come to the forefront at various stages. The study of this role at the micro level (district level) could throw insights into the needed policy imperatives at the macro level [11].

Financing the Agribusiness: Issues for Thinking and Action

In view of the increased significance of agribusiness, the credit assessment of units in the sector has to be made essentially at different levels. In this connection the present credit availability is to be evaluated. Advances made to agribusiness are a part of agricultural advances, direct or indirect. The traditional agro processing units like rice mills, flour mills, oil mills, cashew processing units, rubber processing units and homemade products such as pappads, pickle, banana and potato chips are to be studied with the specific purpose of knowing their credit requirements. Therefore the present study was taken up in the Dakshina Kannada district in Karnataka State with the following objectives:

1. To investigate the extent to which bank finance is availed by agro entrepreneurs in the study region;
2. To find out the issues and concerns of banks in financing agribusiness in the study area;
3. To bring to light the experiences of agribusiness units in availing bank finance;
4. To assess the opportunity for promoting the agribusiness through bank assistance in Dakshina Kannada; and

5. To assess the relative or comparative significance of bank finance in diversifying the agribusiness sector with Dakshina Kannada as case study.

Methodology

The research team approached 200 units in the agri-business sector in DK district covering cashew, processed food, coir products, home products, areca products, oil and rice mills, rubber processing etc. Besides the team collected secondary data from trade journals, government publications, annual report of banks, report of various trade committees etc. This study was undertaken against the background of Integrated Agri-business Development Policy of Karnataka declared in 2011. In addition the stimulus for the study was provided by the deliberations of Coastal Development Business Summit organized at Mangalore on 4th and 5th January, 2012.

The study was based on both primary and secondary data. The empirical part of the study comprised of conducting survey of agri-business entities and branches of the lead bank (Syndicate Bank) in Dakshina Kannada district. Wherever needed Dakshina Kannada is compared with the Karnataka state and the country at large in the matter of development of agribusiness sector. Both public sector and private sector banks in Dakshina Kannada district are covered for arriving at necessary policy initiatives. For this purpose, a specially designed structured questionnaire was administered. 200 units in the agri business sector are covered in the field study. The units covered are cashew, processed fruits, coir products, home products, areca products, oil mill, rice mill, rubber processing, etc.

Based on the secondary data, a macro level assessment of penetration of banks in agro business is made. Secondary data was collected from trade journals, government publications, annual reports of banks, reports of various government and trade committees.

To examine the impact of bank finance on agribusiness at the level of a single unit treated as an illustration by

us we have approached the Achal Industries in the traditionally known as an industrial area in Dakshina Kannada district viz. Baikampady. This unit was chosen by us for important reasons, the success story of this agribusiness unit, the constant financial support extended to it by the Canara Bank and its significance in the industrial structure of the district.

Bank Credit for Industrial Development in the Study Region

One of the research studies on credit planning in Dakshina Kannada (1996) substantiated the positive role of commercial banks in developing the industrial structure in the district. Proving that bank credit was an important input in any expansion program of the small scale industries, this study revealed that the banking institutions in the post nationalisation period in Dakshina Kannada exhibited their willingness in assessing the development potential of the region by collecting necessary information. The basic tenet of Credit Planning is the wise utilisation of scarce resources among competing demands for funds from merchants, manufactures, individuals and also Government. The important objectives of the District Credit Plan are bringing about linkages in various inter-related activities, dovetailing credit schemes with developmental efforts and providing credit in a phased to all potential borrowers. Interestingly the research study showed that the easy availability of credit generated demand for it, which in turn, led to the realisation of the development potential of the agri business sector also [12].

Banks with Varied Performance

In this study, bank finance to agribusiness is treated as indirect agricultural finance [13]. We have included four important public sector banks which have a lot of identification with the overall process of development of Dakshina Kannada. These are Corporation Bank (1906), Vijaya Bank (1931), Syndicate Bank (1925) and Canara Bank (1906). We have found that Corporation

Bank and Canara Bank have exhibited zeal in financing agri enterprises in very recent years. What causes disappointment is the look worm attitude which the Syndicate Bank has been maintaining in financing agri enterprises albeit acting as the Lead Bank. This study has brought to light the fact that the Lead Bank has to take up fresh techno economic surveys for identifying new opportunities available for exporting vegetable based, coconut based and cashew based products. It has also shown that more than 75 percent of the agribusiness units which have not availed bank loan so far require the same for future growth. It is time that the Syndicate Bank rises to the occasion for formulating credit plans to meet the unmet credit needs of the agri enterprises in different parts of the district.

Bank Credit for Agribusiness: Findings of Field Study

Our field study showed that 61 percent of the units included in the study preferred banks for working capital requirements. Trade credit, accruals and overdraft facilities accounted for the bulk of short term credit facilities. The long term loans from banks included important purposes like establishment, expansion, purchase of land and purchase of vehicles. One of the major findings of our field study was that there were cases of diversion of funds from long term investment to working capital requirements. The banks which had given loans to agri enterprises in the district didn't mince words when they reported that they could not check such diversion of funds.

The Achal Industries producing a variety of cashew products in Mangalore has a success story attributable to the involvement of a family with necessary interest and inclination. This family got constant financial support of the Canara Bank in its various stages namely establishment, expansion and diversification. At the same time the case of Achal Industries is helpful in revealing that bank credit alone cannot meet requirements of the business units. The practical and legal problems which the Achal Industries and other cashew factories in Dakshina Kannada discussed in

Chapter IV vividly indicate the importance as well as the limitations of bank credit for agribusiness.

Credit for Modernisation

Both the studies conducted earlier in Dakshina Kannada referred to in chapter III and the present study show that in future bank credit will be very much needed for modernisation of plant and machinery. The competitive strength of the borrowing units can be enhanced by the effective measures of modernisation. The constraint of labour shortage can be overcome to a very substantial extent with modernisation of plants and machineries in several agro based units included in the survey. Here what the CATF observed may be profitably remembered. Many small and tiny enterprises in Dakshina Kannada are facing under utilization of capacity. The CATF also reported about the measures of modernisation on priority basis. The District Industries Centre, the Kanara Chamber of Commerce and Industry and the Small Industries Associations may undertake specific studies on the credit facilities needed for modernisation of plant and machinery with emphasis on productivity aspect.

Bank credit is an important input for agribusiness. But the positive impact of bank credit can be fully realised only if the constraints on the growth of agribusiness are removed. Our field study vividly indicated that power shortage obsolete technology and informal status of the agro enterprises were prohibiting the progress of many agro enterprises. In the workshop held on May 22nd, 2003 also two major problems were given a lot of attention. In Dakshina Kannada district the shortage of quality power supply was mainly responsible for a decline in the flow of Foreign Direct Investment. The other difficulty was higher labour cost leading to decline in the manufacturing sector. In the memoranda submitted by the Kanara Chamber of Commerce and Industry to both central and state governments some major demands were voiced. In the memorandum dated September 23, 2009 submitted to the Union Minister of Law and Justice, the Chamber pleaded for a food and agro technology park in Dakshina Kannada district

which is known as horticultural district. Such a park besides enhancing employment opportunities would attract investments from skilled entrepreneurs but this rational demand of chamber has remained unattended.

Credit alone is not what the banks can provide to agri entrepreneurs. Banks in modern times can help these entrepreneurs in various ways as revealed by our field study. In the first instance they have to properly educate their customers about their own products. They can fruitfully educate their customers of subsidies available to them. They can also provide consultancy services. Here the lead banks can come forward in a big way to improve the procedures of lending and also to meet all the important requirements of agribusiness units which are in difficulty.

The present study indicates that higher the turnover of business of agro enterprise, greater is the significance of role of bank finance. The role of banks is shaped by the phases of growth of agribusiness reflected by the age factor. The duration of bank credit depends on the changing requirements of agribusiness with clear indication of the period of loan, as already stated the utility of bank credit for agribusiness is conditioned by the availability of complimentary factors.

The bankers whom we approached in course of our field survey complained that recovery the loans given to units in agribusiness sector. The popularly held belief that loans given to agriculturists and agri enterprises would be waived by the government due to political reasons caused untold damage to the recovery culture in the district. This damage is of comparatively recent origin. The study on credit planning Radhakrishna Bhat showed that recycling of credit in Dakshina Kannada was very much facilitated by the wide spread repayment culture. This repayment culture noticeable until the end of 1990s started disappearing with debt relief schemes implemented in the later years. Our field study very clearly shows that hopes of waiver of loans produced unwanted and unwarranted consequences on the banking system providing credit to agribusiness.

Recommendations

Some specific suggestions for Dakshina Kannada district are found necessary. Firstly, this district is likely to experience urbanisation on much larger scale in future as investment opportunities are likely to get clustered in and around towns and cities here. We can visualize the possibility of the generation of opportunities for agribusiness in the suburban areas. The banks, The Kanara Chamber of Commerce and Industry, District Industries Centre and the small industries association in the district together or individually can undertake studies to identify the opportunities of starting new agribusiness units in suburban areas and comparatively well developed villages. The academic institutions like colleges in these areas and villages may also be involved in such useful studies.

Secondly, in a large number of cases we have found that the agribusiness units in Dakshina Kannada district have taken loans for building working capital. They are not very much interested in taking term loans. In future the banks and other organizations and institutions mentioned above in the district may make attempts to induce the agribusiness units for taking term loans to make themselves financially and technologically competitive.

Though this is a micro level study it is helpful in making policy recommendations of macro level significance. In the light of our findings we are inclined to make the following policy recommendations:

1. The changing credit requirements of agribusiness units should be separately assessed by the Lead Bank of the concerned district by involving representatives of different categories of these industries and the associations and organisations of which these units are members. Such assessments should be incorporated in the district credit plans.
2. In the credit plans special emphasis must be placed on the requirements of the agribusiness units for modernisation of plant and machinery. The major

consideration in this regard should be increasing productivity and competitiveness of these industries especially for realising their export potentials.

3. The commercial banks which are lending to agribusiness units must take extra care to prevent diversion of funds from long term purposes to working capital requirements. Clear distinction between long term and short term credit requirements should be maintained at all levels including utilisation and repayment of loans.
4. It needs to be stressed here again that credit is one of the important inputs for the development of agribusiness units. The oft-quoted remark that credit is necessary but not sufficient holds good in the case of agribusiness units also. Therefore the inter-linkage between credit and other inputs should be assessed from time to time by concerned government department and the commercial banks under the leadership of the lead banks to complement and reinforce the positive impact of bank finance for agribusiness.
5. The registration of informal agribusiness units with the government departments/agencies and trade associations should be made obligatory for the purposes of credit dispensation and subsidy schemes. There should be a clear exit policy for all small scale and tiny enterprises including agribusiness units which would approach banks for finance.

To conclude, the credit needs of agribusiness units cannot be considered in isolation. These needs keep on changing depending upon the environment in which they have to function. In a dynamic setting these needs call for a special attention as the credit requirements of other sectors in this setting are likely to get more attention in view of their export potentials. In identifying the needs of agribusiness units for credit for development and modernization, the Lead Banks have to play a timely and significant role which should be based on up-to-date knowledge of the units to be served through fresh techno-economic surveys.

Notes and References

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- [2] Until 1997, there was undivided Dakshina Kannada consisting of both Udupi and present Dakshina Kannada. There were eight districts viz., Bantwal, Belthangadi, Karkala, Kundapur, Mangalore, Puttur, Sulya and Udupi. In August 1997 Udupi district was formed which now consists of Karkala, Kundapur and Udupi Taluks.
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- [13] Bank finance to agri business consists of direct credit and indirect credit. The present study concentrates on indirect credit to agriculture as this is provided to agro based industries.