Appetite for agricultural loans

By Mohiuddin Aazim

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AGRICULTURAL lending saw a big rise of nearly 32pc in the last fiscal year, continuing a double-digit growth rate for the last four years, thanks to enabling policy measures, robust demand and banks' expanding outreach to farmers.

Bankers expect the credit disbursement for this sector to grow fast because the enabling factors may even improve, while the potential agri credit demand is potentially so big.

In FY2015, gross agri lending under SBP-supervised scheme rose to Rs515.9bn, up from Rs391.4bn—a rise of Rs124.5bn.

According to the SBP, agri credit disbursement has been rising at an annualised rate of 10.8pc since FY12. The SBP links this achievement to some of its own measures including inclusion of microfinance and Islamic banks in agri credit and governmental initiatives like crop loan insurance and credit guarantee facility for small farmers.

However, for farmers interested in agri lending net yearly borrowing of banks is more important. On this account, too, the picture is promising.

"When we talk about gross agri loan disbursement we're essentially talking about how much worth of loans were made in a certain year," explains a senior commercial banker. "If you deduct from that amount the sum of outstanding agri credit portfolio you can have an idea about the amount of loans that assumingly remained employed during that year." Measuring with this yardstick, we see an increase of Rs180.7bn in FY2015, still a big rise over FY2014 comparable figure of Rs101.1bn.

Regardless of the loans portfolio dissection on gross and net basis, "there appears a clear upward movement in agri credit year after year," says a central banker. "Backlog of unmet demand was so huge that when policy measures enabled the lifting of the lid, banks saw a gush of risk-worthy demand."

The increase in per-acre limits in case of crop loans have played a key part in boosting micro lending to small growers. The MFBs by their very nature are the most suitable outlets of credit disbursement to small farmers. Since the per-acre limits of crop loans were revised in 2013, after a gap of five years, the revision was massive—between 77-85pc.

Operational banking improvements like hiring of qualified hands to assess borrowers' credit-worthiness to more streamlined info traffic between bank branches and banks' regional offices to franchising credit disbursement to shops and kiosks through cellular phone companies have also played an important role in boosting agri credit, bankers say.

Apart from crop growing and related activities, modernisation of dairy and food sector and consistent growth in food processing and manufacturing business is transforming rural credit requirements, bankers say. This has also been a reason for larger intake of agri loans for several years in a row. Similarly, continual surge in poultry business after establishment of controlled-shed environment and focus on fisheries for making seafood companies more competitive in export market have also opened new financing opportunities for banks and facilitated faster off-take of overall agricultural loans.

Challenges, however, remain. Even at Rs516bn, gross agri loans made up just 11pc of their total advances at the end of FY2015. Though this shows a substantial improvement of full two percentage points within a year (compared to 9pc at the end of FY14), ideally this percentage should correspond to agriculture's share in GDP i.e. around 22pc. Secondly, there is a need to remove some geographical and segmental unevenness in credit distribution.

More importantly, more innovative ways of agri lending need to be introduced without which many banks may not grasp the changes in the timing, pattern and preferred ways of credit need to various segments of agriculture sector, central bankers say. They, however, point out that the SBP is on guard and is making efforts to help banks do what they ought to do. Introduction of value-chain financing scheme and warehouse receipt financing, collateral management scheme offer two key examples.

These two schemes have enabled even those small farmers and agricultural trading companies to turn to banks for financing that have no history of bank relationship. And, at the same time, these schemes have enabled banks to mitigate, or share with other value-chain players, some of the risks associated with a certain segment of agricultural borrowers.