# Bank Finance for Agribusiness :
# A case study in Dakshina Kannada District

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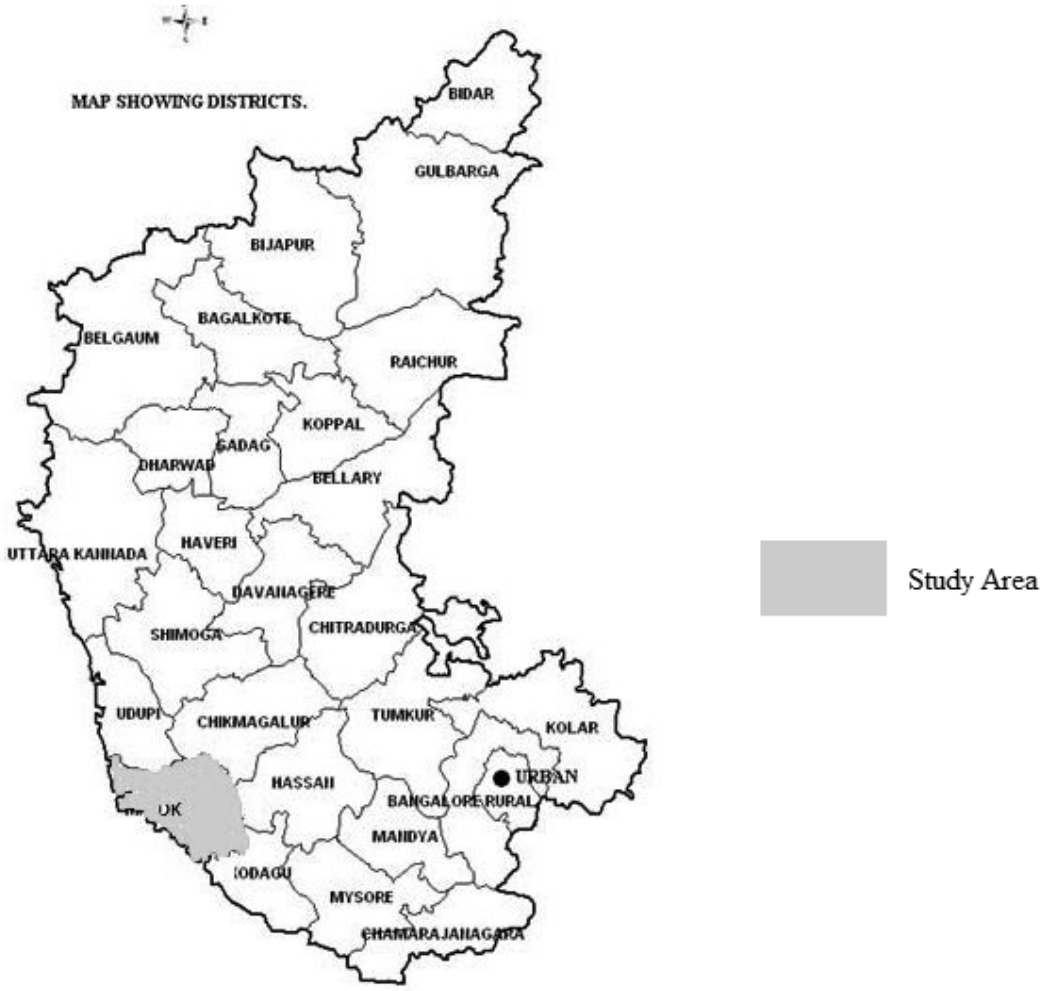
## KARNATAKA STATE



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CHAPTER-I

# Financing Agribusiness : Some Macro Level Issues

## 1.1 Context of the Study

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 Saudha in Bangalore on April 25$^{th}$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 sub-sectors identified by Moily.

On January 4-5, 2012 Coastal Development Business Summit was organized at Mangalore. This was an 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 agro-based 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 changed economic profile provides 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.

**1.2 Agribusiness and its Increased Importance**

Dr. 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: "Therefore, 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 per cent p.a. in the 12$^{th}$ 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) may throw insights into the needed policy imperatives at the macro level [11].

### 1.3 Agreement on Agriculture: Expectations and Realities in Agribusiness

The famous AoA of 1995 has a long term objective. It is to establish a fair and market oriented agricultural trading system and a reform process initiated through the negotiation of strengthened and more operationally effective GATT rules and Disciplines. This long term objective was made explicit as it provided for substantial progressive reductions in agricultural support and protection sustained over an agreed period of time, resulting in correcting and preventing restrictions and distortions in world agricultural markets.

Some specific areas for action have been identified for making agriculture competitive enough to assume the shape of trade. It must be emphasized here that the AoA took a broad view of the need for transforming agriculture into a profitable sector from the point of view of foreign trade as well. The following areas deserve our attention:

- Giving through the mechanism of market access i.e. a discipline on import restraints and tariffs;
- Looking at domestic support, i.e. subsidies by governments to domestic producers; and
- Export subsidies.

Since the agricultural trade agreement was concluded for the first time in the history of General Agreement of Tariff and Trade (GATT) during the Uruguay round, it was prescribed in Article 20 of this Agreement that any fresh negotiations should take into consideration the experience of implementation which would start in the year 2000 [12]. The time gap given for formulation of AoA and the year of implementation was found necessary because agriculture in many member countries was a source of living or a way of life or a sector with involvement of many people as survival strategy. A detailed discussion of the Article 20 of AoA is needed in this context because it is very much linked to the long term task of converting simple agriculture into agribusiness in which bank finance is needed,

#### 1.3.1 Article 20 reads as follows:

"Recognising that the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an on-going process, members agree that negotiations for continuing the process will be initiated one year before the end of the implementation period, taking into account:

*a.* The experience of that date from implementing the reduction commitments;

*b.* The effects of the reduction commitments on the world trade in agriculture;

*c.* Non-trade concerns, special and differential treatment to developing country members, and the objective to establish a fair and market oriented agricultural trading system, and the other objectives and concerns mentioned in the preamble to this agreement; and

*d.* What further commitments are necessary to achieve the above mentioned long-term objectives."

#### 1.3.2 Implementation of AoA and the Status of Agribusiness

It is an established fact now that the last round of negotiations did not bring about trade liberalisation in

agriculture to the desired extent. There were no significant reductions in both domestic support as well as export subsidies. Although the AoA achieved a great deal by defining rules for international trade, its achievement in terms of immediate market opening has been limited. The anticipated gains of agricultural trade liberalisation, therefore, have eluded the developing countries even after the Marrakesh round.

During the Uruguay round discussion on agriculture some of the basic issues came up: (1) it was expected that pursuant to the AoA, distortions in agricultural trade would be reduced and scope for exports of products from developing countries would increase. (2) The anticipated increase in exports of agricultural products from developing countries has not been realised. (3) It was also expected that the contemplated fair trading regime would help the efficient producers in realising higher prices for their products. On the contrary, prices of most agricultural commodities were declining in the world markets. (4) It was anticipated that due to the reduction in domestic support in developed countries, cereal production would shift from developed to developing countries. The experiences in many developing countries subsequently showed that much of the expectation from AoA did not turn out to be a reality.

Since many years, in fact since many decades, agricultural exports have been constituting an major segment of exports in India. Therefore, finding greater market access especially in the developed countries for India's agricultural products should be an important issue of negotiation. Food security of our people, protection of the interest of domestic farmers and the need for export maximisation will be the guiding principles in negotiating tariff reduction during the next round.

### 1.3.3 India's Competitive Advantage in the Context of Global Opportunities

Agriculture in India with its characteristic feature of a large class of small farmers remained outside the purview of what came to be incorporated in AoA. The inclusion of agriculture under the purview of World Trade Organization (WTO) has brought forth both challenges as well opportunities for the Indian agricultural sector. Given the state of play that is likely to exist in the world agricultural trade in the future, we should try to maximize gains and minimize losses. The AoA has many safeguards, relaxations and exemptions for the developing countries, which must be exploited to the advantage of Indian agricultural sector [13].

### 1.3.4 Perceived Benefits of AoA for Indian Agribusiness

The AoA was signed by the member countries in April 1994 at Marrakesh, Morocco and came into force on the 1st January 1995. So far there has not been a significant adverse impact of the provisions of the AoA because the Aggregate Measure of Support (AMS) as defined under the agreement is negative. The ceilings on tariffs are fairly high, which provide sufficient room to protect domestic market. There were no reduction commitments on bound tariffs and since exports of agricultural commodities were not directly subsidized, there were no reduction commitments on export subsidies.

- Estimates indicate that the global trade policy reforms would yield three times the benefit to the developing and the least developed countries than all the Official Development Assistance (ODA) they currently receive.
- Reductions in subsidies provided by the developed countries will raise the prices of agricultural products in the world market and this will make our exports more competitive.
- Liberalization of agricultural trade worldwide and further improvements in market access will create new openings for the Indian agricultural products [14].

### 1.3.5 Experience of Implementation of the AoA

The experiences following the implementation of AoA were in a big measure daunting challenges for the Indian agriculture in the context of world trade. Agriculture was included under the WTO framework to discipline one of the most distorted sectors due to high levels of protection and subsidies. Disciplines were thus introduced covering the major areas such as market access, domestic support and export subsidies. However, despite its stated objectives, the agreement has not been able to address these issues more effectively.

Experience during the last seventeen years showed that the agreement had not brought about the anticipated benefits such as expansion of world trade in agriculture or spatial redistribution of agricultural production or improved returns to farmers in developing countries or greater transparency in agricultural trade. The

experience showed that a good number of provisions of the agreement were either weak or were ambiguous. Tariffs on agricultural products continued to be quite high on products that were of interest to the developing countries because commitments under the agreement require reductions only on an un-weighted average basis.

Even the basic objective of the agreement to reduce and eventually eliminate all distortions in the markets for agricultural commodities, has not been achieved. There is very little evidence to show that the agreement had any meaningful influence on the markets. The major players in the global agricultural markets have continued to give larger doses of subsidies to their domestic agricultural sectors. For example, the total support in the Organisation for Economic Co-operation and Development (OECD) countries had increased from US $ 302 billion in 1986-88 to US $ 330 billion in 1999-2001. This coupled with other events led to a significant drop in the prices of agricultural commodities, contrary to the expectations prior to the implementation of the Agreement.

It is from this perspective that the mandate of the Doha Ministerial Conference in respect of agriculture turns out to be significant. The Ministers have expressed their commitment to the "long-term objective of the agreement to establish a fair and market-oriented trading system through a programme of fundamental reform encompassing rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets".

The policy reform process initiated in the agricultural sector through the AoA is sought to be taken forward through the review of the agreement that has been provided for in Article 20. Negotiations under Article 20 to review the agreement were underway for the last two and a half years. In Doha, the ministers committed themselves "to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of exports subsidies; and substantial reductions in trade-distorting domestic support"[15].

The declaration specifically mentions the concerns of developing countries and adds: "we agree that special and differential treatment for developing countries shall be an integral part of all the elements of the negotiations and shall be embodies in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development."

The Indian agriculture has not yet received the kind of attention it deserves. To ensure the long term growth of agricultural sector as a whole, a solid partnership between the farmers, central and state governments, agricultural universities, agriresearch institutes and industry is critical. Planned and need-based integration of industry with agriculture would ensure the benefits percolate to the grass root level. Unless the institutional setting for agribusiness is toned up, the bank credit may not be able to play the role that is expected of it. The present study attempts to bring out the adequacies or otherwise of bank credit in boosting up the agribusiness sector in the era following the AoA.

To meet the growing domestic demand and also to take advantage of the expanding external market, Indian agriculture must grow at more than 4 per cent. This is necessary to achieve the 9 per cent Gross Domestic Product (GDP) growth as forecasted by the Planning Commission. Long term growth of agriculture sector is also essential to achieve the self-reliance at national level, attain household on food security, generate more employment opportunities and bring about equity in distribution of income and wealth resulting in rapid reduction in poverty levels.

The inclusion of agriculture sector under the purview of WTO has thrown up challenges as well as opened up new vistas for growth and diversification of agriculture and its exports. It is expected that reduction in export subsidy and domestic support to the agriculture sector by developed countries may lead to decrease in production in those countries and, therefore, will offer opportunities for expansion of Indian exports. However, India must redefine its regulatory mechanism, to provide an open and market driven framework for agriculture. There is, thus, an urgent need to evolve appropriate policy measures to prepare this crucial sector for the fast changing domestic and global scenarios. The bank credit may be taken as one of such policy measures.

### 1.4 Globalization of Indian Agriculture in the Wake of AoA

In the past, the government's policy for agricultural sector was mainly import substitution oriented to meet the domestic requirements, particularly food. The government proactive intervention policy of abolition of

land intermediaries, public investment in irrigation, rural electrification, research and extension, price policy, procurement and distribution, targeted credit program, fertilizers subsidy, and agriculture trade restrictions, all have played significant role in boosting food production [16].

Agricultural products such as coffee, tea, sugar, oil seeds, tobacco, cotton, spices, etc. constitute the main items of Indian exports. Agricultural exports together with manufactured agricultural exports such as textiles, processed foods, etc. account for more than two-third of Indian exports. Notwithstanding the success story of agricultural development, particularly in the wake of Green Revolution, agriculture growth achieved by India remained at a low rate of 2 to 3 per cent per annum only to keep pace with the domestic demand. This compares poorly with the agriculture growth rates achieved in other Asian countries during the same period. China, Malaysia, Thailand, Vietnam and Myanmar achieved 4 to 5 per cent annual growth. Indonesia followed closely with 3.9 per cent per annum, while Philippines and Pakistan recorded between 3.5 to 4 per cent annual growth respectively [17].

Globalisation is a phenomenon taking place in the world economic system, largely driven by strong growth of trade, flow of capital and technical revolution. Though globalisation as a process has been taking place in the world economic system historically, it has witnessed a revolutionary change only in recent years. The last two decades witnessed significant structural changes in the global patterns of production and trade. Information and communication technology revolution also reduced the distance, time and costs and increased the speed of business transactions. The collapse of state controlled socialistic economies, failure of state-led import substitution policies and success of export-led outward looking free trade development strategy also contributed towards globalisation.

Growing internationalisation of production and increasing importance of new modalities of trade such as inter-firm trade as against inter-farm trade, intra-industry trade as against inter-industry trade, outsourcing, increasing share of services in the trade flows, growing integration of capital markets across the globe etc. characterised the contours of the systematic revolution in the global market [18]. The world trade increased in leaps and bounds from $185 billion in 1965 to $2113 billion in 1985 and now it is around $4 trillion. The world trade grew faster than world output; world trade has grown at 6 per cent per year as against the world output 3 per cent per annum. The foreign direct investment (FDI) inflows have gone up from $185 billion in early 1980s to $ 347 billion in 1995. The share of developing countries increased from $18 billion to $130 billion during this period- from less than 10 per cent in 1980s to 40 per cent in 1990s [19].

Multinational companies (MNCs) have become major players in globalisation of production and trade. Over 3700 large MNCs are operating worldwide with 170000 affiliates accounting for 30 per cent of the world trade. The share of cross border production by the affiliates of MNCs in world manufacturing output increased from less than 5 per cent in 1970s to 18 per cent in 1990s. Intra-firm trade, trade between different affiliates, trade in parts and components, outsourcing and sub-contracting of components have become main features of the world trade. Brand name, quality and design have now become strategically important in the world trade. MNCs bring with them capital, technology, management expertise, networking contacts with overseas banks and markets.

The successful conclusion of the GATT Agreement and setting up the WTO as the world trade promoting and regulating agency are the milestones in the process of globalisation. The establishment of the WTO "ushers in a new era of global economic cooperation, reflecting the widespread desire to operate in a fairer and more open multilateral trading system for the benefit and welfare of their peoples". The WTO Agreements bind the member-countries to the free trade paradigm and a framework of multilateral rules governing international trade. Through reduction of trade barriers and elimination of discriminatory treatment in international trade relations, the WTO would further facilitate the pace of economic integration and globalisation [20].

While manufacturing and service sectors have been rapidly moving towards globalisation, agriculture was kept outside the purview of globalisation process. It has been virtually excluded from this broad sweep of trade liberalisation and integration. With the massive intervention both by developed and developing countries, agricultural sector was insulated from the normal discipline of market forces and international competition. A mass of complex tariff and non-tariff barriers was used to provide the sector with high and variable rates of protection. Large exporting countries

increasingly used export subsidies as a major instrument of protection and a weapon to gain market share.

Bringing the agriculture for the first time into the fold of the multilateral agency agreements and discipline was one of the important achievements of the Uruguay round. The agricultural package of the WTO has introduced multilateral discipline for liberalisation of agricultural trade and globalisation of agricultural production, processing and trade. It committed all WTO member-countries for dismantling of the barriers to trade, the reduction of domestic protection opening up of agriculture to world market and multilateral discipline for liberalisation and fair competition of agricultural trade in the global market. The global market forces are, therefore, expected to play dynamic role in determining product-mix, value added, investments, price structure, and quality and pattern international trade. The WTO agreement on agriculture is thus expected to contribute significantly towards the process of globalisation of agricultural production and trade.

### 1.5 Implications for Indian Agriculture

With the signing of the GATT Agreements, Indian Agriculture was brought under the WTO framework and multilateral discipline. India has no choice but to fulfil the commitments made under the Agreements and bring its domestic policies in conformity with the WTO requirements. All these are likely to change the future setting of the Indian agriculture, having far reaching implications. It is therefore essential for India to examine: (1) the likely implications of such global changes on Indian agriculture; (2) the impact of the WTO discipline on Indian agriculture and its future prospects; (3) the policy reforms and strategies required with a view to maximise gains from the new opportunities opened by worlds trade under the WTO Agreements; and (4) the precautionary steps required to be taken to safeguard its interests. In the following section, an attempt is made to analyse the likely implications of the WTO Agreements on the Indian agricultural sector.

The WTO commitments in the area of agriculture mainly falls under five categories, namely, market access, domestic support, export competition, sanitary and phyto-sanitary measures and intellectual property rights. There is a need to understand where Indian agriculture stands vis-a-vis the commitments in each one of these areas and their likely impact. An objective assessment of the overall impact of the WTO commitments is also imperative for two reasons; One, India needs to know the challenges that it would likely to face and bring them upfront in the regular policy review meeting of the WTO. Secondly, India needs to formulate appropriate strategies based on the emerging problems in the periodical WTO meeting of implementation review to safeguard India's long-term interest.

### 1.6 Export Competition

All the controversies concerning the status of Indian agriculture are directly or indirectly related to the question of subsidies. The only subsidies provided to exporters of agricultural commodities are in the form of: (1) Exemption of profits from export sales from the income tax, and (2) Subsidies on costs of freight on export shipments of certain products like fruits, vegetables and floricultural products. These payments are exempt from the reduction commitments. Thus, the export reduction commitments under the WTO regime do not have adverse impact on Indian agricultural exports.

A sensitive issue is related to the extension of subsidies in agriculture with the definite time frame. There is an important provision under the Agreement that countries not using any subsidies in base period are prohibited from using export subsidies in future. Hence, India is the country, which has not been using any form of export subsidies as an instruments for export promotion under the WTO regime. However, India is free to provide certain subsidies, such as subsidising of export marketing costs, internal and international transport, and freight charges.

### 1.7 Major Concerns calling for Policy Actions

India does not have any explicit export subsidy for agricultural exports. The domestic support of whatever forms are well below the WTO minimum binding commitments. The government has already taken number of steps in regard to tarrification and to reduce import tariffs to fulfil the minimum level reduction commitments.

The compulsory market access to the extent of 5% of domestic consumption will have some adverse impact on foreign exchange and agricultural production incentives in the short run. Considering the present India's balance of payment position, impact on foreign exchange may not pose a problem. Since India is a producer of most of the agricultural commodities, the threat of sudden spurt in importation of agricultural commodities is unfounded. Moreover, with the high binding tariff rates ranging from 100% to 300%, the

question of imported commodities competing with the India agricultural commodities does not arise. Considering the benefits the country can gain from improved market access, the impact of the minimum free access commodities is only marginal and more than compensated.

The ultimate objective of the WTO Agreement is to remove trade barriers and facilitate the progress of agricultural trade liberalisation. Theoretically, the commitments under the WTO Agreements would result in: (1) openness of the economy, (2) creating competition, (3) increasing production efficiency, (4) correcting price distortions, (5) meeting domestic shortages with least cost and time lag and (6) higher revenue accrual and economic welfare. Another important feature of the WTO is that the signatories agree to treat all members as "most favoured nations (MFN)" without any discrimination. With 146 member countries treating each other as MFN and opening up of their domestic market would definitely provide challenging opportunities for agricultural trade for a country like India. The reduction in domestic support and protection in developed countries is also expected to raise prices of agricultural commodities, and volume of agricultural trade in the world market.

A study conducted by WTO estimated that if implemented properly, the improved market access would result in rise of agricultural trade to the extent of $ 450 billion. The developing countries will have a fair share in the increased agricultural trade. Even if India succeeds to gain a share of two per cent, it amounts to $10 billion addition to its agricultural export earnings. It would be appropriate to note, in this regard, the observation of an eminent agricultural economist Khusro: "If one could make, at this stage, a rough quantitative assessment of the potential losses from the GATT provision, and set them off against the potential benefits the Indian farmers, manufacturers and traders will obtain through GATT, an estimated 20 per cent losses and 80 per cent gains to our people would perhaps be an underestimate of our net gains" [21].

India could, however, realise all these gains only if the developed countries fulfil their commitments under the WTO agreement. As a future negotiating strategy for AoA, India should start from the position of strength by fulfilling all its commitments and then demand removal of all distortions in agricultural policies of developed countries.

The WTO agreement has definitely brought a wind of change to Indian agriculture. Indian agriculture is also in the process of modernisation and diversification. In the past, the problem of Indian agriculture was scarcity; today it is excess. India has food grains buffer stock of over 60 million tonnes as well as a surplus of unsold sugar and cotton. The transformation from scarcity to surplus makes India potentially a great agricultural exporter. If Indian agriculture has to achieve a higher growth, it should aim beyond domestic market and exploit international market opportunities. Though the goal of self-sufficiency for domestic market is important, it alone cannot drive the Indian agriculture to higher growth path. Moreover, with the declining population growth and resultant decline in demand for food in the coming years, the country will be faced with the growing food surplus and unsustainable food stock. Thus for India, the WTO regime is a wakeup call and a challenge of opportunities.

### 1.8 Some Recent Observations on Agribusiness

The fact that agribusiness sector has in recent years attracted attention of both academicians and policy makers speaks volumes about the need for further research at the micro level (district level). Singh and Chand have made a critical analysis of Indian Agricultural Development Policy in 2010. They have lamented that budget expenditure on agriculture and allied activities decreased from 14.8 per cent in the first five year plan to 3.7 per cent in the tenth five year plan. As a result, growth in agriculture sector always lagged behind the growth in total economy and moreover the gap increased from 1 per cent in the first five year plan to 4 per cent in the post WTO period. Their study suggested that agricultural development policy is to be suitably altered to prevent misuse of subsidies by the large farmers. However, there should be rationalisation of this policy to help the agribusiness sector positively for greater value addition [22].

Chandrashekar in 2012 strongly argues that agribusiness management education can create informed professionals who can cater to the changing dynamics of the agri. world and improve the economics of the enterprise. He conceptualises the status of agribusiness in a very broad manner. Agribusiness - a generic term that encompassed the businesses involved in food production, including farming, seed supply, agro chemicals, farm machinery, wholesaling and distribution, processing, marketing, trade and retailing

- engulfed the Indian Agricultural Scene. Agribusiness is a complex system of input sector, production sector, processing manufacturing sector and transport and marketing sector. Therefore, it is directly related to industry, commerce and trade. Industry is concerned with the production of commodities and materials while commerce and trade are concerned with their distribution. Chandrashekar further suggests the significance of research on Agribusiness in the age of liberalisation and globalisation [23].

Nupur Pavan Bang has highlighted in 2012 that there is increased need for funding for agribusiness sector. Four reasons are sighted by him: First, demand for agri. commodities is increasing and will continue to increase as the world at large becomes more conscious about food for all. Secondly, the need to innovate in this sector becomes more important as less and less land is available for agriculture with each passing day. Thirdly, an agribusiness does not mean farming alone. It includes investment across the value chain starting right from the agri. inputs, agri. output, agri. produce distribution and agri. services including finance in several sub-sectors within the agribusiness such as agriculture, horticulture, dairy, fisheries, poultry and meat etc. So, within the gamut of agribusinesses, there is a lot of scope. Fourth, entry of large business houses in this sector offers more organisation and structure to the sector and scope for collaborations and consolidations [24].

### 1.9 Food Processing Industries: Prospects in India

The potential for the growth of food processing industries in India is tremendous and, therefore, it can emerge as a world leader in this sector. The country has a vast sea frontier and sea resources, a favourable climate for production of a large number of fruits and vegetables and cereals and it has the largest livestock population for meat production., India ranks second to Brazil in the production of fruits and next only to China in vegetable production. These advantages can be exploited to produce a variety of processed food items in large quantities. Agricultural products such as coffee, tea, sugar, oil seeds, tobacco, spices, etc. constitute the main items of Indian exports. Agricultural exports together with manufactured agricultural exports such as textiles, processed foods, etc. account for more than two-third of Indian exports [25].

The Indian food processing industry comprises the basic food industry processing food grains, pulses, oil seeds and sugarcane, etc., and a wide range of products, such as those based on fruits and vegetables, extruded foods, confectionery, bakery products, dairy products, aerated water, etc. Taken as a whole, the food industry is the largest determinant of Gross National Product (GNP). Over the years, the profile of the food processing sector has undergone a change. A number of new products such as ready to eat snack food breakfast cereals, other extruded snack and texturized vegetable protein foods have been introduced. However, the growth of the food processing industries has not been in tune with the potential. The reason for this is basically lack of attention to this sector by the policy makers in the past. The advantages of development of the food processing industries are many and, therefore, the hurdles to their development need to be examined and removed [26].

### 1.10 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 is taken up 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.

#### 1.10.1 Hypotheses:

In the light of the foregoing, the present study raises the following hypotheses:

H1 - There is significant relationship between bank finance and growth in agribusiness;

H2 - The phases of growth of agribusiness units shape the role of banks;

H3 - The duration of bank credit depends on the changing requirements of agribusiness; and

H4 - The utility of bank credit for agribusiness is conditioned by the availability of complementary factors.

**1.10.2 Methodology:**

**1.10.2a Coverage:**

The study is based on both primary and secondary data. The empirical part of the study comprises of conducting survey of Agribusiness entities and branches of the lead bank (Syndicate Bank) in Dakshina Kannada district of Karnataka State. 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 agribusiness 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 is 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.

**1.10.2b Data Analysis:**

For data analysis, the statistical package SPSS is being used. The latest version of this package is available with the Research Cell of the Institute. The services of the experts in the use of SPSS is availed by the Investigators. The data is tabulated to generate details relating to the surveyed area. The cross section analysis is made for the banker's response and entity's approach.

**1.11 The Possible Policy Importance**

The study would have a very useful policy implication for banks in designing the products to tap the opportunity of the emerging agribusiness. It would also help in assessing the existing system by comparing the present system with the research findings. The study would also help the agribusiness enterprises in accessing finance easily at affordable cost and time. It would also highlight the policy initiatives necessary for complementing the bank finance for the progress of the agribusiness sector in the years to come.

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CHAPTER-II

# Profile of Dakshina Kannada as the Study Region

In this chapter, the profile of Dakshina Kannada district is presented which would serve as a background for the analysis of the role played by banks in facilitating the growth of the small industrial sector of which agribusiness is an important part. This chapter is based on the secondary data and information available in government publications, Ph.D theses and books published that contain relevant data and information.

## 2.1 Profile of Dakshina Kannada

Historians, sociologists, geologists, and economists of Dakshina Kannada district have made extensive studies of the district. Dakshina Kannada, is known by different names such as "Tulunadu" (Tulu country), or 'Tuluva' (land of people speaking Tulu language), Tulu being the language of a majority of the people. The Portuguese and other Europeans called the entire land as 'Canara' as they found Kannada to be the language of the local rulers. The district of Dakshina Kannada is situated on the West coast of India about halfway between Mumbai and Kanyakumari. Dakshina Kannada is one of the three coastal districts of Karnataka, the other two being Uttara Kannada and Udupi. It lies between $12^{0}57$ and $13^{0}50$ north latitude and $74^{0}$ and $75^{0}50$ east longitude. Dakshina Kannada consists of five taluks viz., Mangalore, Bantwal, Puttur, Sullia, and Belthangady. It is about 177 kms. in length and 40 kms. in breadth at its narrowest and about 80 kms. at its widest part. It has a population of 18,97,730 with a density of 389 per sq. km. Mangalore, is the district headquarters of Dakshina Kannada district. The district is bounded by Udupi district in the north, Shimoga, Chikmaglur, Hassan district in the east, Kasargod taluk of Kerala and Coorg in the south and Arabian Sea in the west. The land utilisation pattern of Dakshina Kannada district is shown in Table 2.1.

The veracity of the official data on land utilisation pattern has been questioned by G. V. Joshi and Suprabha [1]. According to the data in 2.1, 48 per cent of the total geographical area in Dakshina Kannada consists of forests. However, the entire coastal region in Karnataka has witnessed deforestation on a massive scale. Therefore, what the official data reveals is not the actual reality. Many paddy lands have remained uncultivated for years together. Therefore, it is not possible to accept the data on net sown area. Obviously, the data on gross cropped area is also not reliable. Since the area under paddy has drastically declined over the years, the rice mills in many parts of Dakshina Kannada are now almost non-operational. More on this soon.

TABLE 2.1

**Land Utilisation Pattern in Dakshina Kannada (2010-11)**

| Taluks | Bantwal | Belthangady | Mangalore | Puttur | Sullya |
|---|---|---|---|---|---|
| Geographical Area (hectares) | 71758 | 137510 | 85153 | 99697 | 83031 |
| Forest | 7.06 | 36.24 | 3.41 | 27.47 | 52.13 |
| Non Agricultural | 14.66 | 33.13 | 30.78 | 8.77 | 3.83 |
| Barren | 17.83 | 8.60 | 15.60 | 34.60 | 5.31 |
| Cultivable Waste | 13.58 | 7.00 | 13.50 | 4.22 | 4.48 |
| Permanent pastures | 2.89 | 6.24 | 2.75 | 6.92 | 7.81 |
| Trees and Groves | 4.03 | 12.33 | 12.00 | 12.69 | 3.21 |
| Current Fallow | 0.71 | 1.11 | 5.23 | 1.65 | 0.01 |
| Other Fallow | 0.64 | 0.65 | 4.97 | 1.81 | 0.02 |
| Net Sown Area | 38.59 | 53.12 | 29.79 | 30.10 | 30.73 |

| Taluks | Bantwal | Belthangady | Mangalore | Puttur | Sullya |
|---|---|---|---|---|---|
| Sown More than Once | 9.60 | 10.65 | 12.14 | 3.92 | 0.47 |
| Gross Cropped Area | 48.33 | 63.77 | 41.93 | 34.02 | 31.19 |

*Note: Geographical area in hectares and the remaining figures as % of total geographical area*

*Source: Dakshina Kannada District at a Glance, 2010-11*

Cropping pattern in different taluks of Dakshina Kannada is revealed in Table 2.2

**TABLE 2.2**

**Cropping Pattern in Dakshina Kannada: 2010-2011**

| Taluks | Bantwal | Belthangady | Mangalore | Puttur | Sullia | Total |
|---|---|---|---|---|---|---|
| Gross Cropped Area | 34679 | 45761 | 30090 | 24413 | 22383 | 157326 |
| Paddy | 46.0 | 32.6 | 62.0 | 20.8 | 3.5 | 35.20 |
| Total Pulses | 1.3 | 1.6 | 6.1 | 0.9 | 0.7 | 2.15 |
| Arecanut | 15.6 | 15.7 | 4.8 | 22.5 | 36.3 | 17.57 |
| Cashewnut | 19.0 | 20.4 | 11.7 | 27.0 | 21.9 | 19.68 |
| Coconut | 9.0 | 11.1 | 11.0 | 10.0 | 9.6 | 10.23 |
| Banana | 1.9 | 2.0 | 1.1 | 3.7 | 1.6 | 1.99 |
| Coca | 0.7 | 0.5 | 0.0 | 1.1 | 0.7 | 0.59 |
| Rubber | 0.7 | 8.5 | 0.6 | 3.6 | 23.1 | 6.61 |
| Others | 5.7 | 7.6 | 2.7 | 10.4 | 2.5 | 5.98 |

*Note: Gross Cropped area is in hectares. The remaining figures are in % of gross cropped area*

*Source: Dakshina Kannada District at a Glance 2010-2011*

Dakshina Kannada district is one of the main districts in Karnataka which has witnessed commercialisation in agriculture. Till 1980-81, the paddy was accounting for bulk of the gross cropped area. In the later years, there occurred a substantial decline in area under paddy invariable accompanied by an increase in the area of plantation and other high value crops. In 2010-11, paddy accounted for just 35 per cent of the total cropped area. In 1980-81, it accounted for more than 55 per cent [2]. The other crops namely coconut, arecanut, cashewnut and pepper have acquired importance in the overall cropping pattern. These changes in the cropping pattern have a clear connection with the development in the agribusiness sector. This was revealed in the field studies undertaken by us.

**TABLE 2.3**

**Operational Holdings in Dakshina Kannada District: 2005-06**

| Size Class | Number | Per cent | Area | Per cent |
|---|---|---|---|---|
| Marginal (below Ha) | 155528 | 72.91 | 57482 | 28.75 |
| Small (1-2 Ha) | 37523 | 17.59 | 52036 | 26.94 |
| Semi Midum (2-4 Ha) | 14587 | 6.84 | 39343 | 20.37 |
| Medium (4-10 Ha) | 4988 | 2.34 | 28118 | 14.55 |
| Large (more than 10 Ha) | 678 | 0.32 | 16206 | 8.39 |
| **Total** | **213304** | **100** | **193185** | **100** |

*Source: Dakshina Kannada District at a Glance 2010-2011*

The numerical preponderance of marginal and small holdings has been a striking feature of agriculture in the district. These holdings, as indicated by data in Table 2.3, constituted as much as 90 per cent of the total number of operational holdings in 2005-06. In the paddy sector, the number of subsistence and family

consumption oriented farmers is very large. In fact large holdings are just exceptional in the district.

Dakshina Kannada continues to be the second densely populated district in the State after Bangalore Urban district. Density of population means the number of people living per square kilometre area. According to the provisional census report of 2011 released by the State Directorate of Census Operations, Dakshina Kannada has maintained the second rank in density of population in the State in 2011 and 2001 census. Bangalore Rural district stands third.

The report said that density of population was one of the important indices of population concentration. Density of population in Dakshina Kannada increased from 416 persons per sq. km. in 2001 to 457 persons per sq. km. in 2011. The data in Table 2.4 indicates that changes in demographic profiles in Dakshina Kannada between 2001 and 2011.

**TABLE 2.4**

**Dakshina Kannada: Demography in a Nutshell**

| Details | Year | |
|---|---|---|
| | 2001 | 2011 |
| Population | 18,97,730 | 20,83,625 |
| Male | 9,38,434 | 10,32,577 |
| Female | 9,59,296 | 10,51,048 |
| Sex Ratio (Female per 1000 male) | 1,022 | 1,018 |
| Density (persons per sq. km.) | 416 | 457 |
| Literacy rate Male (in %) | 89.70 | 93.31 |
| Literacy rate Female (in %) | 77.21 | 84.04 |
| Literacy rate overall (in %) | 83.35 | 88.62 |
| Ranking by population size | 7 | 8 |
| Ranking by sex ratio | 2 | 3 |
| Ranking by density | 2 | 2 |
| Population in the age group 0-6 years | | |
| Male | | 1,04,169 |
| Female | | 98,501 |
| Total | | 2,02,670 |
| Sex ratio (girls per 1000 boys) | 952 | 946 |

*Source: Provisional 2011 population statistics released by Directorate of Census Operations - Karnataka*

According to the Census of India, 2011 (Provisional), Dakshina Kannada district ranks first in Karnataka with a literacy rate of 88.62% (with 93.31% literacy among men and 84.04% literacy among women). In 2001, 83.35% of the people in the district were literate (with 89.70% among men and 77.22% among women). Increase in literacy rate has implications for various production activities in the district particularly for agriculture. As Mohit M. Rao reported in The Hindu, June 26, 2012, "the once sprawling paddy fields in Dakshina Kannada are now gradually turning into areca plantations. And even in the few paddy fields remaining, the sight of agricultural workers standing in a line plucking paddy is a thing of the past. The field is either left unattended and uncultivated or attended by alone couple struggling in the farm" [3]. He further stated that although many factors have reduced the commercial viability of agriculture, particularly paddy cultivation, what is certain is the shortage of agricultural labour - a result of increasing literacy rates and migration in the district. The agribusiness sector here also bears the impact of increased labour cost with the result that the rise in the demand for bank credit can also be attributed to it.

**TABLE 2.5**

**Literacy in Dakshina Kannada: Decadal Growth since 1901 (in %)**

| Decade | Per cent |
|---|---|
| 1901-11 | 6.04 |
| 1911-21 | 5.83 |
| 1921-31 | 9.20 |
| 1931-41 | 11.71 |
| 1941-51 | 13.34 |
| 1951-61 | 21.18 |
| 1961-71 | 27.17 |
| 1971-81 | 22.72 |
| 1981-91 | 15.98 |
| 1991-01 | 14.59 |
| 2001-11 | 9.80 |

*Source: Provisional 2011 population statistics released by Directorate of Census Operations - Karnataka*

The different types of Industries found in Dakshina Kannada district are shown in Table 2.6. These industries included glass and ceramics, leather based industries, mechanical engineering industries and so on. The Dakshina Kannada district has 13 big industries (MRPL, MCF, BASF, Ultratech Cements etc) and 9

medium scale industries. However, it is the small scale industries that provide employment to a large number of people (Table 2.6), that look to the banks for credit and that provide forward and backward linkages.

It is worthwhile to go into some historical information to identify the varying scopes of lending to industries by banks. The year 1799 was very significant in the history of Coastal Karnataka, because on 22 June 1799 the British could overthrow Tippu's power and acquire the big Canara district which then consisted of Dakshina Kannada, Udupi and Uttara Kannada and also large part of Kasaragod district. Thus began the era of colonial rule in Coastal Karnataka. The acquisition of Canara gave British a large tract of Coastal territory between Madras and Bombay. The rest of the region called Coastal Karnataka had become an area of development, development struggles and formidable protests. From the point of view of trade, the acquisition of South Kanara gave the British an important advantage, which they had been covering for a long time. The significance of the popular slogan of the classical economists that "Trade is an engine of growth" was felt by the British in 1799. But for obvious reason trade became an engine of growth for England and not for Coastal Karnataka.

**TABLE 2.6**

**Number of Small Scale Units registered in District Industrial Center till the end of March 2010**

| Taluks | | Bantwal | Belthangady | Mangalore | Puttur | Sullya |
|---|---|---|---|---|---|---|
| Glass and Ceramics | No. | 84 | 64 | 173 | 101 | 32 |
| | Workers | 369 | 391 | 1103 | 709 | 237 |
| Job Works and Repairs | No. | 546 | 117 | 982 | 276 | 98 |
| | Workers | 1285 | 329 | 3212 | 814 | 267 |
| Leather | No. | 47 | 12 | 138 | 63 | 14 |
| | Workers | 147 | 36 | 370 | 83 | 34 |
| Mechanical Engineering | No. | 147 | 89 | 777 | 142 | 66 |
| | Workers | 691 | 356 | 5927 | 648 | 293 |
| Paper and printing | No. | 78 | 50 | 363 | 60 | 28 |
| | Workers | 371 | 181 | 2707 | 314 | 89 |
| Rubber and Plastics | No. | 54 | 43 | 405 | 107 | 41 |
| | Workers | 248 | 192 | 3232 | 472 | 147 |
| Textiles | No. | 225 | 78 | 1094 | 153 | 146 |
| | Workers | 706 | 283 | 4188 | 578 | 389 |
| Wood | No. | 629 | 271 | 883 | 676 | 392 |
| | Workers | 2348 | 744 | 4960 | 1599 | 880 |
| Others | No. | 309 | 107 | 1635 | 385 | 152 |
| | Workers | 1163 | 426 | 17002 | 1702 | 369 |
| Total | No. | 2933 | 1507 | 9079 | 3027 | 1463 |
| | Workers | 12684 | 5467 | 89916 | 13129 | 3844 |

*Source: Dakshina Kannada District at a Glance 2010-2011*

The first collector of Canara Sit Thomas Munro known for his foresight, statesmanship and stewardness addressed two letters to the Madras Board of Revenue in 1800. In one of his letters, he exhibited the typical colonial outlook by stating that Canara would never be a manufacturing country. Here one can do no better than quote Munro:

"Canara will probably never be a manufacturing country, because it produces none of the raw materials necessary to render it such and because of the heavy rains which

last so great a part of the year, are insurmountable obstacle to all operations which require to be carried on under a clear sky and the open air"[4].

Munro was extraordinarily reluctant to visualize the possibility of industrial development in Canara district. But he readily acknowledged the problems in this regard. However, he didn't forget to add the same factors preventing the growth of industry would facilitate the progress of agriculture in this region. J. Stuttock, in the first volume of the Madras District Manuals for South Kanara published in 1894 strongly defended the colonial policy of suppressing industrialization in Canara [5]. By 1970-71, there were two contrasting pictures in Coastal Karnataka. The undivided Dakshina Kannada district had a fairly diversified industrial structure. The Planning Department, Government of Karnataka, analyzed the development that took place between 1960-61 to 1970-71 in all districts on the basis of certain indicators like agriculture, industry and infrastructural development. According to the classification made by the department, Dakshina Kannada was an industrially developed district like Mysore though it is not highly agriculturally developed like Dharwad. By now this district exposed the hollowness of Munro's prediction. Even today the contrasting scenarios within Coastal Karnataka with promising investment opportunities, development possibilities and uncertain employment prospects for the locals exist. It is necessary to add here that the D.K district remained all along a land of strong banks, vibrant banking and dynamic bankers. The efforts put in by these dynamic bankers acted as 'big push' for its development.

The report of the Lead Bank Survey (1973) took a slightly different stand that industrially Dakshina Kannada had no much to exhibit. But it struck a clearly optimistic note by stating that D.K. district was on the threshold of a major industrial change. A more realistic view was expressed by the survey, when it stated that there could be rapid development of the small scale and ancillary units [6].

An empirical study covering two decades of development in Karnataka ranked the different districts of the state on the basis of the General Index of Development. In this period, Dakshina Kannada was one of the highly developed districts next only to Bangalore urban District. The different indicators included in the General Index of Development in the study were industry, power, transport irrigation, education, health and banking [7].

A study with reference to 1979-80 by Gladys Sumitra placed D.K. district along with Bangalore district, in the highly developed category. It also said that the taking into account the manufacturing sector as a whole, Bangalore district accounted for about 33 per cent or 1/3$^{rd}$ of the state's income from this sector in 1970-71 with a share of 10.8 per cent. Dakshina Kannada maintained same second place in 1979-80 also with share of 9.1 per cent. Sreekantaradhya's observations were also instrumental in revealing that D.K. district was on a comparatively fast track of industrialization when compared to many other districts in Karnataka [8]. Both historical and fairly recent information relevant to the present study also indicate that bank finance is of vital significance for the development of the small scale sector.

The agro based industries accounted for well over 47 per cent of employment generation in the small scale sector as a whole in 1988. The Action Plan (1988-89-1993-94) prepared by the district industry center listed fifty resource based industries in undivided Dakshina Kannada out of which 20 were agro based industries. Therefore, banks in Dakshina Kannada have to formulate their lending operations keeping the interests of agribusiness sector for generating income and employment.

Table 2.7 indicates the various dimensions of banking sector in Dakshina Kannada district as on March 31$^{st}$, 2010.

**TABLE 2.7**

**Banking Details of Dakshina Kannada**

| Taluks | Commercial Banks | Grameena Banks | Others | Total Deposits (Rs. In Lakhs) | Total Credit | Credit Deposit ratio |
|---|---|---|---|---|---|---|
| **Bantwal** | 36 | 3 | 6 | 70907 | 38090 | 0.54 |
| **Belthangady** | 26 | 3 | 5 | 49908 | 43736 | 0.88 |

| Taluks | Commercial Banks | Grameena Banks | Others | Total Deposits (Rs. In Lakhs) | Total Credit | Credit Deposit ratio |
|---|---|---|---|---|---|---|
| **Mangalore** | 237 | 5 | 16 | 1206568 | 615564 | 0.51 |
| **Puttur** | 33 | 2 | 7 | 70764 | 64491 | 0.91 |
| **Sullya** | 22 | 3 | 5 | 40128 | 33319 | 0.82 |

*Source: Lead District Bank, Dakshina Kannada*

Both in Mangalore and Bantwal Taluks the credit deposit ratio is less than 0.55 while in Belthangady and Puttur taluks this ratio is better. This is partly an indication to the scope for increasing the volume of credit to different sectors including agribusiness.

### 2.2 Integrated Agribusiness Development Policy in Karnataka

Here the Integrated Agribusiness Development Policy of the Government of Karnataka declared in 2011 deserves a careful attention. The Government of Karnataka considers high growth of agriculture and allied sectors as a means to accelerate the state's GDP growth, enable farmers to earn higher income and ensure food security. Karnataka has rich biodiversity and ten agro-climatic zones suited for majority of the agricultural & horticultural crops and a long coastline that encourages fisheries. The state contributes around 7% of the agricultural production and 15% of the horticultural production in the country. It contributes around 10% of the fruit & vegetable production in India. Its climate endowment suits cultivation of cash crops like coffee, coconut, mango, spices, commercial flowers, aromatic plants, cotton, sugarcane, oilseeds, grapes, pomegranate, sapota, etc.

### 2.3 Constraints for Exports

To address the issues of exports, agriculture sector would require substantial changes in terms of technology, markets, institutions and policy. New and appropriate technology will directly help in improving productivity both at cultivation & post harvest stages and result in better value addition. Competitive and efficient marketing arrangements would lead to higher value realization. Appropriate institutional arrangements would enable improving productivity, better value realization as well as better value addition possibilities.

There is a need for change both in the content and approach of research which can be taken up in partnership with private sector on aspects like development of improved crop varieties/hybrids suited to diverse agro-ecologies and micro conditions, production of hybrids, sustainable crop production and protection technologies, conservation and sustainable use of genetic resources of plants, insects and other invertebrates, agriculturally important microorganisms, gene prospection, greenhouse production of flowers and vegetables, research in veterinary science, animal science, dairy science, fisheries science, development and improvement of technologies for value addition, shelf life enhancement and quality assurance of livestock and poultry products, cutting edge technologies for various food processing, value addition and exports. However, all these would require creating enabling environment for private sector as well as collective participation of particularly farmers and local entrepreneurs.

### 2.4 Need for Investments and Bank Finance

This necessitates substantial increase in the investments aimed at streamlining agricultural value chain, bringing state of the art technology, encouraging best practices in every aspect of agribusiness which will help in reducing total transaction costs and improve realization for farmers.

Harnessing the opportunity presented by global trends and local advantages require an enabling framework to accelerate growth. The 'Integrated Agribusiness Development Policy 2011' has been formulated to address key concerns affecting the agricultural growth and allied sectors namely improving productivity, minimizing post harvest losses, enhancing post harvest processing and value addition, enhancing value realization through better marketing channels, sustainable practices in production, processing, branding, marketing, etc. The policy lays stress on animal husbandry and dairy in terms of generating income and rural employment, increasing the availability of animal protein in the food basket and for generating exportable surplus to target markets. The vast fishery resources of Karnataka state offers potential for development of the sector in a sustainable manner. One

of the main objectives is to enhance fish production in the state by utilizing offshore resources and increase the fisherman's standard of living.

Thus, the policy enables a holistic and sustainable growth of the sectors - Agriculture, Horticulture, Agroforestry, Dairying and Animal Husbandry, Fisheries, Sericulture, Apiculture & Food processing sectors including the related and allied industries. To harness the expertise of private sector, the policy facilitates a structured and pragmatic approach for development of agri-infrastructure through PPPs which will lead to greater industrial opportunities in agribusiness. The policy envisages technology/know-how driven growth in agriculture and allied sector based on skill development, knowledge dissemination, bringing information technology into farming and enhanced quality of service through innovative models.

The state government has come up with the 'Integrated Agribusiness Development Policy, 2011' at the right time to increase capabilities and income of farmers and rural communities thus playing a significant role towards nutrition security for the country besides positioning its produce in the global arena. The policy aims to benefit marginal land owners, farmers, SHGs, fishermen, rural workforce, other producers and improve the competitiveness of SMEs leading to better unit value realization, besides facilitating large investments and opening avenues for export markets.

**Major Contents of 'Integrated Agribusiness Development Policy, 2011'**

**2.5 Scope and Coverage for Bank Finance**

The agricultural and allied sectors referred to in this policy document shall include inter alia both infrastructure and industrial segments pertaining to Agriculture, Horticulture, Agro forestry, Animal Husbandry, Fisheries, Sericulture, Apiculture and Food processing sectors.

Agri infrastructure shall include, but not limited to, both new establishment/modernization of existing facilities, post harvest infrastructure, collection centers, mobile processing units, cold chain, controlled atmospheric storage, modified atmospheric storage, modern product storage hubs and silos, grading & packing halls, mobile processing units, pack houses, refrigerated transport, warehouses, common service centres, primary processing centers, common processing hubs, common value addition centres, agri-clinics, product certification centres, perishable air cargo complex, modern terminal markets, agri-education hub, centre of excellence for research and development, Agriculture-Horticulture-Animal Husbandry -Fisheries - Food Processing corridor, Agribusiness Investment Regions, Agribusiness Investment Areas, Food Parks, Agri-SEZs, Agri-Jetty/port, fish landing centres, fisheries harbor, abattoirs, Integrated agri-logistics hubs with allied infrastructure, common infrastructure facilities for industry cluster and environment control system, retail outlets for perishable & non-perishable products and other such infrastructure, both new establishment/ modernization of existing facilities, pertaining to the agribusiness sector.

Agro based Industry shall include, but not limited to, a unit which adds value to agricultural products/ intermediates/residues, both food and non-food, by processing into products which are marketable or usable or edible, or by improving storability, or by providing the link from farm to the market or a part thereof. Agro based industry also includes dry land farming, precision farming, growing under controlled conditions, extensive IT and GIS application in agriculture &farming solutions, hi-tech cultivation, agri-input sectors, agriculture engineering sector, agri - service sector and other such industrial/processing/manufacturing/service units pertaining to the agribusiness sector.

**2.6 Development of Agri-infrastructure**

*a.* Ensure reduction in post harvest losses, create common infrastructure that are affordable to industrial units, reduce the cost of production through economies of scale.

*b.* Create world class supply-chain infrastructure for providing impetus to the development of agriculture and allied sectors through development of post-harvest infrastructure, agro-corridor, agri-SEZs, agri- parks, common processing centers, auction houses and rural infrastructure development.

*c.* Cater to domestic and overseas market by creating a network of new fishing harbor and fish landing facilities of required hygiene standards with adequate backward and forward linkages including augmentation of existing infrastructure.

*d.* Developing infrastructure for handling, preserving, processing and marketing of agro produce

*e.* Improvement and modernization of abattoirs and carcass utilization for fallen animals.

*f.* Upgrade, modernize and augment existing industrial infrastructure, environment infrastructure and specialized infrastructure.

**2.7 Development of Agro Based Industry Including Food Processing Units**

*a.* Sustainable, profitable and competitive enterprise through engineering interventions of farm mechanization, value addition & energy management in production & post harvest operations.

*b.* Adoption of precision machinery and strategies for carrying out timely and efficient agricultural operations in irrigated, rain-fed and hilly areas for agriculture, horticulture, livestock and fisheries production.

*c.* Popularization of new technologies/tools/ techniques for commercialization/adoption.

**2.8 Research, Skill Development and Employment Generation**

*a.* Promoting excellence in basic, strategic and anticipatory research in crop science, horticulture, veterinary science, animal science, dairy science, fisheries, natural resource management, agriculture engineering, food processing, biochemistry and nutrition, fermentation technology and bioengineering, flour milling, baking and confectionery technology, food engineering, food microbiology, food packaging technology, food protectants and infestation control, food safety and analytical quality control.

*b.* Develop a mechanism to re-allocate agriculture workforce involved in primary production into agri-service sector through entrepreneurship mode.

*c.* Human Resource Development in emerging areas of agriculture, horticulture, agro forestry, animal husbandry and dairy technology, fisheries, harvest & post harvest, processing, agriculture engineering, natural resource management, food processing and agribusiness management.

*d.* Enhance the skill sets of youth, farmers and women in modern cultivation practices and hygiene product handling practices thereby increase per capita income.

*e.* Increasing work efficiency and reduction of occupational hazards in agricultural operations.

*f.* Generate large scale employment opportunities through collaborative modes.

*g.* Develop educational and research institutes and training centres, skill development centres, testing centres and other such institutions for capacity building and research capabilities for sustained agricultural growth.

*h.* Consolidating research efforts for specific problems.

*i.* Familiarization and exposure towards newer scientific concepts and research & development from hitherto unknown, unexplored and traditional status of farming and post harvest management to the modern lines.

*j.* Arrange regular technology exchange programs, know-how and training programs to target groups like farmer societies, SHGs, women development groups, state agriculture officers, collaborations with renowned universities.

*k.* Encourage skill building programs and specific training programs as a part of CSR activities.

**2.9 Boosting Agro-Exports of the State**

*a.* Create brand image for unique agro food products of Karnataka and develop 'key products' to gain market dominance.

*b.* Create new markets and new product lines and develop alternate marketing channels.

*c.* Encourage high realization and value added exports meeting EU, HACCP, FDA and other international standards.

*d.* Special emphasis shall be laid down to make small-scale agro based units in the state to remain competitive in global markets.

**2.10 Focus development of Key Products**

To position Karnataka State Agricultural Sector produce in a leading position in domestic and international markets, strategic plan shall be drawn for promoting selective products having competitive advantage and uniqueness. Measures shall be taken to address bottlenecks and issues in the entire cycle right from seed production, crop improvement, productivity and protection, pre-harvest, post-harvest, handling, storage, processing to packaging. Constraints and strategies for exports shall be addressed to position these products to get a premium price in international markets. This

shall also include creating specific value addition parks at appropriate locations.

The following studies conducted in Dakshina Kannada District need to be looked in to:

**2.10.1** A study on Credit Planning and Industrial Development in Dakshina Kannada District was completed by Radhakrishna Bhat in 1996. The growth and diversification of the small scale sector in D.K. District over the years was brought out by him. He included agro based industries in his study. Interestingly he found that the availability of bank finance generated demand for it. His study further found the banking institutions in D.K. District under the leadership of Syndicate Bank played an important role in allocating credit to meet the requirements of agribusiness units also [9]. The following specific findings are to be noted:

*a.* An overwhelming majority of entrepreneurs running agribusiness also dependent on borrowed funds for diversifying their activities;

*b.* The timely availability of bank finance was more important than cost of finance;

*c.* Credit supplied by banking institutions was more important than the credit supplied the other institutions like the KSFC;

*d.* The success of bank credit was due to the timely supply of wherewithal's of production.

**2.10.2** An extensive study of agro processing industries in Dakshina Kannada district during early 1990s was completed by Giriappa [10]. His study included oil mills, fruit processing, cashew nut processing, creamery, bakeries, coffee works, honey processing, and sugar cane juice extracting units. It assumes importance now also because it threw light on major problems faced by these agro processing units.

**2.10.2a General Conditions**

The agro processing industries in D.K. account for over 20 per cent of the number of units in 1992-93. In employment generation the share of the agro industries is more than 25 per cent. Several agro industries were being encouraged by Khadi and Village Industries Board and Commission. Handloom spinning and weaving, honey manufacturing, oil ghanis, handmade soap, several artisanries, coir making, food processing, fruit and vegetable processing, sugarcane crushing and gur making and many other cottage industries came under the purview of KVIC. Gobargas installation which was animal husbandry based was also encouraged by KVIC. Under different artisanries, basket and mat making, pottery, medicinal preparations, arecanut leaf cup making etc, are covered.

Besides these the major agro industries in the district included rice mills (including beaten rice), sugarcane crushing, flour mills, oil mills, cashew processing units and rubber processing. There is a sugar factory in Udupi talk under the cooperative sector. The Central Arecanut and Cocoa Processing and Marketing Society runs a chocolate factory in Puttur taluk. There are many food processing and cashew nut processing factories in different taluks. Flour mills process not only cereals but also spices and condiments like chilly powder, masala powder and others. In Mangalore taluk, there are 4 major oil mills employing over 150 workers. The cashew nut processing units (7 units) employed about 900 workers in 1991. There were 6 major rice and flour mills with an employment generating capacity of 180, in addition to equal number of part time workers. There were also a few rubber factories. In other taluks, the number of rice, oil and flour mills are few but cashewnut processing units were existing in good number in Karkal, Sullia and Puttur. Bantwal, Belthangady, Karkal, Puttur and Sullia had an area of over 3000 ha of cashew plantations and these were traditional areas for cashew nut processing. The number of oil and rice mills are smaller but household industries like bidi rolling, food processing were thriving. Mainly women labour is utilised in these household industries. Though sugarcane crushing is common in the district. Gur making was concentrated mostly in coastal areas.

The area under fruits in the district was over 11,000 ha and vegetables over 18,000 ha giving a combined proportion of over 8 per cent of total cropped area. The major fruits were mango and pineapple accounting for about 70 per cent of total fruit area in the district. The approximate fruit and vegetable production is about 1.25 lakh tonnes per annum and over 30 per cent of it is being wasted.

With an area of 30,000 ha and yield rate of 500 kg/ha in cashew nut, the approximate quantity of cashew apple harvested was around 45,000 tonnes which was thoroughly wasted. From fruit waste and leaves (like pineapple) composite fibre (supplementing cotton) could be manufactured. From paddy straw, husk and wood waste, paper and boards can be manufactured. Like this there are many avenues through which effective utilisation of main and byproducts could be

accomplished. Giriappa in the course of his investigations in Dakshina Kannada found that due to lack of awareness, technology adaptability and local factors not even one tenth of the by-products in agro based industries were processed effectively. Also labour time in gathering, assembling and re-cycling was costing exorbitantly. In addition, due to lack of storage and transportation facilities, the problem of labour shortage assumed severity. It was observed by Giriappa that in processing of vegetables, canning and freezing increased the cost tremendously. Hence the problem was one of high unit cost coupled with non-availability of appropriate processing, marketing and distribution facilities.

**2.10.2b Problems Faced by the Units**

Major problems faced by units were finance, labour, marketing, infrastructure, waste utilisation, power, raw materials and tax. Escalation in raw material cost, wages and salaries and others like electricity charges and trade expenses necessitated an increase in the cost of production in all the units. Of course, the output prices also increased over the years but not upto the level of input price increase. Therefore, many units were in need of bank finance for their sheer survival.

Labour shortage was also a major problem faced by the rice mills. In all the six unit shortage of skilled labourers affected the production possibilities. Labour shortage was in the form of inadequate and timely availability of skilled workers required in various stages of hulling, milling, grading and packing.

In some mills, inadequate availability of raw material curtailed the rate of capacity utilisation. Power failure and low voltage problems was experienced by most of the units. Higher rate of sales and purchase taxes also affected marketing. Fluctuations in price of rice and unsteady market affected the profitability of the concerns. Competition amongst the mills and the differential wage rates in attracting labour affected their performance

In the case of oil and flour mills, own financing was found only in two of the cases and in other 4 cases loans from Karnataka State Financial Corporation, commercial and cooperative banks had been obtained. Scarcity of quality raw materials, increasing electricity charges, undependable power situation, high sales tax, labour shortage and unsteady marketing were the major problems.

All the units reported raw material, marketing and labour problems. Waste disposal was also facing a problem in the sense that it required increased space with lower economic returns. These problems were noticed in the case of fruit processing units also. Labour management, accounting and general administration added up to the above.

In respect of finance the major source is own funds in the rice mills. In one case the loan of Rs. 0.2 lakh was been borrowed from a commercial bank in 1970 the entire loan was been repaid by the rice mill. The proportion of bank finance to total investment was about 15 per cent, the rest managed by own resources. In respect of another rice mill, the entire investment has been managed by own resources but in this case working capital posed a problem along with power shortage and marketing.

The cashew nut processing units report shortage of working capital and problems in quality raw material and labour procurement. Market fluctuations and transportations problems in addition to power failure and increasing labour cost, impoverished the prospects of the units. High rate of interest fluctuation and output price and lack of finance in modernising the plants increased the cost of manufacturing and reduced the chances for effecting efficient competition both internally and externally.

The other units obtain credit from commercial banks and the state Khadi and Village Industries Board. There were also competition, fluctuating prices and power supply, inadequate quality raw materials, problems of waste utilisation and absence of effective management constrained the units from fully realising the potentialities. In specific sectors like honey processing, occurrence of diseases affected not only the quantity but also the quality of honey production. It was found that in most of units availability of quality raw materials, absence of sophisticated processing, skilled labour, scarcity power and other problems came in the way of innovation, development and diversification.

From the above analysis of Giriappa, it was abundantly clear that almost all problems which agro processing units faced in Dakshina Kannada could be solved with greater credit support of the banks. Though this was not realized by banks in early 1990s, subsequently the major commercial banks rooted in the soil of the district changed their outlook and provided credit though not to the extent to which it was required.

**2.10.3** G. V. Joshi made a study on agro based industries, their problems and their prospects in 1997. Revised version of the study was published in 2002. Credit facilities to agro based industries in D.K. District were separately explained in the study. Study by Joshi showed that the problems faced by the agro based industries in D.K. District reflected the problems faced by the agriculture sector in general [11]. In spite of availability of institutional credit, many agro based industries were not able to progress due to a variety of reasons. What is needed is modernisation of the agro based industries to make them competitive.

**2.10.4** The Coastal Agenda Task Force (CATF), submitted a report in 2002 in which the opportunities to be generated in different sectors including agribusiness were presented [12]. For instance black pepper is one of the chief exports of Dakshina Kannada. Basic infrastructural facilities for all categories of small scale industries are to be created especially in the Special Economic Zone.

**2.10.5** One of the sub-committees of CATF submitted a report Agriculture and Allied Sectors. It made a number of recommendations including a separate board for regional planning. The problems of paddy sector, floriculture, honey production and many agro industries were discussed in the report.

**2.10.6** The Kanara Chambers of Commerce and Industry, Mangalore submitted a report on exports from Coastal Karnataka after organising a seminar on June 16th, 2006. In this report the requirements of agribusiness sector were briefly stated.

**2.10.7** The Kanara Chambers of Commerce and Industry, Mangalore has submitted Memoranda to Government of Karnataka from time to time highlighting the requirements of agribusiness sector also.

The findings of the earlier studies are to be compared with the findings of the present study. Such comparison would help to bring to light the role of bank finance in strengthening the agro business sector in the study region.

The problems and prospects of agribusiness sector in Dakshina Kannada are to be discussed against the back drop of the Integrated Agribusiness Development Policy, 2011 of the Government of Karnataka.

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CHAPTER-III

# Financing Agribusiness : Experiences of Commercial Banks

In this chapter, data for financing agribusiness by scheduled commercial banks at national, state, district and even branch levels is analyzed in the light of the objectives of the study. This analysis is expected to bring to light the progress of these banks in meeting the credit needs of both direct and indirect nature. Besides finance, other contributory factors for the development of agribusiness are included for indicating the relative significance of bank finance.

It is found that the main factor that contributing to the growth of agribusiness are increased use of inputs and technological change accompanied by technical efficiency. Both input use and technical efficiency are the direct as well as indirect consequence of bank finance. With size of the business being feeble among the small agro entrepreneurs in the beginning, agricultural credit turns out to be an essential for up gradation of technology which can raise productivity. The agricultural credit system of India consists of informal and formal sources as revealed by the available literature having a fairly long history. The informal sources obviously include friends, relatives, commission agents, traders, private moneylenders, etc. Three major channels for disbursement of formal credit consist of commercial banks, cooperatives and micro-finance institutions (MFI) covering the length and breadth of the country.

The Government has taken many policy initiatives for strengthening agriculture credit delivery system for providing credit at affordable rates of interest to support the resource requirements of the same sector. The emphasis of these initiatives all along has been on providing timely and adequate credit to farmers with particular focus on small and marginal farmers and agribusiness sector to enable them to adopt modern technology and improved agro processing practices for increasing production and productivity. The policy essentially lays emphasis on augmenting credit flow at the ground level through credit planning, adoption of region specific strategies and rationalization of lending policies and procedures from time to time and bringing down the cost of credit.

On the basis of the recommendations of the Internal Working Group set up in the Reserve Bank of India to examine, review and recommend changes, if any, in the existing policy on priority sector lending and the comments/suggestions received thereon from banks, financial institutions, public and the Indian Banks' Association (IBA), it has been decided to segregate agricultural loan to two divisions; namely direct and indirect finance.

### 3.1 Direct Agricultural Finance and Indirect Agricultural Finance

Direct Finance includes short-term loans for raising crops, e.g. crop loans. This further includes(a) traditional/ non-traditional plantations and horticulture. Advances up to Rs. 10 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months, irrespective of whether the farmers are given crop loans for raising the produce or not. (b) Working capital and term loans for financing production and investment requirements for agriculture and allied activities. (c) Loans to small and marginal farmers for purchase of land for agricultural purposes. (d) Loans to distressed farmers indebted to non-institutional lenders, against appropriate collateral or group security. (e) Loans granted for pre-harvest and post-harvest activities such as spraying, weeding, harvesting, grading, sorting, processing and transporting undertaken by rural and semi urban households or groups/cooperatives of rural and semi-urban households.

Indirect agricultural finance includes (a) Loans to entities covered above in excess of Rs. 20 lakh in aggregate per borrower for agriculture and allied activities. In such cases, the entire amount outstanding shall be treated as indirect finance for agriculture. (b) Loans to food and agro-based processing units with investments in plant and machinery upto Rs. 10 crore, undertaken by other than rural and semi-urban households. (c) Loans to Non-Banking Financial Companies (NBFCs) for on lending to individual farmers. (d) Credit for purchase and distribution of fertilizers, pesticides, seeds, etc. (e) Loans up to Rs. 40 lakh granted for purchase and

distribution of inputs for the allied activities such as cattle feed, poultry feed, etc. (f) Finance for hire-purchase schemes for distribution of agricultural machinery and implements. (g) Loans to cooperative societies of farmers for disposing of the produce of members. (h) Loans for construction and running of storage facilities (warehouse, market yards, go downs, and silos), including cold storage units designed to store agriculture produce/products, irrespective of their location. If the storage unit is registered as SSI unit, the loans granted to such units may be classified under advances to SSI, provided the investment in plant and machinery is within the stipulated ceiling. (i) Advances to Customs Service Units managed by individuals, institutions or organizations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., and undertake work for farmers on contract basis. (j) Finance extended to dealers in drip irrigation/sprinkler irrigation system/agricultural machinery, irrespective of their location.

### 3.2 Macro Level Picture

The progress made by banks in lending to agriculture sector since agribusiness became the booming sector post liberalization, an empirical assessment of the progress made in this direction is made in this chapter based on the data published by the Reserve Bank of India in its periodical publications. The credit limit set by RBI during credit planning to various sectors and the targets achieved by the scheduled commercial banks are studied. The number of accounts and amount outstanding of direct and indirect agriculture credit accounts handled by all scheduled commercial banks for a period of 10 years are analyzed. This is being compared with the total bank credit given by the scheduled commercial banks.

From the table 3.1, it can be found that agriculture credit accounts constituted as much as 38.63 per cent of total bank credit accounts next only to personal loan accounts in the year 2011, while contribution of amount outstanding of agricultural credit constituted just 11.31 per cent. So far as industry was concerned, the share of total bank credit was as much as 39.55 per cent in 2011 itself. The average amount of credit granted per agriculture credit account was Rs. 98,848, whereas the average amount on direct agriculture credit account was Rs. 85,246. The picture was substantially different in respect of indirect agricultural credit because it was a big sum of Rs.3,61,317 per account. Hence it can be inferred that there is enough scope for expanding indirect agriculture credit since per account loan amount is five times higher than that of direct agriculture credit. Post globalization demand for agro based products from India such as pepper, spices, cashew and other products has increased significantly in the global market. In order to meet the increased demand for the products, the domestic agro based industries need to produce on a much larger scale. This is not possible unless there is technological up gradation. The banks have to consider this as an opportunity for developing agribusiness in the globalization era.

**TABLE 3.1**

**Occupation Wise Outstanding Credit of Scheduled Commercial Banks: 2001-2011**

(Amount in Rs. Crore)

| Occupation | 2001 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | No. of Accounts | As a Percentage of total | Amount Outstanding | As a Percentage of total | No. of Accounts | As a Percentage of total | Amount Outstanding | As a Percentage of total |
| Agriculture | 19,843,289.00 | 37.89 | 51,730.35 | 9.61 | 46,639,101 | 38.63 | 4,610,218.80 | 11.31 |
| 1. Direct finance | 19,564,089.00 | 37.36 | 43,420.26 | 8.06 | 44,341,119 | 36.73 | 3,779,917.70 | 9.27 |
| 2. Indirect finance | 279,200.00 | 0.53 | 8,310.08 | 1.54 | 2,297,982 | 1.90 | 830,301.00 | 2.04 |
| Industry | 4,712,767.00 | 9.00 | 236,430.41 | 43.91 | 2,338,947 | 1.94 | 16,120,468.00 | 39.55 |
| Transport operators | 643,494.00 | 1.23 | 8,700.62 | 1.62 | 984,023 | 0.82 | 1,103,715.30 | 2.71 |
| Professional and other services | 1,731,300.00 | 3.31 | 19,232.45 | 3.57 | 2,196,816 | 1.82 | 3,680,871.00 | 9.03 |
| Personal loans | 16,272,488.00 | 31.08 | 65,940.11 | 12.25 | 52,419,111 | 43.42 | 6,701,345.90 | 16.44 |
| Trade | 5,388,515.00 | 10.29 | 89,534.08 | 16.63 | 6,966,363 | 5.77 | 3,332,584.70 | 8.18 |

| Occupation | 2001 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | No. of Accounts | As a Percentage of total | Amount Outstanding | As a Percentage of total | No. of Accounts | As a Percentage of total | Amount Outstanding | As a Percentage of total |
| Finance | 36,668.00 | 0.07 | 26,455.63 | 4.91 | 952,334 | 0.79 | 3,508,797.80 | 8.61 |
| All others | 3,735,874.00 | 7.13 | 40,410.14 | 7.51 | 8,227,400 | 6.82 | 1,698,468.50 | 4.17 |
| **Total bank credit** | **52,364,395.00** | **100** | **538,433.79** | **100** | **120,724,095** | **100.00** | **40,756,470.00** | **100.00** |

*Source: Basic Statistical Returns of Scheduled Commercial Banks in India, (Various issues), Reserve Bank of India, Mumbai.*

It is important to study the performance of scheduled commercial banks in terms of lending loan to agriculture sector with special reference to indirect agriculture credit over the years. There is data in table 3.2 regarding the direct agriculture credit and indirect agriculture credit in terms of number of accounts and amount outstanding for ten years starting from 2001 to 2011. This is compared with the total amount of outstanding credit of these banks. This will help the study to understand the performance of indirect agricultural finance over a decade.

We can clearly identify the two distinct stages of growth in indirect agriculture credit. From 2001 to 2008 the increase in indirect loans to agriculture was modest. It increased from 2.79 lakh accounts in 2001 to 6.88 lakh accounts in 2008. In the second stage starting from 2009 there was a noticeable growth as number of accounts increased from 6.88 lakh in 2008 to 22.97 lakh account in 2011. However, the increase in the number of loan accounts was not matched by increased in loan amount outstanding as such. It goes without saying that the increase in the number of credit accounts is one of the prominent indicators of the progress registered by banks in reaching out to the agribusiness sector.

The number of total agriculture credit accounts increased from 1.98 crore in 2001 to 4.66 crore in 2011 adding nearly 2.68 crore of new accounts during the ten year period as indicated in table 3.2. The total amount outstanding increased from Rs. 51,730 crore in 2001 to Rs. 4 trillion in 2011. The share of agriculture credit accounts in total credit accounts remained constant throughout this period at around 37 per cent, although the share of outstanding amount of agriculture credit to total credit amount saw a marginal increase from 9 per cent in 2001 to 11 per cent in 2011. The contribution of indirect agriculture credit in total agriculture credit in terms of amount outstanding slightly increased from 16 per cent to 18 per cent during the period under consideration. One important feature to be noted is number of agriculture credit accounts contribute significantly to total credit accounts of the scheduled commercial banks whereas contribution in terms of amount outstanding still remains at 11.67 per cent only.

**TABLE 3.2**

**Increase in Direct and Indirect Agriculture Finance: 2001-2011**

(Amount Rs. in Crores)

| Year | Direct Agriculture Finance | | Indirect Agriculture Finance | | Total Agriculture Finance | | Total Bank Credit | |
|---|---|---|---|---|---|---|---|---|
| | No. of Accounts | Amount Out-standing | No. of Accounts | Amount Out-standing | No. of Accounts | Amount Out-standing | No. of Accounts | Amount Out-standing |
| **2001** | 19,564,089 | 43,420 | 279,200 | 8,310 | 19,843,289 | 51,730 | 52,364,395 | 538,434 |
| **2002** | 19,740,112 | 47,430 | 611,072 | 16,578 | 20,351,184 | 64,009 | 56,388,379 | 655,993 |
| **2003** | 20,195,464 | 59,058 | 644,970 | 16,878 | 20,840,434 | 75,935 | 59,491,187 | 755,969 |
| **2004** | 20,719,954 | 70,099 | 584,214 | 26,146 | 21,304,168 | 96,245 | 66,390,290 | 880,312 |
| **2005** | 26,010,380 | 94,635 | 645,928 | 29,750 | 26,656,308 | 124,385 | 77,150,794 | 1,152,468 |

| Year | Direct Agriculture Finance | | Indirect Agriculture Finance | | Total Agriculture Finance | | Total Bank Credit | |
|---|---|---|---|---|---|---|---|---|
| | No. of Accounts | Amount Out-standing | No. of Accounts | Amount Out-standing | No. of Accounts | Amount Out-standing | No. of Accounts | Amount Out-standing |
| **2006** | 28,418,193 | 124,563 | 649,920 | 48,121 | 29,068,113 | 172,684 | 85,435,381 | 1,513,842 |
| **2007** | 32,482,876 | 171,497 | 733,691 | 58,694 | 33,216,567 | 230,191 | 94,442,027 | 1,947,100 |
| **2008** | 37,516,330 | 212,567 | 688,848 | 61,574 | 38,205,178 | 274,141 | 106,990,180 | 2,417,007 |
| **2009** | 39,256,293 | 238,703 | 724,201 | 70,767 | 39,980,494 | 309,469 | 110,056,177 | 2,847,713 |
| **2010** | 41,001,637 | 296,850 | 1,768,192 | 93,449 | 42,769,829 | 390,298 | 118,647,882 | 3,345,169 |
| **2011** | 44,341,119 | 377,992 | 2,297,982 | 83,030 | 46,639,101 | 461,022 | 120,724,095 | 4,075,647 |

*Source: Basic Statistical Returns of Scheduled Commercial Banks in India, (Various issues), Reserve Bank of India, Mumbai.*

The average amount of agriculture loan granted per account was Rs. 26,069 in 2001 and it increased to Rs. 98,848 in the year 2011. Coming to indirect agriculture finance per account loan amount was Rs. 2,97,638 in the year 2001 which marginally increased to Rs. 3,61,317 in the year 2011. This increase in the indirect agriculture credit is much low compared to the growth in the total credit of the commercial banks, which grew from Rs. 1,02,824 in 2001 to Rs. 3,37,300 in the year 2011. At the risk of repetition we state that there is vast scope for commercial banks to extend credit support to agribusiness sector in particular in the globalization era where agriculture is also being treated as a source of export earnings.

### 3.3 Financing Agribusiness: Performance of Banks in Karnataka

Karnataka has a very long history of the origin of banks, promoted by local businessmen. Thingalaya wrote in 2006 that as many as 72 banks were born in the state, of which seven survived passing through periods of bank failures, bank mergers-both voluntary and involuntary. Table 3.3 depicts the trend of agriculture credit

**TABLE 3.3**

**Increase in Direct and Indirect Agriculture Finance in Karnataka State: 2001-2011**

(Amount in Rs. Crore)

| Year | Direct Agriculture Finance | | Indirect Agriculture Finance | | Total Agriculture Finance | | Total Bank Credit | |
|---|---|---|---|---|---|---|---|---|
| | No. of Accounts | Amount Out-standing | No. of Accounts | Amount Out-standing | No. of Accounts | Amount Out-standing | No. of Accounts | Amount Out-standing |
| **2001** | 1,685,725 | 4,663 | 22,038 | 592 | 1,707,763 | 5,255 | 4,433,894 | 33,856 |
| **2002** | 1,638,339 | 5,180 | 33,231 | 1,515 | 1,671,570 | 6,695 | 5,592,441 | 43,363 |
| **2003** | 1,639,794 | 6,174 | 37,109 | 1,595 | 1,676,903 | 7,769 | 5,802,619 | 53,540 |
| **2004** | 1,692,910 | 7,345 | 32,104 | 2,393 | 1,725,014 | 9,738 | 5,974,627 | 64,624 |
| **2005** | 1,952,039 | 9,333 | 35,362 | 3,212 | 1,987,401 | 12,544 | 7,241,434 | 86,649 |
| **2006** | 1,905,064 | 11,350 | 34,941 | 4,251 | 1,940,005 | 15,601 | 7,710,985 | 124,508 |
| **2007** | 2,244,370 | 16,431 | 37,314 | 4,084 | 2,281,684 | 20,515 | 8,170,055 | 170,834 |
| **2008** | 2,550,908 | 20,072 | 65,033 | 4,423 | 2,615,941 | 24,495 | 8,048,358 | 197,630 |
| **2009** | 2,494,264 | 21,795 | 57,103 | 4,941 | 2,551,367 | 26,736 | 8,506,647 | 212,325 |
| **2010** | 2,749,990 | 26,313 | 100,523 | 4,665 | 2,850,513 | 30,978 | 87,64,497 | 233,046 |

*Source: Basic Statistical Returns of Scheduled Commercial Banks in India, (Various issues), Reserve Bank of India, Mumbai.*

Commercial banks in Karnataka State performed better in terms of contribution of amount outstanding of agricultural credit of the tune of Rs. 30,978 crore, the total bank credit being Rs. 2.33 trillion in the year 2010. This constituted 13.29 per cent of the total credit amount; during the same period the contribution of agriculture credit in total credit was 11.31 per cent at all India level. On the contrary to the share of agriculture loan accounts constituted just 32 per cent to the total credit accounts of the state. To put it differently in the Karnataka State the performance of commercial banks in supplying credit to agribusiness was slightly better than that in the country as a whole. The average amount of agriculture loan granted per account was Rs. 27,659 in 2001 and it increased to Rs. 95,683 in the year 2011. Coming to indirect agriculture finance per account loan amount was Rs. 2,68,599 in the year 2001 which increased to Rs. 4,64,085 in the year 2011.

### 3.4 Financing Agribusiness by Banks in Dakshina Kannada District

For the farmers in Dakshina Kannada, one of the easiest means of obtaining bank loan was by pledging the family's gold. In the rural branches, gold advances were as high as 30 per cent in many cases.

**TABLE 3.4**

**Increase in Direct and Indirect Agriculture Finance in Dakshina Kannada: 2001-11**

(Amount in Rs. Crore)

| Year | Direct Agriculture Finance | | Indirect Agriculture Finance | | Total Agriculture Finance | | Total Bank Credit | |
|---|---|---|---|---|---|---|---|---|
| | No. of Accounts | Amount Out-standing | No. of Accounts | Amount Out-standing | No. of Accounts | Amount Out-standing | No. of Accounts | Amount Out-standing |
| **2001** | 34633 | 134 | 211 | 24 | 34844 | 158 | 173701 | 1914 |
| **2002** | 37573 | 141 | 300 | 22 | 37873 | 164 | 170723 | 2630 |
| **2003** | 37923 | 160 | 337 | 15 | 38260 | 175 | 181801 | 3254 |
| **2004** | 45769 | 225 | 669 | 53 | 46438 | 278 | 208275 | 2475 |
| **2005** | 50217 | 266 | 1201 | 81 | 51418 | 347 | 221818 | 3214 |
| **2006** | 52677 | 352 | 1422 | 82 | 54099 | 433 | 251390 | 4050 |
| **2007** | 59782 | 484 | 1700 | 137 | 61482 | 621 | 289819 | 4727 |
| **2008** | 66742 | 588 | 1522 | 237 | 68264 | 825 | 304236 | 5790 |
| **2009** | 57942 | 666 | 1977 | 321 | 59919 | 988 | 283421 | 7094 |
| **2010** | 64077 | 812 | 4838 | 355 | 68915 | 1167 | 292661 | 7702 |

*Source: Basic Statistical Returns of Scheduled Commercial Banks in India, (Various issues), Reserve Bank of India, Mumbai.*

Dakshina Kannada district had just 211 indirect credit accounts with an amount outstanding of Rs. 24 crore in 2001. This increased to 4,838 accounts with the amount outstanding of Rs. 355 crore in 2010. It is disheartening to note that the share of agriculture credit accounts was meagre 19 per cent to the total credit account in 2010 and amount outstanding of agriculture credit account constituted not even 7 per cent of total credit amount outstanding in the district.

Obviously, the performance of banks in supplying credit to agribusiness sector in Dakshina Kannada was disappointing by any standard. Both the national and state levels the picture in regard was better. We can go to the extent of saying that the macro level picture was better than the micro level picture i.e. picture at the level of Dakshina Kannada District. Though the natural factors in this district were favorable to agriculture and the district was blessed with a network of banking facilities, the agribusiness sector here has not received the attention of banks which it deserved.

However it can be noted from table 3.4 that though the overall situation was far from satisfactory, there was improvement after 2006. There was sharp rise in the amount of indirect agricultural credit outstanding and the number of credit accounts. Indirect credit account almost increased 2.5 times from 2009 to 2010 in the time span of just one year.

On the basis of data in table 3.4 it can be argued that in very recent years the agribusiness units in Dakshina Kannada have been able to avail bank credit for their expansion. There seems to be a favourable change in the credit operations of commercial banks here for the agribusiness sector.

### 3.5 Performance of the Leading Public Sector Banks in Dakshina Kannada

#### 3.5.1 Corporation Bank

Corporation Bank came into being as Canara Banking Corporation (Udupi) Limited, on 12th March, 1906, in the temple town of Udupi, by the pioneering efforts of a group of visionaries. The Bank started functioning with just Rs.5000/- as its capital and at the end of the first day, the resources stood at 38 Rupees-13 Annas-2 Paisa.

The Bank took on the priorities of nationalization in full stride and emerged successful in fulfilling the national objectives, while sustaining its performance oriented culture and profit augmenting record. Amidst all this, the Bank crossed Rs.1000 crore-deposit mark in the year 1985 and launched into the 1990s with focus on high quality growth by embracing newer technology.

As on 31st March, 2012, the total business of the Bank was Rs. 2,36,611crore. The total deposit stood at Rs. 1,36,142 crore and the total advances were at Rs. 1,00,469 crore. The networth rose to Rs. 8,276 crore.

The Corporation Bank evinced great interest in providing credit support to agribusiness sector in Dakshina Kannada particularly in recent years. Our discussion with knowledgeable persons in the Bank revealed that financing agribusiness units namely cashew processing units, rice mills, flour mills, rubber processing units, arecanut processing units and food processing units proved profitable. The special drive made by the Bank in Sullia, Puttur, Bantwal and Belthangady taluks proved fruitful. The solid outcome of this drive made itself manifest in almost spurt in the volume of indirect finance to agriculture. This is evident in the data presented in table 3.5.

**TABLE 3.5**

**Direct and Indirect Agriculture Credit of Corporation Bank in Dakshina Kannada**

(Amount in Rs. Crore)

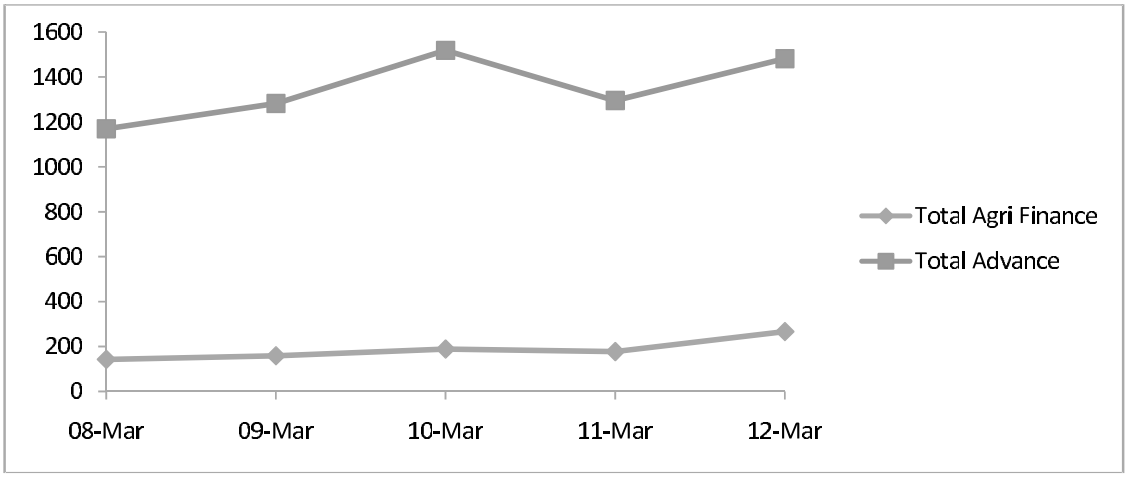
| Particulars | Mar-08 | Mar-09 | Mar-10 | Mar-11 | Mar-12 |
|---|---|---|---|---|---|
| Direct Agri Finance | 45.31 | 50.72 | 60.24 | 36.17 | 40.88 |
| Indirect Agri Finance | 97.02 | 107.73 | 128.13 | 140.95 | 225.39 |
| Total Agri Finance | 142.33 | 158.45 | 188.37 | 177.11 | 266.27 |
| Total Advance | 1169.16 | 1281.47 | 1518.34 | 1295.00 | 1481.63 |

*Source: Corporation Bank Regional Office - Mangalore Region*

In 2008 direct finance to agriculture was just Rs. 45.31 crore, whereas indirect finance exceeded Rs. 97 crore. The former constituted 31.83 per cent of total agricultural loans, while latter constituted more than 68.16 per cent. In March, 2012 there was a change in the composition of loans in favour of agribusiness sector itself. The indirect agricultural finance was as much as 84.64 per cent of the total agricultural finance which the Corporation Bank disbursed.

**CHART 3.1**

**Direct and Indirect Agriculture Credit of Corporation Bank in Dakshina Kannada**




*Note: Based on Table 3.5*

Available data indicates that in the 2010 the Corporation Bank alone accounted for as much as 53 per cent of the total indirect agricultural credit supplied by all scheduled commercial banks in the district. Thus the Corporation Bank has become a pace setter for banks in general in extending support to the agribusiness sector which has a lot of potential for success.

### 3.5.2 Vijaya Bank

Vijaya Bank, was founded on 23rd October 1931. The objectives of the founders of the Bank were essentially to promote banking habit, thrift and entrepreneurship among the farming community of Dakshina Kannada district in Karnataka State. The bank became a scheduled bank in 1958. Vijaya Bank has the highest number of branches in its home state Karnataka. In line with the prevailing trends, the bank has been giving greater thrust towards technological upgradation of its operations. The bank has network of 1300 branches, 48 extension counters and 750 ATMs, 864 centers, covering 100 per cent of Bank's business as on 31.03.2012. The overall performance of the Vijaya Bank in providing indirect finance to agriculture can be seen from the data presented in Table 3.6

**TABLE 3.6**

**Direct and Indirect Agriculture Credit by Vijaya Bank in Dakshina Kannada**

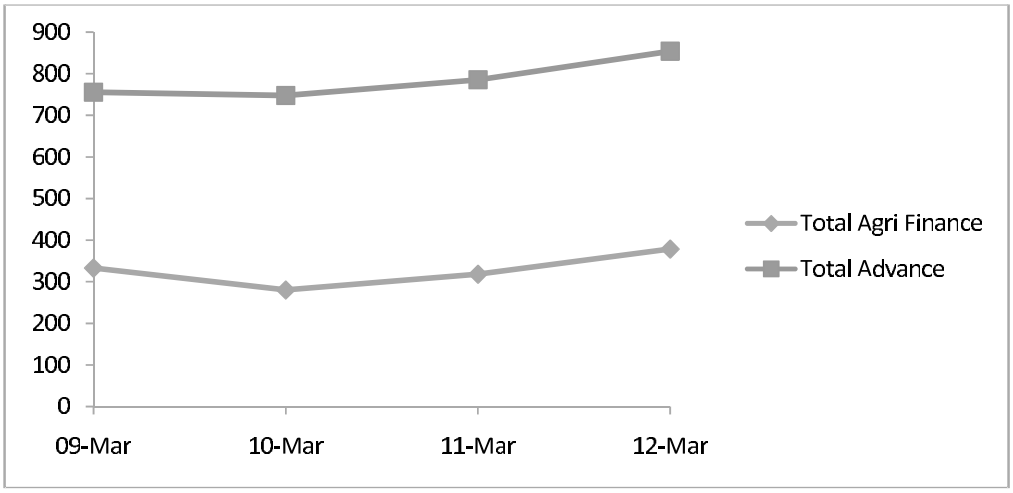
(Amount in Rs. Crore)

| Particulars | Mar-09 | Mar-10 | Mar-11 | Mar-12 |
|---|---|---|---|---|
| Direct Agri. Finance | 278.25 | 278.36 | 257.98 | 371.15 |
| Indirect Agri. Finance | 54.86 | 1.86 | 60.23 | 7.5 |
| Total Agri. Finance | 333.11 | 280.22 | 318.21 | 378.65 |
| Total Advance | 755.4 | 747.75 | 785.41 | 854.07 |

*Source: Vijaya Bank Regional office - Mangalore Region*

**CHART 3.2**

**Direct and Indirect Agriculture Credit by Vijaya Bank in Dakshina Kannada**




*Note: Based on Table 3.6*

Unlike the Corporation Bank the Vijaya Bank has increased its credit support to the agricultural sector as a whole because the total direct agricultural loans increased from Rs. 278.25 crore in 2009 to Rs. 371.15 crore in 2012. There was a steep fall in the volume of indirect agricultural finance during the same period. It fell from Rs. 54.86 crore in 2009 to Rs. 7.5 crore in 2012.

### 3.5.3 Syndicate Bank

Syndicate Bank was established in 1925 in Udupi, the abode of Lord Krishna in coastal Karnataka with a capital of Rs. 8000. The objective was primarily to extend financial assistance to the local weavers who were crippled by a crisis in the handloom industry through mobilising small savings from the community. The bank collected as low as 2 annas daily at the doorsteps of the depositors through its Agents under its Pigmy Deposit Scheme started in 1928. This scheme is the Bank's brand equity today and the Bank collects around Rs. 2 crore per day under the scheme. The progress of Syndicate Bank has been synonymous with the phase of progressive banking in India. Spanning over 86 years of pioneering expertise, the Bank has created for itself a solid customer base comprising customers of two or three generations. Being firmly rooted in rural India and understanding the grass root realities, the Bank's perception had vision of future India. Syndicate bank has been entrusted the responsibility of lead bank of Dakshina Kannada District. It has over 75 branches in Dakshina Kannada region. The data on agricultural loan of Syndicate Bank is presented in Table 3.7

**TABLE 3.7**

**Direct and Indirect Agriculture Credit of Syndicate Bank in Dakshina Kannada**

(Amount in Rs. Crore)

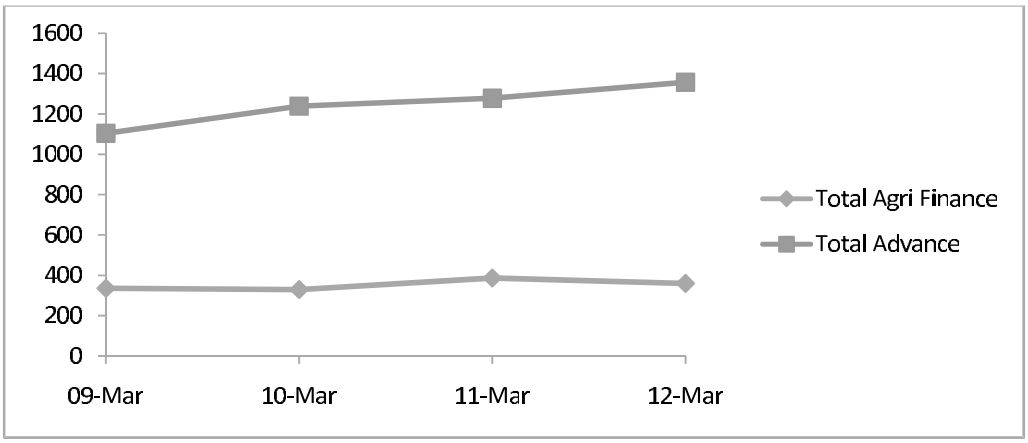
| Particulars | Mar-09 | Mar-10 | Mar-11 | Mar-12 |
|---|---|---|---|---|
| Direct Agri. Finance | 233.92 | 235.53 | 331.05 | 338.21 |
| Indirect Agri. Finance | 101.66 | 93.60 | 55.91 | 21.54 |
| Total Agri. Finance | 335.59 | 329.14 | 386.96 | 359.75 |
| Total Advance | N.A. | 1238.50 | 1277.77 | 1356.94 |

*Source: Syndicate Bank Regional office - Mangalore Region*

Direct agricultural credit of Syndicate Bank has seen a steady increase over the years i.e. from Rs. 233.92 crore in 2009 to Rs. 338.21 crore in 2012. While indirect credit to agriculture saw a steep fall from Rs. 101.66 crore in 2009 to Rs. 21.54 crore in 2012.

**CHART 3.3**

**Direct and Indirect Agriculture Credit of Syndicate Bank in Dakshina Kannada**




*Note: Based on Table 3.7*

The branch wise performance of Syndicate Bank (Annexure) is also not so encouraging. The indirect agricultural loan given by one branch located at Kulshekar near Mangalore was Rs. 15.60 crore out of total indirect agricultural loan of Rs. 21.54 crore. This was followed by branches in Mangalore, Sullia, Uppinangady and Kakkinje. The other branches in the district virtually ignored the agribusiness sector while formulating their credit portfolios.

### 3.5.4 Canara Bank

Widely known for customer centricity, Canara Bank was founded in July 1906 at Mangalore, then a small port town in Karnataka. The Bank has gone through the various phases of its growth trajectory over hundred years of its existence. Growth of Canara Bank was phenomenal, especially after nationalization in the year 1969, attaining the status of a national level player in terms of geographical reach and clientele segments. Eighties was characterized by business diversification for the Bank. In June 2006, the Bank completed a century of operation in the Indian banking industry. The eventful journey of the Bank has been characterized by several memorable milestones. Today, Canara Bank occupies a premier position in the comity of Indian banks.

Over the years, the Bank has been scaling up its market position to emerge as a major 'Financial Conglomerate' with as many as nine subsidiaries/sponsored institutions/joint ventures in India and abroad. As at March 2012, the Bank has further expanded its domestic presence, with 3595 branches spread across all geographical segments. Keeping customer convenience at the forefront, the Bank provides a wide array of alternative delivery channels that include 2858 ATMs, covering 1139 centres.

**TABLE 3.8**

**Direct and Indirect Agriculture Credit of Canara Bank in Dakshina Kannada**

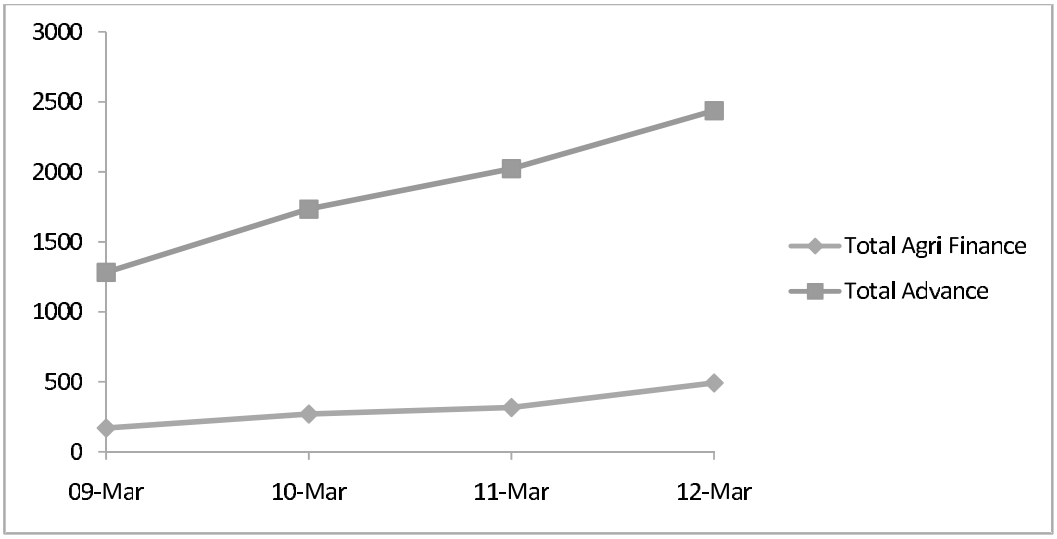
(Amount in Rs. Crore)

| Particulars | Mar-09 | Mar-10 | Mar-11 | Mar-12 |
|---|---|---|---|---|
| Direct Agri. Finance | 158.30 | 190.06 | 209.06 | 192.09 |
| Indirect Agri. Finance | 51.21 | 80.01 | 106.97 | 300.20 |
| Total Agri. Finance | 169.82 | 270.06 | 316.65 | 492.20 |
| **Total Advance** | **1283.00** | **1734.30** | **2023.02** | **2436.69** |

*Source: Canara Bank Circle office - Mangalore Circle*

**CHART 3.4**

**Direct and Indirect Agriculture Credit of Canara Bank in Dakshina Kannada**




*Note: Based on Table 3.7*

The Canara Bank has taken a lot of interest in recent years in providing finance to agribusiness sector as evidenced by the data presented in table 3.8. The volume of indirect agricultural finance increased from Rs. 51.21 crore in March 2009 to Rs. 300.20 crore in Mach, 2012. This was a phenomenal increase as the proportion of indirect agricultural finance to total agricultural finance increased from 30.15 per cent in March 2009 to 61 per cent in March 2012.

### 3.6 Findings of Field Investigations

The primary data was collected by us through structured questionnaires and schedules from 200 agribusiness units. All the branches of the Syndicate Bank were approached by us to gather their views in the field of financing agribusiness units.

The Lead Bank of Dakshina Kannada, as mentioned earlier, is the Syndicate Bank. The Syndicate Bank in this district has 75 branches. Of these branches, 10 branches have not granted any agricultural credit, either direct or indirect, during the last five years according to the information available in the Regional Office, Mangalore. Hence only 65 branches were approached by us for the purpose of the present study.

Syndicate Bank offers a product called SyndMSME which is availed by these agro business units. There is no exclusive product offered for agribusiness unit by Syndicate Bank.

The important problems encountered by the banks in Dakshina Kannada District are listed in table 3.9. The major serious difficulty confronting them relates to the task of recovery loans given to agri enterprises. This difficulty is attributable to the popularly held belief that for political reasons loans given to agriculturists and agri enterprises would be waived by the government. The impact of debt relief schemes has become almost enduring. Hence the branch managers find it extremely delicate and difficult in initiating vigorous recovery procedures. Almost all branch managers have reported that their lending operations are in jeopardy so far as agriculture and the related activities are concerned. Credit recycling is, therefore, stalled. The data in table 3.9 shows that more than 75 per cent of the branch managers had lost hopes of recovering loans from the agri entrepreneurs in view of the political pressures frequently brought on them.

**TABLE 3.9**

**Problems encountered by banks**

| Problems | Number | Per cent |
|---|---|---|
| Inadequate Documentation | 6 | 9.2 |
| Insufficient Collateral | 5 | 7.7 |
| Recovery Problems | 49 | 75.4 |
| Limited Scope for Agribusiness | 5 | 7.7 |
| **Total** | **65** | **100** |

*Source: Field Survey Data*

The other difficulties are inadequate documentation maintained by agri enterprises and lack of proper

collateral securities. The banks have to take a positively helpful attitude in finding solutions to these difficulties. So far as Dakshina Kannada is concerned, financing enterprises related to cashew, rubber and rice can be very profitable and promising. Banks, therefore, have to identify such sectors for financing without magnifying the minor difficulties like documentation and non availability of collateral securities. Hardly 20 per cent of the branches have shown inclination in pursuing aggressive lending to agribusiness units. The measures generally taken by branch managers for reducing defaults of loans by way of credit counselling did not prove effective because the hope maintained by many enterprises for waiver of loans in future was deep rooted.

On the contrary, the top level bankers whom we interviewed admitted that there is profound scope for agribusiness in Dakshina Kannada due to the opportunities available for exporting vegetable based, coconut based and cashew based products. As there is now an International Airport specifically for Saudi Arabian countries, there is high demand for fresh vegetables and vegetable based products. The Lead Bank may take up techno economic surveys for identifying the new opportunities available for financing such of the products which have enormous export potential. Our field survey involving agro entrepreneurs confirmed this because of out of 89 agro entrepreneurs who have not availed bank loans so far for variety of reasons, as much as 67 units (75.2%) reported that they were in need of bank loans for future growth. All such avenues of finance need to be explored through fresh techno economic surveys under the leadership of the Syndicate Bank in Dakshina Kannada.

**Notes and References**

[1] Reserve Bank of India, *Basic Statistical Returns of Scheduled Commercial Banks in India*, Volume 30-40, March, Mumbai.

[2] Reserve Bank of India, *Handbook of Statistics of Indian Economy*, September, 2011, Mumbai.

[3] Reserve Bank of India, *Report on Trend and Progress of Banking in India 2010-2011*, November 2011, Mumbai.

[4] Reserve Bank of India, *Statistical Tables Relating to Banks in India*, March 2011, Mumbai.

CHAPTER-IV

# Bank Credit for Agribusiness Sector in Dakshina Kannada : Expectations and Realities

In the earlier chapter, the macro level and district level issues in financing agribusiness on the basis of secondary data and information have been discussed. The major questions addressed in this chapter are: what are the issues and concerns faced by the agro entrepreneurs in availing bank assistance? What are the experiences of the banks in disbursement of credit to the agribusiness sector at the grass root level? What is the relationship between the scale of operation of agribusiness units and bank credit? What is the future of agribusiness as visualized by agro entrepreneurs in the study area? All these and the other related questions and issues are examined in the light of the analysis of primary data collected through field works in different parts of Dakshina Kannada district.

### 4.1 Design of field work

The primary data are collected from 200 agribusiness units covering all the five taluks of Dakshina Kannada District. All the branches of the Lead bank of Dakshina Kannada: that is Syndicate Bank were also approached for this purpose. The criteria and methodology used for the selection of the sample are already explained in the earlier chapter. With a view to make cross section analysis, the samples of agribusiness units were selected on random basis. The year of establishment, nature of business carried out, product profile were taken into consideration in sample selection for the study. Thus the sample of agribusiess units includes units with different age, size of operations from five taluks of Dakshina Kannada District. Besides the collection of data, detailed interactive discussions were held with the units and four public sector banks of the district. The data is collected through structured questionnaire which is given in the Annexure. The field work for the study was conducted in February-April, 2012. As and when required, cross checking of the data was done by approaching the respondents repeatedly.

### 4.2 Profile of Agribusiness Units Surveyed

The sample selected for the study was random and hence we see the variability in the ownership pattern. Many agribusiness units, tiny unit, were in the informal sector. As most of the agro processing units in Dakshina Kannada have not been got registered with District Industrial Corporation or Kanara Chamber of Commerce, it was not possible to get the statistics of the total number of units in Dakshina Kannada.

However, of the 200 sample units surveyed, 140 units comprising 70% were sole trading concerns, 20 per cent were partnership firms and the remaining 20 units could be broadly categorized as private limited companies. This could be seen from table 4.1. Most of the sole trading units are family owned business enterprises. The average investment of these units is Rs. 19 lakh on plant and machinery.

**TABLE 4.1**

**Ownership Pattern of Agribusiness Units**

| Type of Ownership | Number | Per cent |
|---|---|---|
| Sole Trading | 140 | 70 |
| Partnership | 40 | 20 |
| Private Companies | 20 | 10 |
| **Total** | **200** | **100** |

*Source: Field Survey Data*

The details regarding the age wise classification of sample units are presented in table 4.2

**TABLE: 4.2**

**Age Pattern of Agribusiness Units Surveyed**

| Age of Units | Sole Trading | Per cent | Partnership | Per cent | Pvt. company | Per cent | Total | Per cent |
|---|---|---|---|---|---|---|---|---|
| 1 - 5 | 35.0 | 25.0 | 6.0 | 15.0 | 5.0 | 25.0 | 46.0 | 23 |
| 6 - 10 | 31.0 | 22.1 | 6.0 | 15.0 | 4.0 | 20.0 | 41.0 | 20.5 |
| 11 -15 | 30.0 | 21.4 | 9.0 | 22.5 | 4.0 | 20.0 | 43.0 | 21.5 |
| 15 - 20 | 12.0 | 8.6 | 9.0 | 22.5 | 2.0 | 10.0 | 23.0 | 11.5 |
| >20 | 32.0 | 22.9 | 10.0 | 25.0 | 5.0 | 25.0 | 47.0 | 23.5 |
| **Total** | **140** | **100** | **40** | **100** | **20** | **100** | **200** | **100** |

*Source: Field Survey Data*

From the table it can be observed that, there is not much of variation in the age pattern of different type of units, except that 11 per cent of the units are in the age group of 15 to 20 years. There are more than 20 per cent of partnership firms, private limited company and sole trading concerns aged above twenty. This age pattern was deliberately taken as the basis for study because it was during this period that agribusiness sector emerged as a significant source of export earnings in the national scenario. Although 113 units studied are in the business for more than ten years, units employing less than 10 employees were also 113 as seen in the table 4.3

From the table it can be inferred that 113 units had employed less than 10 employees, while only three units had employed more than 100. A large number of enterprises (32.5%) employed 10 to 100 workers.

**TABLE: 4.3**

**Number of Employees in Agribusiness Units Surveyed**

| Number of employees | Sole Trading | Partnership | Private Company | Total |
|---|---|---|---|---|
| Below 10 | 98 | 14 | 17 | 113 |
| 10- 20 | 18 | 14 | 1 | 30 |
| 20-50 | 15 | 9 | 1 | 25 |
| 50-100 | 7 | 3 | 0 | 10 |
| Above 100 | 2 | 0 | 1 | 3 |
| **Total** | **140** | **40** | **20** | **181** |

*Source: Field Survey Data*

It is important to know the area of operation of the units as it determines the performance of the company in terms of top line and bottom line. The units involved in international trade generally require the banking facility for packing credit and Letter of Credit. The table 4.4 provides necessary information.

**TABLE: 4.4**

**Area of Operation of Units Surveyed**

| Areas of Operation | Sole Trading | Partnership | Private Company | Total |
|---|---|---|---|---|
| Domestic | 120 | 35 | 19 | 174 |
| International | 0 | 0 | 1 | 1 |
| Both | 20 | 5 | 0 | 25 |
| Total | 140 | 40 | 20 | 200 |

*Source: Field Survey Data*

The data analysis form the above table shows that 93 per cent of the sample units are operating in domestic market, 8 units are operating in both the markets and one unit is only operating in domestic market. The cashew processing units mostly rely on imports for raw material and finished cashew products are sold in American and European markets. These are Mahesh Cashews, Dhanalaxmi Cashews, Sarvamangala Cashews, Fox Cashew Industries, Annapoorneshwari Cashews, Kamakshi Export Cashews, Gururaj Cashews and Shree Venkateshwara Processors.

Cashew is one of the major industries in the district. In India this industry started first during 2$^{nd}$ decade of 20$^{th}$ century at Mangalore. Therefore, Mangalore is called as motherland of cashew. Later this industry spread to many parts of the country. During 1972, 80% of the cashew industry was from Kollam and other areas in Kerala, about 12% was concentrated in Dakshina Kannada. Raw Cashew nuts are imported from Africa, Phillipines, Thailand and Indonesia. They are being exported to United States and European countries.

Membership in trade associations will always help the business to go for collective bargaining and can be used as knowledge and information sharing platform. Table 4.5 presents the membership pattern of the units surveyed.

**TABLE: 4.5**

**Membership Details of the Units Surveyed**

| Membership in Trade Association | Number | Per cent |
|---|---|---|
| Kanara Chambers of Commerce | 18 | 20.5 |
| Karnataka Small Scale Industries Association (KASSIA) | 3 | 9 |
| Any other | 41 | 1.5 |
| Not registered | 138 | 69 |
| **Total** | **200** | **100** |

*Source: Field Survey Data*

It can be noted that 69 per cent of the units are not registered with any of the trade associations and 20.5 per cent of the sample units are registered with Kanara Chamber of Commerce. It is surprising to note that more than 60 per cent of the sample units are aged more than 10 years and still they have not registered with any of the trade associations. The main reasons for not registering could be the small size of the business units and the lack of exposure to the modern business practices. Since more than 60 per cent of the owners of the units surveyed did not have higher education, they were not inclined to enter the formal sector by way of registration.

### 4.3 Extent of Bank Finance

One of the main purposes of the study was to investigate the extent of bank credit to the agribusiness sector. Table 4.6 depicts the units availing bank finance among the sample units surveyed.

It can be observed from the above table that 55.5 per cent of the units availed bank finance either for long term or short term requirements. The study intends to find out the main source of funds for long term requirements of the sample units.

**TABLE: 4.6**

**Classification of Units Availing Bank Finance**

| Bank Finance | Number | Per cent |
|---|---|---|
| Availed Bank Finance | 111 | 55.5 |
| Not Availed Bank Finance | 89 | 44.5 |
| **Total** | **200** | **100** |

*Source: Field Survey Data*

**TABLE: 4.7**

**Preferred Sources of Long term Funds**

| Source of Loan | Number of firms | Per cent |
|---|---|---|
| Equity | 44 | 39.5 |
| Bank Loan | 49 | 44.2 |
| Relatives | 19 | 16.3 |
| Venture Capital | 0 | 0 |

*Source: Field Survey Data*

It is a little disappointing to note that none of the units studied had used venture capital as a source of funds. Nearly 39.5 per cent of the units relied on their own funds for long term investment purposes. About 44 per cent of the units depended on banks for long term requirements and balance (16.5%) looked to loans from relatives and friends. It may be recalled here that in chapter III, the performance of commercial banks in financing agro industries in Dakshina Kannada was far from satisfactory as revealed by available secondary data and information. Dakshina Kannada district had just 211 indirect credit accounts with an amount outstanding of Rs. 24 crore in 2001 as presented in table 3.4. This increased to 4,838 accounts with the amount outstanding of Rs. 355 crore in 2010. The share of agriculture credit accounts was just 19 per cent to the total credit account in 2010 and amount outstanding of agriculture credit account constituted not even 7 per cent of total credit amount outstanding in the district.

Data in table 4.8 reveals that 61 per cent of the sample units rely on banks for working capital requirements. On the contrary only 42 per cent of the units availed bank loans for purposes of long term nature. Further about 31.5 per cent of the units used trade credit for this purpose and only 7 per cent of the units were using accruals for short term requirements. The other reason for reliance on bank credit for short term instead of long term were due to easy availability of short term loans such as overdraft, cash credit and packing credit.

**TABLE: 4.8**

**Preferred Sources of Working Capital Requirement**

| Source of Loan | Number of firms | Per cent |
|---|---|---|
| Trade Credit | 35 | 31.53 |
| Accruals | 8 | 7.21 |
| Overdraft\Cash Credit | 68 | 61.26 |
| Total | 111 | 100 |

*Source: Field Survey Data*

**TABLE: 4.9**

**Purpose of Availing Long Term Loans from Banks**

| Purpose | Sole Trading | Partnership | Private Company | Total |
|---|---|---|---|---|
| Establishment | 87 | 21 | 6 | 114 |
| Expansion | 1 | 3 | 0 | 4 |
| Land | 1 | 1 | 0 | 2 |
| Long term investments | 1 | 1 | 0 | 2 |
| Machinery and other assets | 32 | 11 | 14 | 55 |
| Purchase of Raw materials | 1 | 2 | 0 | 3 |
| Vehicles | 1 | 3 | 0 | 4 |
| Working Capital | 5 | 0 | 0 | 5 |
| Total | 140 | 40 | 20 | 200 |

*Source: Field Survey Data*

Long term loans are generally taken for purchase of land, investment in plant and machinery, procurement of assets and adoption of modern technology for expansion. The other comparatively minor purposes included are the purchase of vehicles and furniture. Data in table 4.9 indicates the long term purposes as reported by respondents. Though the respondents were having the tendency to treat raw materials as investment of long term nature, for all practical purposes, these are recurring expenses of short term implications. This is not consistent with the rationale of long term investment. Even banks have not recognised the diversion of funds by the borrowers for meeting the expenses on raw materials instead of using the funds according to the essential purpose of long term investment. Further data collected by us (table 4.9) shows that to meet the need of working capital, there was diversion of funds by five units which were sole trading concerns. This was also not properly noticed by banks in the sample surveyed.

Timely availability of the funds is a crucial factor for units in deciding the source for the funds required. Hence it is important to know the time taken by the bank in processing and sanctioning the loans after application submitted by the concerned agribusiness units. The data presented in table 4.10 throws light on the experiences of the units in getting the loans sanctioned.

**TABLE: 4.10**

**Time Consumed by Banks to Sanction Loan**

| Time Period | Working capital loan | Per cent | Long term funds | Per cent |
|---|---|---|---|---|
| Less than 15 days | 28.00 | 25.23 | 4.00 | 8.00 |
| 15-30 days | 83.00 | 74.77 | 14.00 | 28.00 |
| 1-3 months | 0.00 | 0.00 | 26.00 | 52.00 |
| 3-6 months | 0.00 | 0.00 | 6.00 | 12.00 |
| **Total** | **111.00** | **100.00** | **50.00** | **100.00** |

*Source: Field Survey Data*

Processing of working capital loans as experienced by the sample surveyed units takes 15 to 30 days. About 74.7 per cent of the units experienced the consumption of time for sanctioning of working capital between 15 to 30 days which could be reasonably reduced to 10 days. With respect to time taken to sanction the long term funds, 64 per cent of the sample units had to wait beyond a month which was not justified for any business purpose. There was the instance of getting the loans in about 3 to 6 months after submitting applications. This delay could also be avoided as revealed by our informal discussions with the respondents. Only in four cases the long term loans were sanctioned within 15 days after application. This was much appreciated by the respondents concerned. In this competitive global environment, entrepreneurs cannot afford to wait for long in getting the loans. This is also reflected in Table 4.11.

Delay in sanctioning of loan is a common problem of many entrepreneurs. When asked about the major problems encountered while availing loan, 48 of the 111 agro entrepreneurs (who availed bank finance) stated that the banks take unduly long time in approving loans. However,46% of the respondents had not experienced any problem in the process of sanctioning and availing loans. Our discussions with respondents as well as experienced bankers were instrumental in revealing that the progress of banking in Dakshina Kannada and the interest evinced by bankers with concern for the agro entrepreneurs created a climate in which these entrepreneurs were at ease in securing credit.

**TABLE 4.11**

**Problems Encountered while Availing Bank Finance**

| Problems | Sole Trading | Partnership | Private Limited Company | Total | |
|---|---|---|---|---|---|
| | | | | Number | Per cent |
| No problem | 40 | 9 | 2 | 51 | 45.9 |
| Delay In Sanctioning Loan | 17 | 16 | 5 | 48 | 43.2 |
| Inadequate Service | 5 | 1 | 5 | 11 | 9.9 |
| Lack of Collaterals | 1 | 2 | 1 | 4 | 3.6 |
| High Interest Rate | 2 | 1 | 0 | 3 | 2.7 |
| Others | 2 | 0 | 1 | 3 | 2.7 |
| Distance Factor | 1 | 0 | 0 | 1 | 0.9 |

*Source: Field Survey Data*

Although there were problems as exceptional cases, there were only 8 respondents who changed their banker in the due course. The main reasons for switch over were inadequate service by the bank staff and long duration in processing of loans.

From table 4.12, it is clear that the agro based units are very much in need of forms of assistance for purposes like filing the forms, educating about the products and subsidy schemes, assisting in preparing documents and providing consultancy services. Since banks have to go beyond the conventional lending operations, it is not surprising if more than 24 per cent of respondents expect banks to assist them in preparing documents related to bank loans. Nearly 18 per cent of the respondents expect bankers to provide consultancy services as well.

**TABLE: 4.12**

**Forms of Assistance from Banks**

| Assistance from Banks | Number | Percent |
|---|---|---|
| Filing the Forms | 35 | 25 |
| Educating about the Products | 19 | 13.6 |
| Educating the Subsidy Schemes | 27 | 19.3 |
| Assisting in preparing Documents | 34 | 24.3 |
| Consultancy services by Bankers | 25 | 17.9 |
| Total | 140 | 100 |

*Note: Sum total will not constitute 111 due to multiple responses*

*Source: Field Survey Data*

Performance ranking of banks by agribusiness units included in the survey broadly indicated the evaluation on the basis of ownership pattern of units included.

**TABLE: 4.13**

**Performance Ranking of Banks by Agribusiness Units Surveyed**

| Rank | Sole Trading | Partner-ship | Private Company | Total | |
|---|---|---|---|---|---|
| | | | | Number | Per cent |
| 1 | 0 | 0 | 1 | 1 | 0.9 |
| 5 | 25 | 4 | 5 | 34 | 30.6 |
| 6 | 4 | 1 | 1 | 6 | 5.4 |
| 7 | 9 | 10 | 0 | 19 | 17.1 |
| 8 | 12 | 5 | 0 | 17 | 15.3 |
| 9 | 7 | 7 | 0 | 14 | 12.6 |
| 10 | 12 | 2 | 7 | 20 | 18.0 |
| **Total** | **69** | **29** | **14** | **111** | **100** |

*Source: Field Survey Data*

Data presented in table 4.13 shows that the overall ranking was much more than 30 per cent. There were clear indications of banks putting up good performance in meeting the requirements of agro business units because more than 45 per cent of the respondents were inclined to treat financing by banks with excellence. This clearly helped many units to take up plans of expansion, adopt modern technology and purchase assets including durable assets like vehicles. Of course, there was an exceptional case of a private company expressing utter dissatisfaction with the services provided by a bank approached by it for financial support.

There were 89 units which did not approach banks for loans since their inception. The main reason was that they had enough equity funding through their own sources as their size of business remained small with the result that they did not look to banks for loans. The data presented in the above table shows that 18% of the agribusiness entrepreneurs did not require bank loans for the explicit reason of the small size of operations. As much as 15% of the respondents reported that they did not avail bank loans because the procedure of getting loans was very tedious, cumbersome and inconvenient. 14% of the entrepreneurs were not happy with banks' assistance due to the demand of high collaterals which was a huge burden to the units.

**TABLE: 4. 14**

**Reasons for not Availing Loans**

| Reasons | Frequency | Per cent |
|---|---|---|
| Sufficient equity funding | 65 | 49.3 |
| Lack of Subsidy | 2 | 1.5 |
| Tedious Procedure | 20 | 15.2 |
| Requirement of High Collaterals | 19 | 14.4 |
| Inadequate Size of Business | 24 | 18.2 |
| Others | 2 | 1.5 |
| Total | 132 | 100 |

*Note: The total will not constitute 89 due to multiple responses by the respondents*

*Source: Field Survey Data*

Though agribusiness units did not directly borrow from banks, they had to maintain accounts for routine transaction purposes. Data in this regard is presented in table 4.15. Out of 89 agro business respondents 45 have access to banks for transaction purpose. 35 units have savings bank account and 10 units have other accounts like fixed deposit account and recurring deposit account.

**TABLE 4.15**

**Classification of Bank accounts by Respondents**

| Bank account | Sole Trading | Partner-ship | Private Company |
|---|---|---|---|
| Savings Bank Account | 35 | 6 | 1 |
| Other accounts | 10 | 4 | 0 |
| Total | 45 | 10 | 1 |

*Source: Field Survey Data*

Data in table 4.16 throws light on the general perceptions of the respondents about banking facilities and services on which they depended. It is noticeable that nearly 31.5 per cent of the respondents feel that banks were maintaining amicable relations with their clientele. However, even these banks could not do away with the procedural difficulties. Therefore, nearly 36 per cent of the respondents complained about difficulties associated with the procedure of getting loans and the other procedures which they have to follow at the official levels. Waiting for a fairly long time to avail bank loans was conceived as a difficulty by more than 29 per cent of the units included in our field work.

**TABLE: 4.16**

**Perception about Service of Banks**

| Perception about Banks | Number | Per cent |
|---|---|---|
| Amicable | 28 | 31.46 |
| Procedural Difficulty | 32 | 35.96 |
| Long time to avail Bank Loans | 26 | 29.21 |
| Others | 3 | 3.37 |
| Total | 89 | 100.00 |

*Source: Field Survey Data*

**Hypothesis 1: There is significant relationship between bank finance and growth in agribusiness**

The general understanding is that increase in the turnover of a business unit, *ceteris paribus* is an index of the growth of this unit. The data collected and verified by us to examine the relationship between bank finance and growth in agribusiness is subject to correlation analysis. We found that at 5% level of significance, the value is 0.863. Hence, the hypothesis is proved and accepted. To put it in other words, there is significant relationship between the growth in business and loan

facilities availed from banks. Therefore, we can argue that higher the turnover of business, greater is the significance of the role of bank finance.

**Hypothesis 2: The phases of growth of agribusiness units shape the role of banks**

The cause and effect relationship between bank finance and agribusiness can be different in different stages of growth of the agribusiness itself. In the early phase or stage, the agribusiness units may not depend so much on bank finance for their growth. Since the turnover of business, *ceteris paribus*, is expected to rise with the growth of business unit represented by the next phase, the banks may be called upon to meet the diversified credit needs of the business units. This diversification may be due to the adoption of better and modern technology and access to better marketing opportunities. This study shows that at 5% level of significance, the calculated value is 0.637. In other words, the role of banks is very much shaped by the phases of growth of agribusiness reflected by the age factor.

**H3 - The duration of bank credit depends on the changing requirements of agribusiness**

The credit requirements of an agribusiness unit could be different in different stages of its growth depending upon a variety of factors both internal (endogenous) and external (exogenous) in nature. In overwhelming majority of cases the internal factors determine the duration of borrowings. Though there is no definite determinant of duration, it is possible that some of the units may require short term credit in their early stage of their activity. After getting stabilized, they may prefer long term credit. The other and common possibility is that the units may require both short term and long term credit once they get established. This could be observed from the data presented in table 4.17**.** We found that of the 111 units who availed bank finance, 67 per cent (74 units) availed both short term and long term credit in the year of field survey. 14 units (12.6 per cent) availed only long term finance and 21 per cent (23 units) availed short term funds for their operations.

**TABLE: 4.17**

**Duration of Credit Requirements of Agribusiness Units Availing Bank Credit**

| Type | Short Term | Long Term | Both |
|---|---|---|---|
| Sole Trading | 12 | 5 | 46 |
| Partnership | 7 | 6 | 22 |
| Private company | 4 | 3 | 6 |
| **Total** | **23** | **14** | **74** |

*Source: Field Survey Data*

**H4 - The utility of bank credit for agribusiness is conditioned by the availability of complementary factors.**

The common and oft quoted remark that credit is necessary but not sufficient for growth of any industry holds good in the case of agri-enterprises also. The wherewithals of production are as important as bank credit. In fact in a large number of cases, the utility of bank credit depends on the extent to which the wherewithals like technology, availability of power and transport are available. The important and relevant wherewithals are presented in table 4.18. Virtually these are the constraints for the growth of agribusiness. We found that nearly 36 per cent of the respondents considered limited financial resources as a major limiting factor which fact points to the scope for bank finance in Dakshina Kannada. As much as 29 per cent of the business units surveyed found it necessary to modernise their technology. This again reflects on the need for bank finance. The other constraints like power shortage and transport bottleneck are to be overcome through the official policies and programs.

The major constraints on the growth of agribusiness in the study area were identified by us in the field work. The data presented in Table 4.18 shows that 36 per cent of the units surveyed by us reported that their financial resources were limited. This goes to show the scope that still exists for banks to strengthen the resources position of agribusiness in the district. As much as 29 per cent of the agribusiness units surveyed by us were still using outdated technology these units need to be modernised for raising their productivity. Banks in Dakshina Kannada could reorient their lending policies for helping the agribusiness units to update their technology with a view to enhance their productivity.

Our field study further revealed that16 per cent of the units here were hit by power shortage this is one problem over which banks have no control. The data in Table 4.18 shows that 10.5 per cent of the units in the district were not registered. They were constituents of what is popularly called as the informal sector. An earlier study by Joshi conducted in Mangalore also highlighted the need for exploring the possibility of

financing units in urban informal sector by banks. He surveyed units in Mangalore and approached 10 banks to elicit their views on financing unregistered business units [1]. In Dakshina Kannada district at large the banks could attempt to give loans to unregistered agribusiness units.

**TABLE: 4.18**

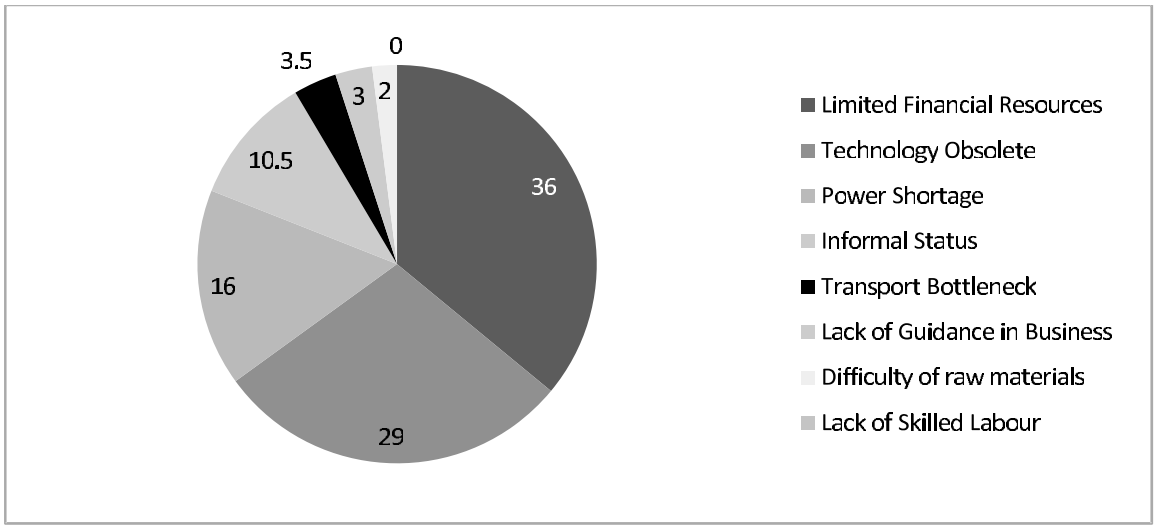
**Constraints for Growth in Business**

| Constraints | Number | Per cent |
|---|---|---|
| Limited Financial Resources | 72 | 36 |
| Technology Obsolete | 58 | 29 |
| Power Shortage | 32 | 16 |
| Informal Status | 21 | 10.5 |
| Transport Bottleneck | 7 | 3.5 |
| Lack of Guidance in Business | 6 | 3 |
| Difficulty of raw materials | 4 | 2 |
| **Total** | **200** | **100** |

*Source: Field Survey Data*

**CHART 4.1**

**Constraints for Growth in Business**




*Note: Based on Table 4.18*

The other problems, though not serious, would be easily solved if the major constraints (Table 4.18) are removed.

### 4.4 Bank Finance for Agribusiness: The Case of Achal Industries

The Achal Industries located in Mangalore provided a good scope for studying the role of bank finance for the growth of an agribusiness unit. The following would reveal that bank finance became the main stay of the success of this unit as much as it facilitated both the vertical and the horizontal expansion.

The history of Achal Industries is a little interesting for the initiative for its origin was taken by Sadananda Prabhu at the age of 56 with his son G. Giridhar Prabhu as co-partner. Both the father and the son have the unique capacity of running this unit with a lot of foresight and commitment ever since its inception in 1981. This agribusiness unit made a beginning in the Bykampady Industrial Area of Mangalore city as a Hindu Undivided Family (HUF) unit. In the year of its beginning it employed only 60 workers now it employs 412, 95 per cent of whom are women.

The Achal Industries was able to grow from year to year. Now it has a unit in Kolhapur in Maharashtra employing about 200. In the year of its beginning the Achal Industries was producing only cashew kernels

which had global market. By 1992 it launched a bold plan of producing salted cashew. Subsequently up to 2002 it kept on diversifying its produces which are now marketed with in India. Such products having domestic market are salted cashew, organic cashew, value added flavoured cashew, kaju halva and kaju khatli. In 2010 dry roasted cashew was introduced which now has global market. Some of the milestones of Achal Industries are as below:

**TABLE 4.19**

**Milestones of Achal Industries**

| Year | Milestones |
|---|---|
| 1991 | ISO 9001 - 2001 |
| 1996 | Organic Certification from SKAL, Netherland |
| 2001 | IMO - Organic Certification |
| 2006 | ISO 22001 (Worlds First Cashew Factory) |
| 2008 | CRISIL Rating |
| 2009 | Demeter Certification |
| 2012 | CRISIL Rating Upgrade to 2B |

The Achal Industries has some significant achievements to its credit which are listed in Annexure 4.2. Discussion with the proprietors of Achal Industries revealed that it is the first unit enjoying national and international recognition for improved colour and flavours. In adopting modern technology the Achal Industries became all most a pace setter for the cashew factories in the entire Karnataka State. It has collaborations with many private institutes and colleges providing training in using modern technology. It was the first unit to secure ISO 22001 certification FSMS system in the world for a cashew factory. The other achievements can be seen in Annexure 4.3 which obviously necessitated financial support.

The financial support to Achal Industries was extended by the Canara Bank. The data presented in Table 4.20 provides a picture on production, turnover, term loans working capital loans take by the unit and very important, the debt equity ratio.

**TABLE 4.20**

**Progress of Achal Industries, Mangalore**

| Year | Production (Kgs) | Turnover | | Bank Finance | | Debt Equity Ratio |
|---|---|---|---|---|---|---|
| | | International Sales | Domestic Sales | Term Loan | Working Capital Loan | |
| June, 1982 | 92,406 | 0 | 45,15,180 | 5,97,000 | 45,35,087 | 1.11 |
| June, 1985 | 3,06,197 | 45,36,941 | 1,41,89,356 | 12,02,779 | 1,10,51,202 | 0.56 |
| March, 1990 | 4,39,129 | 61,32,998 | 3,54,91,118 | 20,20,238 | 26,42,812 | 1.05 |
| March, 1995 | 4,03,920 | 2,51,38,963 | 5,16,59,592 | 15,99,816 | 52,59,254 | 0.44 |
| March, 2000 | 3,48,463 | 3,72,66,795 | 5,55,22,729 | 57,940 | 67,65,408 | 0.00 |
| March, 2005 | 3,05,036 | 2,69,59,833 | 7,35,62,894 | 75,97,646 | 85,34,731 | 0.42 |
| March, 2010 | 3,76,362 | 6,12,26,317 | 10,14,28,873 | Nil | 1,80,60,600 | 0.00 |
| March, 2011 | 4,57,664 | 7,93,95,555 | 14,08,87,652 | 86,067 | 68,23,492 | 0.00 |

*Note: This data is borrowed from Audited Annual Reports of Achal Industries*

In the initial years the Achal Industries took term loans on increasing scale till 1990. Even in those years the working capital loans exceeded term loans. This was mainly due to the reason that the cashew industry at large generally does not invest heavily on capital equipments. But its requirements for working capital for procurement, extending credit period to customers and such other transactionary purposes. It can be noted here that debt equity ratio of the unit was constant close to 01 till 1990 but started falling later due to increase in its accumulated profits. While long term borrowing was declining since 1995, turnover increased from Rs. 45,15,180 to Rs. 22,02,83,207 in 2011 and the unaudited turnover for the year ended March, 2012 has increased to Rs. 228 crores.

There was a marked fall in term loans taken by the Achal industries between 1995 and 2000 because it

acquired the needed capacity to repay the loans taken from the Canara Bank. It is important to note during the same period the turnover of the unit shot up from Rs. 7,67,98,555 to Rs. 9,27,89,524. The Achal Industries was successful in ploughing back its profits. At present with all its progress it is dependent on Canara Bank mainly for working capital requirements and also packing credit as it exports its products to European countries and the U.S.A.. It needs to be emphasized here that the industry has not approached any other bank for finance. The constant support of the bank for all its requirements is evidence to the fact that an agribusiness unit can grow and prosper with bank finance.

A brief mention of the problems faced by the Achal Industries is necessary in this context. From the data presented in Table 4.20 it is clear that its production declined from 4.03 lakh kgs p.a. in 1995 to 3.48 lakh kgs p.a. in 2000. It further decreased to 3.05 lakh kgs p.a. in 2005. However the turnover did not register any decline obviously due to rise in the prices of cashew products. The increased competition from the rival units in Dakshina Kannada was the main reason for fall in production. The other reason was the difficulty in getting the raw material which the industry very much needed. The situation improved in recent years, thanks to the increased opening of trade in the wake of liberalisation.

The success of the Achal Industries was not without difficulty. The entire cashew industry in Karnataka was at loggerheads with the Agricultural Produce Market Committee (APMC) because it considered all producers and manufacturers of cashew as traders. It was big issue because as traders they had to pay one per cent of the total turnover as market fee which was substantial. Our discussion with the proprietors of the Achal Industries was instrumental in revealing that even the Supreme Court could not come to their rescue because of interpretation of the law, which did not favour the cashew industry. By 2000 the problem was solved because by then the Government of Karnataka provided the needed relief. All these facts show that bank finance for agribusiness units is necessary but not sufficient.

**Notes and References**

[1] G. V. Joshi, *Growth of Urban Informal Sector and its Problems: Findings of a Case Study in Mangalore*, Nagarlok, Vol. 27, January-March, 1995.

CHAPTER-V

# Summary, Conclusion and Recommendations

This macro level study based on both secondary and primary data and information was intended to evaluate the role played by commercial banks in satisfying the credit requirements of the agribusiness sector in Dakshina Kannada District. This district experiencing massive economic transformation since nearly thirty years is honeycombed by banking institutions many of which are rooted in its economic history. This is a region of vibrant banking both in private and public sectors where because of changed circumstances; the agribusiness sector may be viewed as a promising one with further diversification and modernization. In 1989 the government of India requested the Danish Government to assist the erstwhile department of ecology and environment in Karnataka to prepare an environmental management plan for Dakshina Kannada. One of the reasons for selecting this district was the increased scope for urban and industrial growth here in the decades to follow. The papers relating to this project proposal titled sustainable use of natural resources and eco systems for agricultural production (1995) also recognized the possibility of further growth of agro based industries, namely cashew processing units and rubber based units. Therefore in the beginning of 1990s, agro based units could be classified into traditional units based on paddy areca nut and coconuts and modern units making use of cashew nut and rubber on a much larger scale. The credit plans being formulated and implemented under the leadership of the Syndicate Bank which is the lead bank had to take note of the changed industrial scenario inclusive of agribusiness sector.

### 5.1 Agribusiness in WTO Era and Its Credit Requirements

In the WTO era the agricultural sector has been experiencing a wind of change as it is also now in the process of modernization. Against the background of the Agreement on Agriculture (AoA), India is expected to emerge as a potentially a great agricultural exporter. The goal of a much higher rate of growth in agriculture is to be realized by looking much beyond domestic market and by exploiting international market opportunities. The tremendous scope for value addition in agriculture being admitted in the WTO regime is a direct indicator of the vital significance of agribusiness sector. The AoA is expected to contribute substantially towards the process of globalization of agricultural production and trade. However if India has to fulfil its commitments under the AoA, it has to bring its domestic policies in conformity with the requirements of WTO. The policy reforms in Indian agriculture cannot prove practically successful unless the banking sector gears up its policies for boosting up production and export potential in this sector. It is in this context that the usefulness of bank finance for agribusiness is to be assessed. More and more such assessments at the micro level with orientation to the requirements of national economy are needed to identify the ground realities to throw light on both the need for and the limitations of bank finance for the agribusiness sector. The present study was therefore an attempt in the direction of bringing to light what the commercial banks can do for strengthening the agribusiness units utilizing local raw materials.

### 5.2 Integrated Agribusiness Development Policy of 2011 and Bank Finance

Many issues of agriculture and agribusiness came to be discussed in Karnataka as well as Dakshina Kannada once the Integrated Agribusiness Development Policy was announced in Karnataka in 2011. This policy aims at the objective of increasing capabilities and incomes of small land owners. It is also striving to improve the competitiveness of small medium enterprises leading to better value realization through large investments and by opening avenues for export markets. The opportunities for development in agriculture on Karnataka would multiply as the Policy of 2011 both infrastructure for agriculture and industrial segments pertaining to a variety of activities *viz*., agriculture, horticulture, agro forestry, apiculture and food processing sectors. The Integrated Agribusiness Development Policy of 2011 can be operationally effective in Dakshina Kannada district because this is one of the districts in which there are two distinct sectors namely the subsistence oriented sector of paddy farms and the commercial sectors of areca

gardens, though the significance of the former is declining, thanks to the process of commercialization of agriculture. There are some key concerns of the 2011 policy of which improvement in productivity, minimizing post harvest, enhancing post harvest processing, enhancing value realization through better marketing and sustainable practices in production and processing are having a good deal of policy significance. In all these key concerns in Dakshina Kannada district, the commercial banks have to play a useful role in the years to come under the leadership of the Syndicate Bank.

The changed role of banks in expediting the development of all types of enterprises needs to be assessed in connection with all the major issues of development of the Mangalore Special Economic Zone (MSEZ). The Coastal Agenda Task Force (CATF) went into some of these issues. It observed that the SEZ at Mangalore would provide for a unique opportunity to promote exports and export oriented activities. The Kanara Chamber of Commerce and Industry has remained confident that private sector investment can be attracted for the MSEZ itself. With a lot of foresight the CATF called upon the Government of Karnataka to announce its welcome to private sector investment in MSEZ and specify the terms and conditions for private sector investors to promote investment in the same. In an important workshop held in Bangalore on May 22, 2003, the role of the MSEZ in the development of Coastal Karnataka was discussed and deliberated. Hopes of attracting private investment in various types of industries in MSEZ were generated. Again the new opportunities for exporting products of these industries through the Mangalore Port were stated by the representative of the Kanara Chamber of Commerce and Industry. While participating in the said conference, Thingalaya pointed out that coastal Karnataka has certain distinct advantages with reference to food products and services that could be tapped globally through the establishment of MSEZ [1]. The CATF in its report on Industry and Environment (2002) again took pride in stating that the undivided Dakshina Kannada district, a cradle of banking, should be recognised by the Government of Karnataka for opening a financial center. To quote, "The Government of Karnataka may consider Mangalore as a potential financial centre. Mangalore has several cost advantages and considerably advanced skills in Management of finances. A major financial centre can be planned. Considering the disadvantages that metros have in terms of costs, Mangalore should be projected as a cost effective financial centre. Government of Karnataka may study this matter in depth and decide to have a major financial centre" [2]. All these significant developments positively indicate the fillip that the banking sector can provide to small scale and tiny enterprises.

### 5.3 Bank Credit for Industrial Development in 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 agribusiness sector also [3].

### 5.4 Banks with Varied Performance

In this study, bank finance to agribusiness is treated as indirect agricultural finance [4]. 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 lukewarm 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.

### 5.5 Bank Credit for Agribusiness: Findings of Field Study

The field work in this study covered 200 agribusiness units which included rice mills, cashew processing units, flour mills, oil mills, rubber based units and units producing pickle, pappad, banana chips etc. These units were either partnership firms or private companies or sole trading concerns. We have found that nearly 69 percent units have not been got registered with any of the trade associations. Since some of these units were very small in operation, they were virtually unorganised and informal sector. Some other units were not exposed to modern business practices with the result that they did not go in for registration at all. Unless all the units acquire a formal status their important requirements including credit requirements cannot be properly assessed. Our discussions with the Kanara Chamber of Commerce and Industry and the Small Industries Associations revealed that only those who were in the organised and formal sector could be subjected to investigations and evaluations. The CATF also noted the difficulties originating from the informal status of many agribusiness units were coming in the way of their growth. It has recommended that the government of Karnataka in association with Small Industries Bank of India (SIDBI) make a special study of small scale industries of Coastal Karnataka and apply remedial measures. Such a study may be very helpful in identifying the credit requirements of agribusiness units also and the role which the commercial banks would play in meeting these requirements in future.

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.

### 5.6 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 about the poor recovery of 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 (Chapter II). 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.

### 5.7 Suggestions for Dakshina Kannada District

In various chapters of this report the conditions in the study are explained which some contents for policy actions. Here two important suggestions are made for future consideration. 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.

### 5.8 Recommendations

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 often quoted remark that "credit is necessary but not sufficient" holds well 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.

**Notes and References**

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[2] The Coastal Agenda Task Force, The Report on Industry and Environment, Government of Karnataka, Bangalore 2002.

[3] Radhakrishna Bhat M, Credit Planning and Industrial Development: A Case Study in Dakshina Kannada, Ph. D thesis submitted to Mangalore University in 1996.

[4] Bank finance to agribusiness consists of direct credit and indirect credit. The present study concentrates on indirect credit to agriculture as these are provided to agro based industries.

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**Annexure 2.1**

**PLACES OF AGRO BASED INDUSTRIES SURVEYED IN 1997 IN DAKSHINA KANNADA DISTRICT**

**Taluk: Puttur**

| | |
|---|---|
| Puttur | Bannur |
| Uppinangady | Aryapu |
| Nellyadi | Panaje |
| Kabaka | Purusharakatte |
| Ramakunja | Sampya |
| Shiradi | Kemmai |
| Bajathore | Shanthi Nagara |
| Nekiladi | Hirebandady |
| Kakkepadau | Barya |
| Padil | Darbe |
| Nehru nagar | Olal |
| Alankar | Shibaje |
| Chaikkamudnoor | Charvaka |
| Vittal | Badagannur |

**Taluk: Bantwal**

| | |
|---|---|
| Bantwal | B. C. Road |
| Polali | Melkar |
| Panemangalore | Varnadapadau |
| Bajpe | Gurupura |
| Adyanadka | Mudipu |
| Kaikamba | Vittal |
| Manchi | Adyar |
| Parangipete | Kalladka |
| Thumbe | Perne |
| Mani | |

**Taluk: Sullia**

| | |
|---|---|
| Gandhi Nagar | Sullia |
| Ajjavara | Panja |
| Subramanya | Yenekallu |
| Bellare | Beeramangala |
| Sampaje | Kanthamangala |
| Jalsoor | Ubaradka |
| Gutthigar | |

**Taluk: Mangalore**

| | |
|---|---|
| Mangalore City | Baikampady |
| Jeppu | Surathkal |
| Kankanady | State Bank Area |
| Urva | Urva Store |
| Ashok Nagar | Bolar |
| Bollor | Mannagudde |
| Yeyyadi | Padavinangady |
| Bondel | kavoor |
| Kadri | Mallikatte |
| Bikkarne Katte | Shediguri |
| Attavar | Kottara |
| Thokottu | Hoige Bazar |
| Deralakatte | Ullala |
| Someshwara | Kuttaru Padau |
| Assiagoli | Koekar |
| Talapadi | Harekala |

**Taluk: Udupi**

| | |
|---|---|
| Hiriadka | Kidiyoor |
| Kokkatne | Heroor |
| Ambagilu | Verambaly |
| Kodi Bengre | Udyavara |
| Udupi | Kapu |
| Indrali | Kinnimulki |
| Katapadi | Kalyanapura |
| Kalmadi | Malpe |
| Mulki | Ambalapadi |
| Haleangady | Nandikoor |
| Brahmavar | Innanje |
| Saligrama | Uppor |
| Barkur | Sastana |

**Taluk: Karkala**

| | |
|---|---|
| Karkala | Moodabidri |
| Padubidri | Sanoor |
| Muradadka | Mittangady |
| Perinege | Hosangady |
| Shirthady | Naravi |
| Hebri | Belvai |

| | |
|---|---|
| Belmannu | Kesaragudde |
| Bailoor | Salmara |
| Koteshwara | Muniyal |
| Bajagoli | Mundkur |
| Shivapura | Yerlapady |
| Kukkundur | Ajekar |
| Sampige | Mithabail |

**Taluk: Belthangady**

| | |
|---|---|
| Belthangady | Dharmasthala |
| Ujire | Guruvayankere |
| Karaya | Gerukatte |
| Madantyaru | Punjalkatte |
| Karinja | Vagga |
| Adarsh Nagar | Melanthabettu |
| Mudradi | Maruthi Pura |
| Kuppetti | Illanthila |
| Kaniyoor | Garadady |
| Balanja | Indra Nagar |
| Borya | Moorugoli |

**Taluk: Kundapura**

| | |
|---|---|
| Shankara Narayana | Kundapura |
| Koteshwara | Uppunda |
| Hattiangady | Amase Bailu |
| Siddapura | Balkur |
| Hunsemakki | Naikanakatte |
| Kollur | Byndoor |
| Hemmadi | Kunbashi |
| Neeralakatte | Pattadi |
| Karkunja | Haladi |
| Basrur | Shiroor |
| Navunda | Thekatte |

## Annexure 3.1

## BRANCH-WISE PERFORMANCE OF SYNDICATE BANK

| Branch Name | 31.03.2010 | | | 31.03.2011 | | | 31.03.2012 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Direct | Indirect | Total | Direct | Indirect | Total | Direct | Indirect | Total |
| Mng Hampankatta | 0 | 538996 | 538996 | 899174 | 353829 | 1253003 | 881627 | 0 | 881627 |
| Mng Car Street | 3196 | 0 | 3196 | 2732 | 0 | 2732 | 2298 | 0 | 2298 |
| Mng Mission Street | 10973 | 26498 | 37471 | 8651 | 15000 | 23651 | 8498 | 8956 | 883925 |
| Mng Kankanady | 13803 | | 13803 | 20912 | | 20912 | 17535 | 0 | 17535 |
| Mng Kulshekar | | 65524 | 65524 | 65399 | 3305 | 68704 | 128989 | 156093 | 285082 |
| Mulki | 1134 | 0 | 1134 | 1547 | 0 | 1547 | 3103 | 360 | 302617 |
| Belthangady | 58111 | 117708 | 175819 | 62216 | 45485 | 107701 | 43945 | 1269 | 45214 |
| Gurpur | 3664 | 0 | 3664 | 2754 | 0 | 2754 | 1879 | 994 | 2873 |
| Moodabidri | 18881 | 0 | 18881 | 17910 | 0 | 17910 | 12988 | 0 | 48087 |
| Puttur Main | 76840 | 94105 | 170945 | 59057 | 111629 | 170686 | 47013 | 0 | 2469258 |
| Panemangalore | 29983 | 0 | 29983 | 31863 | 0 | 31863 | 24328 | 0 | 24328 |
| Kinnigoli | 3708 | 0 | 3708 | 3742 | 0 | 3742 | 3284 | 2241 | 5525 |
| Bantwal | 43002 | 0 | 43002 | 37629 | 0 | 37629 | 36407 | 0 | 29853 |
| Sullia | 146712 | 0 | 146712 | 127891 | 0 | 127891 | 108209 | 6412 | 114621 |
| Uppinangady | 91079 | 3160 | 94239 | 92394 | 5940 | 98334 | 85277 | 5607 | 90884 |
| Vittal | 31410 | 29242 | 60652 | 53470 | 637 | 54107 | 59816 | 155 | 205505 |
| Surathkal | 24 | 0 | 24 | | 0 | 0 | 3966 | 0 | 3966 |
| Bajpe | 2956 | | 2956 | 2020 | 0 | 2020 | 2805 | 3595 | 6400 |
| Kotekar | 9347 | 0 | 9347 | 10747 | 0 | 10747 | 12315 | 0 | 10366 |
| Venur | 54885 | | 54885 | 53999 | 0 | 53999 | 55238 | 123 | 55361 |
| Kaikamba | 5355 | 0 | 5355 | 5128 | 0 | 5128 | 8850 | 559 | 9409 |
| Kulai | 3361 | 0 | 3361 | 6041 | 0 | 6041 | 5433 | 0 | 64770 |
| Punjalkatte | 141147 | 0 | 141147 | 127240 | 0 | 127240 | 137485 | 847 | 138332 |
| Kallamundkur | 9615 | 789 | 10404 | 7207 | 453 | 7660 | 6884 | 297 | 7181 |
| Guttigar | 145192 | 810 | 146002 | 142012 | 0 | 142012 | 144454 | 745 | 145513 |
| Kadaba | 106125 | 6202 | 112327 | 117530 | 6510 | 124040 | 123030 | 1075 | 124105 |
| Kanyana | 73822 | 0 | 73822 | 77871 | 0 | 77871 | 84921 | 1575 | 86496 |
| Katipalla | 3740 | 0 | 3740 | 1778 | 0 | 1778 | 749 | 428 | 210601 |
| Kokkada | 68577 | 3339 | 71916 | 61190 | 2577 | 63767 | 63961 | 265 | 64226 |
| Naravi | 59644 | 0 | 59644 | 57059 | 90 | 57149 | 61797 | 799 | 62596 |
| Salethur | 94137 | 0 | 94137 | 98768 | 0 | 98768 | 99970 | 140 | 126822 |
| Arlapadavu | 46542 | 0 | 46542 | 48255 | 0 | 48255 | 49166 | 953 | 50119 |
| Kakkinje | 132656 | 11568 | 144224 | 128160 | 2106 | 130266 | 130392 | 5380 | 135772 |
| Panja | 181386 | 0 | 181386 | 175273 | 0 | 175273 | 148714 | 115 | 185891 |
| Mng Yeyyadipadavu | 562 | 0 | 562 | 140 | 48 | 188 | 430 | 450 | 880 |
| Jalsur | 85951 | 0 | 85951 | 77799 | 0 | 77799 | 71227 | 1151 | 72378 |
| Guruvayankere | 39962 | 92 | 40054 | 40430 | 0 | 40430 | 45262 | 329 | 73258 |
| Panambur | 0 | 37699 | 37699 | 0 | 11469 | 11469 | 0 | 0 | 87978 |

| **Branch Name** | **31.03.2010** | | | **31.03.2011** | | | **31.03.2012** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Direct** | **Indirect** | **Total** | **Direct** | **Indirect** | **Total** | **Direct** | **Indirect** | **Total** |
| Mng Ashoknagar | 2445 | 0 | 2445 | 3178 | 0 | 3178 | 3845 | 0 | 3845 |
| Bengre | 9943 | 0 | 9943 | 11241 | 0 | 11241 | 23055 | 0 | 23055 |
| Jokatte | 298 | 0 | 298 | 341 | 0 | 341 | 1436 | 58 | 26900 |
| Vogga | 83832 | 0 | 83832 | 83453 | 0 | 83453 | 82634 | 2676 | 85310 |
| Bangadi | 57091 | 0 | 57091 | 46510 | 0 | 46510 | 60708 | 1801 | 62509 |
| Ajjinadka | 38388 | 0 | 38388 | 43025 | 0 | 43025 | 51688 | 2456 | 147819 |
| Alankar | 55012 | 0 | 55012 | 54464 | 0 | 54464 | 58096 | 366 | 58462 |
| NMY Puttur | 47655 | 0 | 47655 | 36248 | 0 | 36248 | 42452 | | 42452 |
| Nidle | 42625 | 0 | 42625 | 46308 | 0 | 46308 | 47882 | 483 | 100914 |
| Savanur | 74117 | 239 | 74356 | 81439 | 0 | 81439 | 90530 | 650 | 91180 |
| Yenekal | 88673 | 0 | 88673 | 111584 | 0 | 111584 | 108363 | 180 | 108543 |
| Kalia | 35471 | 0 | 35471 | 39169 | 0 | 39169 | 47400 | 593 | 199723 |
| Derlakatte | 2215 | 0 | 2215 | 2330 | 0 | 2330 | 4935 | 0 | 8082364 |
| Mng SME | 0 | 0 | 0 | 1984 | 0 | 1984 | 2427 | 0 | 2427 |
| SM College Moodabidri | 1890 | 0 | 1890 | 1769 | 0 | 1769 | 2309 | 25 | 0 |
| Dharmasthala | 2144 | 0 | 2144 | 1841 | 0 | 1841 | 1785 | 21 | 0 |
| Kenjar | 0 | 0 | 0 | 0 | 0 | 0 | 358 | 176 | 534 |
| CAMPCO Puttur | 1775 | 0 | 1775 | 1758 | 0 | 1758 | 1030 | 1520 | 2550 |
| Vijaya College Mulki | 0 | 0 | 0 | 0 | 0 | 0 | 19 | 0 | 3084 |
| KVGP Sullia | 507 | 0 | 507 | 352 | 0 | 352 | 258 | 0 | 258 |
| Ujire | 3512 | 80 | 3592 | 3851 | 45 | 3896 | 4418 | 235 | 4653 |
| Bellare | 10280 | 0 | 10280 | 11179 | 0 | 11179 | 11147 | | 11147 |
| Kurnad Mudipu | 0 | 0 | 0 | 2473 | 0 | 2473 | 12207 | 700 | 15800 |
| Mogaru | 0 | 0 | 0 | 10 | 41 | 51 | 883 | 1950 | 2833 |
| Puttige | 0 | 0 | 0 | 0 | 0 | 0 | 55 | 508 | 563 |
| Nada | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 119 | 119 |
| **Total** | **2355355** | **936051** | **3291406** | **3310495** | **559164** | **3869659** | **3382165** | **215430** | **3597595** |

**Annexure 3.2**

**QUESTIONNAIRE FOR BANKERS**

Name of the bank : _____

Branch : _____

1. Products applicable for Agribusiness
   *a.* _____
   *b.* _____
   *c.* _____
2. Do you have plans of aggressively increasing in agribusiness loans in your credit portfolio?
   *a.* Yes
   *b.* No
3. Problems encountered by banks in granting loans to agro entrepreneurs
   *a.* Inadequate Documentation
   *b.* Insufficient Collateral
   *c.* Credit worthiness
   *d.* Recovery problems
   *e.* Limited scope for agribusiness
   *f.* Any other (Please Specify) _____
4. What sort of assistance other than finance is provided by you in granting loans to agro entrepreneurs?
   *a.* _____
   *b.* _____
   *c.* _____
   *d.* _____
   *e.* _____
5. Contribution of the following to the credit portfolio of the bank in %
   *a.* Retail Loan
   *b.* Industrial Loan
   *c.* Agribusiness Loans
6. Have you encountered the problems of defaults in loans in past three years
   *a.* Yes
   *b.* No
7. What is the contribution of agribusiness towards NPA in branch in %?
8. What are the measures taken to reduce default?
   *a.* High collaterals
   *b.* Reducing the exposure to the sector
   *c.* Credit counselling
   *d.* Any other _____
9. Your perspective of agro business prospects
   *a.* _____
   *b.* _____
   *c.* _____
   *d.* _____
   *e.* _____

**Annexure 4.1**

**QUESTIONNAIRE FOR AGRIBUSINESS UNITS**

Name of the Organization : _____

Type of Ownership : _____

Year of Establishment : _____

Educational Qualification of the Proprietor : _____

No. of Employees : _____

1. Sources of Raw material:
   *a.* Domestic
   *b.* International
2. Product Profile

**Domestic**

**International**

   *a.* _____
   *b.* _____
   *c.* _____
3. Have you registered with any of the Trade Associations?
   *a.* Not registered
   *b.* Canara Chamber of Commerce
   *c.* KAASIA
   *d.* Any other
4. Have you availed banking finance?
   *a.* Yes
   *b.* No

**If Yes, Part I and If No go to Part II**

**Part I**

1. What are the sources of Long Term Capital?
   a. *Equity*
   b. *Bank Loans*
   c. *Relatives and Friends*
   d. *Venture Capital and Private Equity*
   e. *Any other*
2. What was the purpose of availing long term loan from banks?
   *a.* _____
   *b.* _____
   *c.* _____
   *d.* _____
   *e.* _____
3. What are the sources of funds for Working Capital requirements?
   *a.* Trade Credit

*b.* Accruals

*c.* Overdraft

*d.* Cash Credit

*e.* Any Other _____

4. What was the time period taken to avail loan?

**Long Term Loans**

*a.* Less than Fifteen Days

*b.* 15 to 30 Days

*c.* 1 - 3 months

*d.* 3 - 6 months

**Working Capital Loan**

*a.* Less than one week

*b.* 15 to 30 Days

*c.* 1 - 3 months

5. What are the problems encountered while availing bank finance in the order of importance?

*a.* _____

*b.* _____

*c.* _____

*d.* _____

6. Number of times you have availed loans from banks for long term and name of the bank

| **Bank** | **Amount Availed** | **Subsidy if Any** | **Period of Repayment** |
|---|---|---|---|

7. Have you changed your banker? If Yes, why?

*a.* _____

*b.* _____

*c.* _____

*d.* _____

*e.* _____

8. What forms of assistance do you expect from Banks?

*a.* Filing the forms

*b.* Educating about the products

*c.* Educating the subsidy schemes

*d.* Assistance in preparing documents

*e.* Educating about the subsidy schemes

*f.* Consultancy services by banker

9. What is your future plan in terms of expansion and diversification?

*a.* _____

*b.* _____

10. What are the sources of funds required for expansion and diversification in next 3 years?

*a.* _____

*b.* _____

*c.* _____

*d.* _____

*e.* _____

11. How much would you rate your banker in the scale of 10 _____

(1 = Very Bad 5 = Average 10 = Excellent)

**Part II**

1. What are the reasons for not availing bank loans?
   *a.* Sufficient equity funding
   *b.* Subsidy
   *c.* Tedious process
   *d.* Requirement of high collaterals
   *e.* Size of the business
   *f.* Any other _____
2. Do you have a bank account for business?
   *a.* Savings Bank Account
   *b.* Current Account
3. Future plans of expansion and diversification?
   *a.* _____
   *b.* _____
   *c.* _____
   *d.* _____
   *e.* _____
4. How do you intend to raise funds for expansion
   *a.* _____
   *b.* _____
   *c.* _____
   *d.* _____
5. What are the sources of funds for Working Capital Requirements?
   *a.* Trade Credit
   *b.* Accruals
   *c.* Any other _____
6. Do you think bank finance is essential for growth?
   *a.* Yes
   *b.* No
7. Have you any plans of raising funds for both short term and long term from banks?
   *a.* Yes
   *b.* No
8. What is your perception about Banks?
   *a.* Very friendly and easily approachable
   *b.* Involves tedious process
   *c.* Long time to avail bank facilities
   *d.* Any other _____

9. What is your perspective of agro business prospects?

   *a.* _____

   *b.* _____

   *c.* _____

   *d.* _____

   *e.* _____

**Annexure 4.2**

**LIST OF REGION WISE AGRO BASED UNITS SURVEYED**

| Name of the Village and Taluk | No. of Units Surveyed |
|---|---|
| **Puttur Taluk** | |
| Kadava | 6 |
| Madala | 2 |
| Old Station | 5 |
| Nettana | 7 |
| Kavu | 4 |
| Amchinabka | 3 |
| Karivar | 2 |
| Savanor | 2 |
| Peelampady | 2 |
| Sampya | 1 |
| **Sullia Taluk** | |
| Subramanya | 3 |
| Bellare | 2 |
| Manila | 4 |
| Peruvai | 8 |
| Kanyana | 4 |
| **Bantwal Taluk** | |
| Panemanglore | 2 |
| Narikombu | 4 |
| Nagri | 7 |
| Sornad | 5 |
| Siddhakatte | 6 |
| Sangabettu | 5 |
| Murje | 3 |
| Shambar | 6 |
| Bantwal | 3 |
| Loretto Padav | 4 |
| Bandasale | 3 |
| Kakkepadav | 5 |
| Antara | 3 |
| Vittal | 6 |
| Manila | 4 |
| Peruvai | 2 |

| Name of the Village and Taluk | No. of Units Surveyed |
|---|---|
| Kanyana | 2 |
| **Belthangady Taluk** | |
| Belthangady | 5 |
| Hosmar | 4 |
| Naravi | 4 |
| Nidle | 2 |
| Mundaje | 3 |
| Shishila | 5 |
| **Mangalore Taluk** | |
| Alangar | 3 |
| Belvai | 4 |
| Moodbidri | 7 |
| Karnad | 5 |
| Mulky | 3 |
| Bykampady | 3 |

**Annexure 4.3**

**ACHIEVEMENTS OF ACHAL INDUSTRIES**

| |
|---|
| First modern factory in an industrial area conforming to regulation 1981 |
| First process innovation steam roasting a revolutionary change to earlier and contemporary practice |
| This first led to improved color and flavour resulting in national and international recognition |
| First unit to introduce food quality hygiene standards in process e.g. Tables with clean surfaces removal of wooden and cane baskets and substitution with plastic and metal vessels, netting of process area, aprons uniforms and hairnets etc |
| First for clean technology adoption from wood fired to gas fired ovens |
| Again Conversion from LPG ovens to steam based ovens reducing hydrocarbon to technology based energy based on waste fired boilers for steam |
| Adoption of standard dryers better than conventional resulting in productivity efficiency |
| First to adopt selling cashew kernels in polythene pouches ex factory |
| First to eliminate tin packing totally and adopting multilayer plastics |
| First national collaboration on change in packaging |
| First to secure recognition under IPQC by |
| Ministry of Commerce Government of India |
| For a cashew unit |
| First small holder organic project in Goa and Maharashtra and processing unit for organic cashews under EEC registrations |
| Now under NPOP, India NOP USA, JAS Japan |
| First to export organic cashews from Karnataka and consistent exports ex of specialty |
| First unit to secure ISO 22000 certification FSMS system in the world for a CASHEW FACTORY |
| First modern factory in a backward rural area in |
| Kolhapur District Maharashtra |
| Worlds highest ex factory realisation for cashews |
| First in industry institute collaborations- agriculture state private institutes and colleges national institutes and scientists over 75 student projects and 100 trainee collaboration |
| First to have in house nitrogen gas plant for flushing |
| First computer in cashew industry 1986 |
| First in house cashew based sweet maker Kaju Kathli |