Financing Options for the Second Green Revolution

YES Bank Limited
Scope of presentation

• Imperatives of a second green revolution
• Farmer financing options
• Options for financing irrigation projects
• Key focus areas
• YES BANK – Knowledge Banking
Imperatives of a second green revolution
From the first to the second green revolution

First green revolution

- Enabled food self sufficiency
  - Food grain production increased from 72 million MT in FY’66 to 150 million MT in FY’86

- Crop-Technology-Productivity driven
  - Wheat & rice productivity
  - HYV – miracle seeds
  - Fertilizer use
  - Irrigation
  - Extension – focused on lead farmers (T&V)
  - MSP to farmers

- Skewed geographic & crop intervention
- Rainfed agriculture left out
- Environmental sustainability of interventions?
- Small and marginal farmers?

Second green revolution - imperatives

- Food and nutritional security
- Include a large basket of crops (coarse grains, pulses, oilseeds, fruits and vegetables)
- Agro-climatically & geographically diverse
- Socially inclusive – small & marginal farmers
- Holistic – focused on improving farmer returns and farmer enterprise viability
- Includes interventions on post harvest supply chain efficiencies (to reduce wastage and improve affordability)
- Environmentally sustainable
- Climate resilient

and

Innovative technology driven increase in productivity
Interventions required across the value chain

- **Production**
- **Handling & Mrktg.**
- **Processing**
- **Wholesaler**
- **Retailer**

- **Productivity and Farm enterprise viability**
- **Financial Services**
- **Research & Extension**
- **Agri Infrastructure & Logistics**
- **Commodity Trading**
- **Market Linkage**
- **Consumer awareness**

- **Streamlined supply chain**
- **Price competitiveness**
- **Market Development**
- **Innovative Business Modeling**
- **Credit Deliverance**
- **Infrastructure Development**
- **Regulatory Reforms**
Key Pillars of Second Green Revolution

- Production technologies
- Post harvest handling
- Marketing efficiency
- Financial Inclusion
- Sustainability
- Climate resilience
Farmer financing options for the second green revolution
Agribusiness financing options

Input
Supply

Production

Processing

Market

Distribution

PRE HARVEST FINANCE

INVENTORY FINANCE

TRADE FINANCE
Multiple stakeholders across the chain

- **Farmgate**
  - Farmers
  - Farmers Collective

- **Village Level**
  - Unregistered Commission Agents
  - Village Level Consolidators

- **Mandi**
  - Registered Commission Agent
  - Local Traders

- **Ex-Mandi**
  - Local Traders
  - Brokers

- **Trading Houses**
  - Indian Corporates
  - MNC trading Houses

- **Warehousing**
  - CWC
  - SWC
  - PVT WH

**NUMBER OF PARTICIPANTS**

**HIGH**

**LOW**

**STAKEHOLDERS**

- Farmers
- Unregistered Commission Agents
- Registered Commission Agent
- Local Traders
- Brokers
- Local Processors
- Indian Corporates
- MNC trading Houses
- Local Processors
- CWC
- SWC
- PVT WH
Financing the value chain

1. **Contract Seed Growers**
   - Contractual agreement
   - Lending against offtake contract

2. **Seed Company**
   - Preferred distributors
   - Credit sales
   - Lending against sales agreement

3. **Distributor**
   - Credit/forward contract
   - Short term lending against liquid collateral

4. **Dealer**
   - Credit
   - Crop loans

5. **Farmer**
   - Crop loan
   - WR finance
   - Vendor bill discounting

6. **Mandi/Warehouse**
   - Warehouse Receipt
   - Wholesaler
   - Processor

7. **Commodity**
   - Spot market price
   - Village level CA

8. **SEEDS**
   - Crop loans
   - Term lending/WC
Farmer Financing

Individual farmers

Finance / KCC

Banking correspondent

Finance

Individual farmers in remote locations

Financial Literacy

KYC

Agri Inputs/ Extension Services

Through SHGs/JLGs

Finance

Bank

Finance

Banking correspondent

Finance

SHGs/JLGs

Finance

Financial Literacy
YES Livelihood Enhancement Action Program

- Lending to Self Help Group (SHG) by leveraging Business Correspondent (BC) model

- **Doorstep Banking** - Savings and weekly/fortnightly/monthly loan repayment

- Promoting **Financial Literacy** through the Business Correspondent

- Lakhs of women introduced to the formal banking network for the first time

44 BCs, 18 States, 230 Districts, 1 Lakh SHGs, 1.3 mn Households
Financing through FPOs

Key challenges
✔ Lack of proper market linkages for produce offtake
✔ Management capacity of FPO
Farmer Funding through Agents

1. Recommend Farmers
2. Loan to recommended farmers
3. Supplies commodity
4. Pays loan with interest
5. Balance payment to Farmers

*Bank gives loan through F&V agent to farmers who are recommended by agent*

*F&V agent is also responsible for collection & payment of loan etc.*
Corporate value chain financing

1. Produce purchase agreement
2. Recommends borrowers to bank & facilitates documentation
3. Bank sanctions loans to farmers
4. Disburses loans to farmers through PTA
5. Loan appropriation

Payments against purchase routed through Bank
Warehouse Receipt Financing

Deposits Commodity

Collateral Manager/Warehouse Manager

Finance up to 65-75% of the value of the warehouse receipts

Pledge of Stocks

Repay loan and release commodity

Warehouse Receipt
Approaches for financing irrigation projects
Pradhan Mantri Krishi Sinchai Yojana’ to be implemented in mission mode.
   ✓ 28.5 lakh hectares to be brought under irrigation

Irrigation spend - increase by 42% to INR 77 billion, focussed at fast-tracking and revival of irrigation projects.

A dedicated Long Term Irrigation Fund to be created in NABARD with an initial corpus of about INR 20,000 crore.

Focus on sustainable management of ground water resources with an estimated cost of INR 6,000 crore and multilateral funding
Blended Public Private Finance for agri-water

- Indian irrigation sector requires an estimated 50-100 billion USD investment
  - minimum of 10 billion USD per year over more than five years
- Public fund needs to be augmented by private capital

- **Blended financing** - combining grants with loans, credit enhancement and risk sharing mechanisms
  - **Partial Risk Sharing Facility (PRSF)** followed for Energy Efficiency Projects in India (World Bank grant of USD 43 million, partial credit guarantee managed by SIDBI)
  - **Clean energy financing in Thailand**
    - Funds to financial institutions: interest rate of 0.5% for “on-lend” to sustainable energy projects at an interest rate not exceeding 4%.
    - Technical support provided by Department of Alternative Energy Development
    - Effort led to loans of USD 286 million - half provided by the banks by blending government funds with their own funding sources

- **Key challenges for attracting finance for agri-water projects**
  - Absence of proper pricing mechanism for water (unlike power)
  - Lack of farmer’s ability to pay upfront
World’s First **Green Masala Bond of INR 3.15 billion** listed on the London Stock Exchange, and issued by IFC.

- IFC has invested the proceeds of the bond in YES BANK’s Green Bonds
- YES BANK in turn will use the proceeds to fund Renewable Energy projects
Key focus areas for financing the second green revolution
Way Forward Financing for the Second Green Revolution

Financial Inclusion
- Innovative models for reaching the last mile customers
- Formation of groups in form of SHGs/FLGs/FPOs would be imperative

Value Chain Financing
- Customized financing models for all stakeholders of the value chain

Sourcing of funds
- Innovative sourcing structures for inclusive banking – supported by Developmental Organisations and Government

Knowledge banking
- Develop in house knowledge across sectors for designing innovative products and mitigating risk
YES BANK – Knowledge Banking approach
Knowledge Banking – A key differentiator

YES BANK focuses on Knowledge – to attain the stated objective of being a bank for future businesses of India

Product teams
- Financial Markets
- Investment Banking
- Corporate Finance
- Transaction Banking
- CASA / Wealth Management
- Food and Agribusiness Strategic Advisory & Research
- Pharma, Life sciences and health care
- Media, Entertainment, Arts and Luxury
- Sports
- Reality and infrastructure
- CSR & Sustainability
- Economic Knowledge Banking
- Strategic Initiatives and Government Advisory

Relationship teams
- Corporate Banking
- Commercial Banking
- Business Banking
- Government
- Retail Banking

360 degree money doctor approach
1. Diagnosis
2. Prescription
3. Monitoring

Knowledge – Product – Relationship continuum
Food & Agribusiness Strategic Advisory and Research Team
- Part of the Knowledge Banking Initiative
- Houses sector specialists with relevant industry experience in various subsectors of agriculture
- Brings comprehensive understanding of key sub-sectors in agribusiness
- Team of 15
- More than 10 years of experience providing advisory and knowledge banking services

**Corporate Advisory**
- Entry, expansion Strategy & Diversification Strategy
- Joint Venture
- Project Feasibility Study
- Value Chain Advisory
- Infrastructure Advisory

**Government Advisory**
- Policy
- Terminal Markets
- Mega Food Parks
- Bid Process Management
- Value Chain Analysis
- Process & Procedure Analysis

**Banking Facilitation**
- Corporate Financing
- Investment Banking
- Channel Financing
- Inclusive Banking

**Knowledge Partnerships**
- CII, FICCI & PHDCCI
- NIAM, Jaipur
- FAO
- Embassies and Trade Bodies
- Indian Banks Association
FASAR – Indicative list of clients
Knowledge reports
Thank You