

## DEBATE

**Jean-Yves Carfantan, Senior Consultant, AgroBrasConsult**

Thank you. Khalid?

**Khalid Meksem, President of the University Mohammed VI**

If we go to the street anywhere in the world today and ask 95% of the people what agriculture means to them, the answer will be soil, water and seeds. That is agriculture. It has always been limited to these three major components: the land – the soil – the seed and then of course you need water to see a product. The reality is not like that. You have something that is very important in agriculture that plays a major role in the equation, which is energy. If you want to irrigate your land, you need energy to bring water to wherever you are going to be irrigating and you also need power for the motors that will bring the water. Then, either before or after, you have to transport your seeds or move your goods, so you need transport. Energy therefore plays a major role in these three main components of agriculture.

There is also of course research and development and you then have something that has not usually been seen in Africa, which is the banking system. You need banks for a simple reason. If you want to buy a tractor or a machine, you do not have money. Most farmers in Africa do not have money and need a bank that will give them money to buy the tools and machinery that they need. You need a bank to buy fertiliser and seeds and you need a bank for every step that you take, whether it is for infrastructure, storage or building capacities. This is a system that has been missing in African agriculture for many years.

You might then unfortunately think that Governments in Africa recognise that need. However, that is not true. The first people to recognise the absence of this need were non Governmental agencies . They were the people to issue the first report and they were then followed by the World Bank. If you think about banking in Africa, you might think that the battle is lost today. However, I would say that it is not. Africa has one of the best systems in the world today where people in remote areas who have access to a mobile phone can transfer money and do banking through their mobile phones. That is where I would say that a little bit of research and development needs to be done in terms of looking at how we can use what has already been established through mobile phone and other wireless technologies to link our African partners to the best banking system that will allow them to grow and sell their products.

**Jean-Yves Carfantan, Senior Consultant, AgroBrasConsult**

What is actually being implemented today?

**Suresh Kumar, Chief Editor of [Africaindia.org](http://Africaindia.org)**

If I start with Morocco, the Government of Morocco is going to lease 600,000 hectares of land to local and foreign investors in the agricultural sector, with priority being given to foreign investors who bring in skills and human resource training. It is the moral example.

If I turn to Ethiopia, Ethiopia is asking people to come in and invest in the country and to bring in education to the agriculture sector that will enhance the country's human resource technically. This is vocational training plus agricultural education in schools and colleges, and it should be part of the package.



Turning to Rwanda, Rwanda [inaudible] again to transform low income agricultural economies to knowledge based service oriented programmes. This should be part of the package.

To give you an example of an India information technology (IT) company, the [inaudible] IT companies such as Wipro and IIT have already opened their centres in Africa and are transforming agricultural education in terms of skills training and weather forecasting [inaudible] in Africa. Khalid is right these are the essential ingredients of the development of agriculture, along with the land side of things.

**Jean-Yves Carfantan, Senior Consultant, AgroBrasConsult**

I have two questions for Krishan. What is an Apex bank?

**Krishan JINDAL, CEO, NABARD Consultancy Services Pvt. Ltd.**

That is a very good question. Very few countries follow the Apex bank model. Apex bank is not a bank that lends directly to individuals or takes deposits from them directly. Its role is to create an enabling environment in the country for the promotion of the sector. For example, we are the Apex bank for agriculture and rural development and our role is to create an enabling environment so that people involved in agriculture can receive credit from the banking system. An Apex bank is therefore essentially a bank that will guide the banking system through providing credit, designing innovative systems or setting up pilots. A variety of interventions can therefore be adopted.

For example, a lot of African countries have shown an interest in setting up banks like NABARD and have come to study how we operate. Let us suppose that there is a financial institution that cannot provide credit to the agriculture sector. The role of the Apex bank is to look at why the bank is unable to do so, what the reasons for this are and how it could be facilitated. Simultaneously, the Apex Bank works with governments on farm policies and credit policies and helps them draft and implement their policies. We therefore have Apex banks for agriculture and rural development, small industries and exports and imports and they have played a vital role in sectors that were neglected by the banking system.

**Jean-Yves Carfantan, Senior Consultant, AgroBrasConsult**

In your presentation, you mentioned the notion of self help groups. What are the conditions for a self help group to appear? Could you explain this in more detail?

**Krishan JINDAL, CEO, NABARD Consultancy Services Pvt. Ltd.**

As we have just heard, first of all, Africa needs to look at what already exists in the country in terms of credit and savings. In a similar way, India studied the mechanisms that people used, to take care of their financial needs and it was discovered that a lot of communities were using the group mechanisms. People were pooling their savings and from those savings loans were given to individuals. This was then documented and the decision was taken on upscaling it through the banking system. Evolving out of this, a small pilot was run in the banking system. Banks were very hesitant to lend to a group, firstly, because a group does not provide any collateral and you therefore have a loan that has no security and is based simply on the track record of the group.

In 1992, a pilot was therefore started to finance 500 groups which already existed. These were self managing groups and were not linked to the banking system and the pilot basically looked at whether the bank could provide loans to them so that their resources could increase and meet their needs more effectively. The pilot was therefore for 500



groups and there was a lot of resistance from the banking system. However, a lot of policy initiatives were taken by the Central Bank and NABARD and as a result the banks came forward. When banks provided the groups with loans the repayment rate was excellent, with 100% repayment. The banks then gained confidence. We then started to promote more and more Self Help Groups and linked them to the banking system.

In a nutshell, therefore, a self help group is a group that starts with the savings of its members and graduates to bank loan. Members come together and pool their money and if a bank is satisfied with their performance, it will provide the group with loans, based on their savings and track record with the banking system.

### **Tobby Simon, Founder and Chairman, Synergia Foundation, India**

I would first of all just like to respond to Khalid and his point on technology. We have seen technology growing by leaps and bounds in Africa but the underlying thing is the willingness of the banks to lend. The technology is there and you can transfer money, but the question is who do you transfer the money to? Banks are then eager to get their money back and there is a fear that they will not get it back. How do you then appraise this? That is the first part of my question.

The second part of the question goes back to the issue of self help groups, which we have worked with. Personally, I spend about four or five months in the field in some of the poorest parts of India and something that we have seen that is remarkable – and I am sure that my friend from NABARD will testify to this – is that the self help groups in most of rural India are centred around women and there is a certain amount of peer pressure and self esteem among the women to pay. When these self help group meetings are held at night – and sometimes they are held at 11 o'clock or 12 o'clock at night – there is certainly pressure. You see all the men standing at the back watching the women. In the beginning, I asked the women how the men allowed them to come to these meetings at 11 o'clock or 12 o'clock at night and they replied that the men were quite suspicious at first but in the end they realised that they were able to get the money. The women automatically applied pressure so that there was no default, and this goes back to the statement that there was close to 100% repayment on these sums of money.

### **Khalid Meksem, President of the University Mohammed VI**

I will try to answer your questions. When I said that research and development was needed, this is really about the banking system in terms of being able to lend and promote the banking system in agriculture. To date, when we talk about research and development in agriculture, we think about the best way of irrigating the land or putting down fertilisers that can be used and what the best seeds are. There is no research and development today in the banking system that looks at how money can be brought to the Africans who really need it or how to teach people to use the funding systems and be able to repay the loans. This needs economists, social scientists and many other people to interact together to bring the idea into the heads of the farmers. I am not saying that the farmer is someone whom we cannot dedicate efforts to. Farmers are smart people. When they recognise their interest, they will go for it. However, the goodwill is not there because in some people's minds an ignorant farmer is an easy target that they can use as much as they like.

### **Rod A. Wing, Professor, University of Arizona**

I have a couple of questions for Krishan on some basic areas. You mentioned the 90 million people who have these credit cards. Are you talking about a single country here?



**Krishan JINDAL, CEO, NABARD Consultancy Services Pvt. Ltd.**

It is India.

**Rod A. Wing, Professor, University of Arizona**

I see. You were not talking about Africa. I apologise. I thought that this was happening in Africa. That is amazing. My other question was that as regards this system that you are talking about, where does India lie in terms of a country or banking system in doing this in Africa. Would India be the leader of a process of this kind or would the leader be the United States or a European country? I am just curious about what India's position is in the financing of agriculture in Africa.

**Krishan JINDAL, CEO, NABARD Consultancy Services Pvt. Ltd.**

As I said, the first country led initiative is the setting up of the institute at Malawi. This is the first structured initiative to emerge where we are setting up an institute that will do the capacity building not only of the farmers but also the banks and even the government officials in terms of policy. This will be pan African and not for Malawi alone. It will be for the whole of Africa. Additionally, as Suresh showed in his presentation, the Government of India is promoting many other institutes all over Africa, with the focus on technology, which is basically to help increase productivity of different crops and look at the experiences that have been successful in terms of land development and how they could be replicated. It will probably make a huge difference when it is completed.

**Philippe Chalmin, Professor, Paris-Dauphine University**

I think it would be useful to consider some of the history here because it could be interesting to look at how farm credit developed in Western countries. At first, it came from Russia, where there were small credit groups that were very informal and it often came from the church, with the Raiffeisen system in Germany, for example. There was then state intervention, which provided direct subsidised credit and so on and created what we know today as Crédit Agricole, Rabobank and so on. However, unfortunately, there was then mainly a top down initiative, particularly in Africa. I know that the [inaudible] existed in Ivory Coast.

**Jean-Yves Carfantan, Senior Consultant, AgroBrasConsult**

This was a collective selling system.

**Philippe Chalmin, Professor, Paris-Dauphine University**

It is [inaudible]. However, it exists. This is in fact [inaudible] micro credit before it was invented and it could be something that could be developed more bottom up than top down.

**Krishan JINDAL, CEO, NABARD Consultancy Services Pvt. Ltd.**

Just to supplement, I sort of agree with what was said. As regards Europe, NABARD has studied the cooperatives in Germany.



There has in fact been a great deal of collaboration on credit cooperatives and the self help movement. Additionally, systematic thinking by the Government and organisations like NABARD is essential if this is to be adopted on a large scale in African countries. If we leave this purely to local initiatives and the informal groups, the scale will not be there.

Many countries have done wonderful work, such as Ethiopia, which I have been associated with. Ethiopia has a large number of microfinance institutions now and the Government undertook an initiative on regulating them and providing scale. They have therefore been quite successful in this regard. Similarly, in India, a lot of initiatives have been undertaken by the Government to see how they can learn from the informal initiatives, formalise them, put them in the form of policy and take things forward. The approach therefore needs to come from both directions. The groups were there in India, but they were very small in number. The principles they were operating on were converted into a kind of product, then into a policy in which the Central Bank and Government of India; everyone was involved. That was how the scale came about.

**Hervé Koffi, Country Manager, General Electric Global Growth, Abidjan**

I just have a question for clarification. You said that the lending to the agriculture sector should be a minimum of 18%. I would just like to know if this is direct to the farmer or is it to any player within the agriculture sector? Does the Government give any guarantee on this? The reason I ask this question is because most of the banks in Africa went bankrupt because they tried to implement this policy or way of doing things. Could you clarify?

**Krishan JINDAL, CEO, NABARD Consultancy Services Pvt. Ltd.**

First of all, the 18% relates to both direct and indirect lending. It is not only direct to the farmer but also includes indirect lending. By indirect lending, I mean when a bank is financing a fertiliser dealer, it is called indirect finance. However, there is a limit to the amount that indirect finance can constitute. The other loans have to be direct.

Secondly, coming to the question of viability, a study was undertaken on whether lending of this kind would be profitable for the banking system and it is only when it is profitable then it is implemented by the banking system. First the project profile is prepared and viability examined. It is only what will eventually be profitable that is done through the banking system, provided that the banks work efficiently.

There are subsidies to the farmers but they are not provided directly to the banks. The banks are mandated to lend 18% to agriculture sector and they are able to do it profitably. This has happened because of volume. If it is done on a small scale, it will not be profitable for the banking system, but as the volume is there it is profitable. Initially, all this was done by public sector banks and it is mandated now even for the private sector banks. All types of banks are mandated to provide 18% for agriculture.

The enabling provision is that if the banks are not able to meet 18% for any reason, they are required to deposit the balance with NABARD. These deposits are used for providing funds to State Govt. for infrastructure development in the agriculture sector.

**Landry Signé, Founding Chairman of the Global Network for Africa's Prosperity**

I have two comments and one question and I will go quickly to the context. Khalid talked about the colonial heritage and [inaudible] to take the colonial heritage into consideration because the type of governance and extractive political institution and agriculture sector that was put in place remained after independence. Political leaders continued to practice the same type of behaviour. That is a very important notion, although 50 or 60 years after independence it is important to hold the current African leaders accountable for their actions and policies.



The second comment is related to the notion of a top down versus bottom up approach. To a certain extent, this also brings up the question of formal versus informal practices and economies. We heard about the [inaudible] concept in Cameroon, Senegal and a number of other countries, and I would like to hear more about this notion, perhaps from our friends from India, in terms of how such an informal practice could be formalised or [inaudible] beyond the simple notion of micro credit.

Finally, I would simply like to have a conceptual clarification. When you talk about agriculture it can be interesting because it is not always used the same way. Are you talking about intensive or extensive agriculture [inaudible] or industrial agriculture?

**Jean-Yves Carfantan, Senior Consultant, AgroBrasConsult**

We can come back to these topics at the end of the workshop as I would like to leave time now for Rod Wing and Philippe Chalmin, plus another contribution from Khalid. I will therefore now give the floor to Rod, who will take a more prospective approach to these issues, starting with an original question, which is the scientific cooperation between the two continents from the perspective of a very significant example that Rod will introduce us to.