

## Hatton National Bank—Sri Lanka

### PROJECT RESULTS AND LESSONS

## Project Overview

The objective of the HNB project was to support the bank's strategy for diversifying its agricultural portfolio. Given that the bank's agriculture financing focused primarily on financing large-scale agribusiness operations, HNB wanted to strengthen its institutional capacity to expand its services to other agricultural segments, including smallholder farmers. More specifically the project aimed at improving the bank's agriculture finance systems and processes, developing new agricultural loan products, expanding its rural outreach, enhancing staff capacity, and implementing farmer education programs to better manage risk. Overall, the project strengthened HNB's capacity to serve more efficiently a wider range of agricultural clients in Sri Lanka.

This brief provides an overview of the initial results and lessons from the project, which may be useful for other financial institutions seeking to enhance their capacity to finance agriculture in an efficient and sustainable way. Given that the project was recently completed, additional lessons are likely to emerge as HNB continues to benefit from the key institutional changes that it has made during the project.

## Results

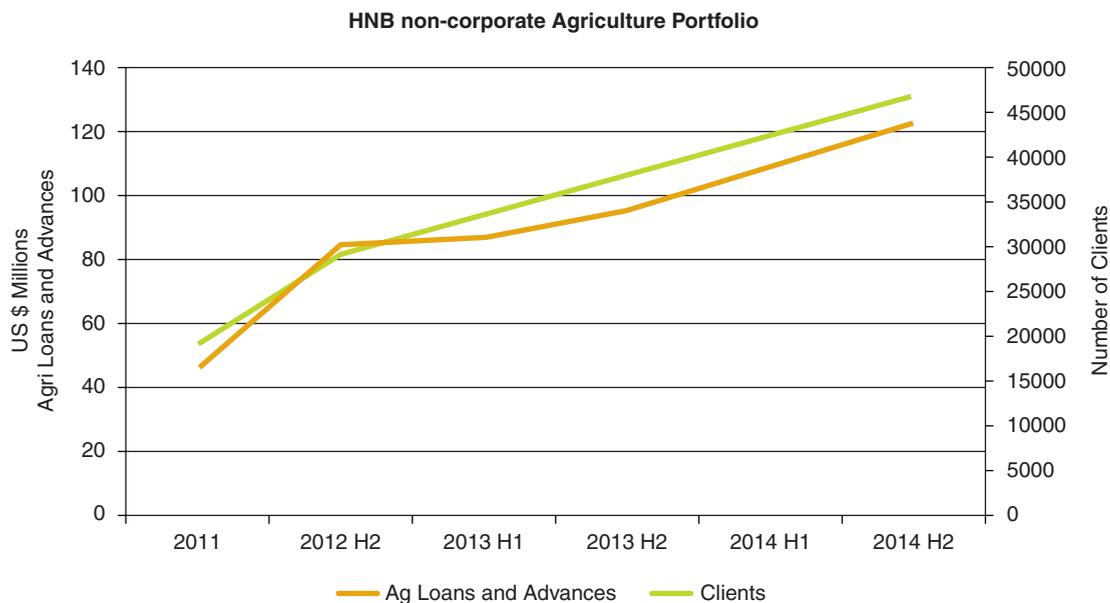
### **Improvement of systems and processes has increased the efficiency of the bank's agricultural lending operations and strengthened its risk management practices.**

During the project, the bank conducted a comprehensive assessment of its existing credit procedures that helped strengthen its agricultural credit origination, monitoring, and reporting systems. In addition, the project also helped the bank develop market intelligence including crop and livestock databases which support the bank's agricultural lending operations, portfolio diversification, and risk management. Part of the overall process enhancement was the development of an operational manual that guides the bank's agricultural lending operations.

**Development of three new loan products to help increase the diversity of agricultural clients it serves.** Part of HNB's portfolio diversification strategy was to design agricultural loan products suited to smallholder farmers' needs. During the project, HNB designed three

new loan products and developed marketing campaigns to educate agricultural clients on the availability and specific features of the new products. The specific products were:

- **Tea Smallholder Cultivators Loan**—Credit (working capital/expansion or start up) for farmers who own a min 0.5 acre land and have a regular monthly income from supplying green leaves to a tea factory. This product is based on an out grower model where the bank, the factory owners, and the tea smallholders work together to develop the sector.
- **Rangovi Saviya (Strengthening Farmers)**—Pawn articles to obtain working capital at a lesser rate than pawning rate.
- **Yauwanabhimana (Pride for the Youth)**—A bundled product coupled with credit, savings, insurance, and financial education. In the credit component, micro credit is mainly for agriculture use (70%).



Note: Figure includes data reported half-yearly by HNB.

**Expanded rural outreach by installing new ATMs, bringing financial services closer to agricultural clients in a cost-effective way.**

Over 40 ATMs were installed during the project, allowing the bank to extend services to rural areas which were previously underserved by formal financial institutions in Sri Lanka. HNB ATMs enable clients to perform a range of financial transactions beyond the traditional cash-withdrawals services. Clients can now make deposits, pay utility bills, transfer funds, receive remittances, and top up airtime.

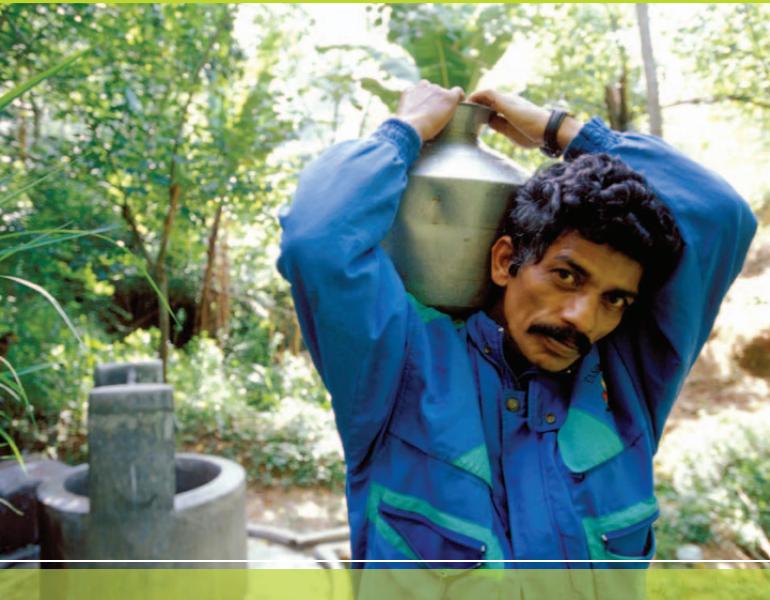
**Enhanced staff capacity through training and international learning visits, enabling the bank to better serve agricultural clients.**

As part of the staff capacity building component of the project, HNB's staff participated in several international study tours to learn about successful financing operations of similar institutions in India and Israel. Among other things, staff learned about successful financing practices of farm equipment, irrigation, and agricultural processing technology. HNB also provided in-house training to lending staff on crop cultivation and other key aspects of agricultural lending. Loan officers also participated in several training

programs organized by external organizations, including, among others, tea and coconut cultivation trainings organized by the Tea Smallholder Development Authority and Coconut Cultivation Board, respectively, as well as the Central Bank's training program to enhance the capacity of Sri Lankan banks to provide inclusive financial services, including to smallholder farmers.

**Implemented a large-scale training program focusing on improved agricultural practices and financial management among smallholder farmers in Sri Lanka.**

HNB offered training to 2,500 smallholder farmers engaged in cultivation of paddy, dairy, poultry, fishery, and floriculture throughout Sri Lanka. The objective of the training was to provide smallholder farmers the opportunity to learn about improved agricultural techniques and better financial and business management practices. Another important objective was to enable HNB to acquire new clients by helping trainees develop credit proposals. The training focused on both improved farming techniques and financial management to enable smallholders to more effectively use financial services offered by the bank. As part of the training, 1,000 credit proposals were



developed and submitted to the bank. Training modules developed for the project can be used by other financial institutions as sample materials when developing their own training programs.

## Lessons Learned

**International study tours are an effective way to facilitate learning among financial institutions.** A key lesson emerging from many AgriFin projects, including HNB, is that international study tours can be highly effective in improving learning outcomes and motivating bankers to apply the acquired knowledge within their own context. For example, a visit to India's Mahindra Finance enabled HNB staff to improve its equipment loan pricing and provided important ideas on how the bank can more effectively market financial products to farmers. Another study tour to Israel enhanced the bank's understanding of how agribusinesses can be financed successfully when coupled with other supporting services offered to farmers such as advice and technology transfer. HNB is applying this knowledge to strengthen its

smallholder financing strategy to enable them to engage in commercial farming. An essential aspect that makes these exchanges successful is the fact that they are international, which means hosting and participating institutions are not in competition with each other, and as such are more willing to share information.

**Farmer training provides a wide range of benefits for both farmers and financial institutions, but it is not cost-effective for banks to do it.** Training farmers on best agricultural practices helps not only increase their productivity and yields, but it makes them more viable clients for the bank. In addition, the training program under the HNB project served as a forum for farmers to exchange ideas and for some farmer groups to organize into associations in order to improve production and marketing of their commodities in the future. While these are all positive outcomes and helped the bank acquire new clients, providing such training can be costly for financial institutions. Therefore, instead of managing large scale farmer training programs, banks can play an active role in partnering with public institutions, training centers, and associations that specialize in agricultural production and marketing in order to train their clients.

**Mobilizing farmers to participate in the training program was easier than expected.** Given that trainings are commonly coupled with monetary/in kind support to farmers, there was an uncertainty during the training design stage whether farmers would participate without monetary compensation. The training team soon found that with few exceptions, farmers did not expect to receive grants/subsidies and were eager to participate. The decision to hire local field associates played a key role in

successfully targeting the farmers who were more likely to participate and would benefit the most from the training.

**Government initiatives to support certain agricultural sectors may be crowding out commercial bank lending.** During the implementation of the farmer training program, it became apparent that in some regions small-holder dairy farmers did not see an incentive to participate in trainings as they were benefiting

from government interventions which provided them low interest loans. In addition, many farmers who were benefiting from alternative financial support through government programs and other similar initiatives indicated that they did not feel the need for scaling up their enterprises and making themselves eligible for bank financing as long as there was steady flow of small loans/grants.

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