

## **BUSINESS**

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### **Agri Finance: Simplifying funds, empowering farmers**

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Agriculture is the primary source of food and by extension, life. It is necessary to make the most of available technological resources to complement agriculture and its primary players.

The onset of COVID-19 closed markets and put a halt in the age-old agriculture machinery of India. Although the pandemic brought a series of woes, it forced the hand of farmers to take a leap of faith towards modern, digital solutions. This is where the myriad aspects of Agri Financing emerged as a ray of hope for the agricultural community.

### **Warehouse Receipts – What, Why, How**

Collateral is at the heart of every loan and its value determines an individual's borrowing capacity. In agriculture, the ancient practices have deemed 'land' as the most reliable alternative. However, the mechanism is operated by informal local lenders that charge skyrocketing interest rates. As a result, small-scale farmers have been unable to generate substantial profit and instead, fallen prey to the loan-debt trap.

In a bid to disrupt the vicious cycle, agri financing introduced warehouse receipts. Under this, RBI-regulated Non-Banking Financial Institutions (NBFCs) allow farmers, Farmer Producer Organizations (FPOs), commodity traders, processors, exporters, and importers to use their commodities as the collateral against loans.

The produce generated by a small-scale farmer is stored in regulated warehouses. In return, they receive a warehouse receipt with the details about the crop's quality, type, and quantity. This receipt enables the depositor to avail of a credit loan from NBFCs at a given interest rate. NBFCs, working in tandem with private as well as public banks, use ongoing market rates to calculate the viable loan amount, thereby giving the depositor an option of deciding the adequate quantity for the current crop price.

Opting for warehouse storage and Warehouse Receipt financing has various benefits.

### **Modern warehousing techniques**

The implementation of dedicated warehouse management systems via leading agri financing organizations allows them to store massive amounts of produce without compromising the quality of the crop. Regulated temperatures, timely quality checks, real-time warehouse monitoring, and constant contact with warehouse personnel via calls as well as video calling apps allow the farmers to avoid the immediate sale of the crops at a lower price.

On the contrary, they can sell the goods at a higher price in the off-season to reap the maximum benefit on each harvest. With the right profit margins, farmers can easily manage the liquid cash flow needed for agriculture inputs without depending upon unregulated financial sources and climate disruptions.

### **Fighting Climate Change**

When the crop is the collateral, it is imperative to factor in the climate vulnerability. Largely, farming and associated agricultural practices follow a recurring cycle dependent upon seasons. Agri financing empowers farmers to utilize this reliance through warehouses storages and helps them avoid situations that end up in land mortgage. With critical market study, farmers can gauge the expected average prices and thus, select the right crop that yields its worth in cash flow. Consequently, it sets the wheels of sustainable agriculture in motion, where the farmer has enough financial capital to invest in disruptive agriculture technologies and educate themselves about the modern advancements in the field.

It is time for serious action, policy reforms and deployment of capital to solve for climate issues. In India, farmers are incentivized for timely payment of crop loans under Priority Sector Lending (PSL). Can we create a framework where we can reward farmers for efficient use of water, fertilisers and pesticides?

We should start building a climate resilience Index (CRI) for each of the 600,000 villages in India, which can be the foundation for driving crop diversification and resource optimisation.

### **Targeting small farmers**

The true success of agri financing is directly proportional to the inclusion of small farmers. A small, yet effective list of Agri-NBFCs is constantly trying to increase these numbers through various initiatives. This includes lending to NBFC-MFIs (Micro Finance Institutions) for on-lending to JLG members in agri and Agri allied space, Forming Lending partnerships with efficient business correspondents for lending in agri space, and financing Farmer Producer Organization (FPO) for the benefit of Small Holders. Through the formation of FPOs, Small Holders will have better collective strength for better access to quality input, technology, credit, and better marketing access through economies of scale for better realization of income.

That said, the true power of Agri financing can only be realized through mass digitization of agriculture sector that connects them with warehousing giants, NBFCs, and eliminates the traditional, time-consuming, and paperwork-driven process of accessing cash flows. Provided that the growth graph follows an exponential curve, Agri financing can empower small farmers to dream big and help the agricultural industry take a leap towards financial inclusivity.

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