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Agri Financing: Grass root issues need policy reforms

Naresh Kumar | January 13 | Updated On: Jan 13, 2022

Small and marginal farmers still caught in age-old debt trap economy

Owing to the pandemic and national lockdowns, the crisis in the agriculture sector has once again revealed itself as an issue of national economic importance. According to the Union Budget 2019-20, nearly 55 per cent of the population depends on agriculture and its allied sectors while its economic contribution is limited to 16 per cent only. Albeit various agri-tech organisations continue to strive for technology disruption in the sector, efforts have been yielded their true potential. This has a simple explanation: Financing challenges and institutional credit access faced by smallholder farmers have not received their required attention at the policy reform level from time to time. Here are a few issues in need of government reassessment for a better agrarian tomorrow:

The equation of landholding and lending Sources

As per the Agricultural Census, Ministry of Agriculture and Farmers Welfare, 2015-16, India has almost 86 per cent small and marginal farmers (SMFs), which own less than two hectares of land. Although banks have provided $168 billion agriculture credit in FY18-19 (NABARD annual report), RBI data reveals that over 50 per cent of the share went to medium and large-scale farmers. This reluctance towards SMFs is one of the many reasons that compel SMFs to resort to local, informal lending sources. With exorbitant interest rates, the SMFs are roped into a loan pit followed by the age-old debt trap economy model, where they lose the collateral (land).

In order to promote the accessibility of formal credit sources, the government can push for the digitization of land records. If the banks are provided with access to view land records online along with the facility to enable the charges online over land, it could substantially reduce the instances of double or multiple financing on the same piece of land. The main idea here is to enable banks with policy reforms that understand their perspective towards the existing reluctance.

Addressing the hesitation among banks

Primarily, the hesitation among banks is a cost-benefit-risk equation. For them, the servicing expenses needed to reach remote agricultural areas combined with SMFs low landholding and high default rate yields negligible benefits. Even if we push the bank outreach, loan defaulting is a major point of concern since there is no reliable information source to verify the credit history, land owned, average annual earnings, and farmer's background on a mass scale.

Here, digitisation can be put to use. The government's pro-digital vision is the adequate point to establish a mini-census model fueled by on-ground personnel for information collection and big data at the back end for management. Such a step would not only increase the trust and transparency among banks but further lead to awareness about new-age financing avenues among SMFs.

Awareness about Pledge financing

Post-harvest, due to lack of liquidity, a farmer or a farmer producer organisation (FPO) is compelled to sell farm produce immediately, sometimes within days of harvest. Due to a supply glut in the market, they are unable to realise the best price for farm produce. This is where pledge financing is revolutionizing the agri-ecosystem for SMFs by allowing them to store their harvest for a longer duration and receive finance against the same. Each farmer would receive a warehouse receipt for their stored commodities, which can be exchanged for immediate financial assistance at the RBI-regulated Non-Banking Financial Companies (NBFCs), which offer credit facility against Warehouse Receipt up to 70 per cent of the value of the collateral with the warehouse.

That said, the need of the hour is to bridge the gap of awareness between pledge financing and SMFs. Government can conduct awareness campaigns in partnership with NBFCs to reach out to SMFs and help them understand the intricacies of the process associated with the Warehouse Receipt System (WRS).

Post-harvest losses

Annually, India loses nearly $13 billion due to post-harvest losses. The absence of support infrastructure for crop storage reduces the individual financial capacity of the farmer while simultaneously creating a huge deficit on the economic front.

In a bid to resolve this, the government should promote the public-private partnerships (PPP) model for establishing warehouses and cold storage across the country. The government can provide decade-long tenders for the construction while the private Agtech company functions on a build-and-operate basis. In this way, the private entity can recover the infrastructure cost over a long period of time while owning to the monitoring and quality control of the stored commodities.

The foundation of existing policies is industry-centric, but modern times require a paradigm shift towards farmer benefits, which can be achieved with government support towards technological disruptions as well as through collaborative efforts with private agri-financing players and SMFs. Provided that the policy reforms are drafted with the right inputs from rural farmlands followed by gradual implementation, we can hope for a bright future for the Indian agriculture industry.

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