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...SO SHALL YOU REAP

SANDEEP SABHARWAL

AGRICULTURE and its allied sectors are backbone of the global economy. These sectors play a crucial role of providing food stocks to nurture and energise the world. With growing population, agriculture sector needs to keep pace with the growing food demand. This can be done either by increasing acreage or increasing productivity of existing farmlands.

In India, there is a need to work towards increasing the production capacity as scope for addition of new farmlands is limited. This can be done by addressing some of the biggest issues of the farm sector like outdated farming practices, farm losses, and insufficient logistics and warehousing facilities amongst others.

Access to finance is also one of the major challenges for the Indian farm sector. According to government's data, over 60 per cent of Indian farmers have no access to bank finance and this figure is even higher at 85 per cent for small and marginal farmers. Despite significant growth in farm credits and enhancement of agricultural credit target in the union budget — from Rs 9 lakh crore in 2017 to Rs 10 lakh crore in FY 2018 — accessing funds for working capital requirements in the agriculture and allied sectors is still a major challenge in our country. This is primarily due to gap between institutionalised banks, farmers and people engaged in associated activities especially in the rural areas where the banks have negligible presence.

To bridge this gap, RBI regulated agriculture focused Non-Banking Financial Companies have emerged. These NBFCs provide financing on diversified basket of agricultural commodities against warehouse receipts (WR) to farmers, joint liability groups (JLGs), small- & medium-sized enterprises (SMEs), commodity traders, food processors, exporters, importers and other agri intermediaries across the country.

Banks are faced with certain shortcomings when it comes to collateral, valuation and other such regulatory requirements. The advent of agricultural NBFC's has not only ensured easier access to financing at attractive and competitive commercial terms for seeds and fertilisers to farming equipments and machinery; they have also eased the load on institutionalised banks as the erstwhile primary lender to the agri fraternity

Agricultural NBFC's extend credit facility using crop as collateral and against storage receipts of agricultural commodities. These NBFCs also score over banks due to their ability to sanction and disburse the loans efficiently and quickly, mostly within 24 hours, irrespective of the balance sheet of the customer. The hassle free process with minimum paper work gives these firms definite edge over banks and leads to customer satisfaction. Robust internal processes, risk management mechanism, use of latest technology and taking current market rates as basis for disbursement has further added to the popularity of agricultural NBFCs as it is relatively cheaper and convenient to take loans from such institutions. Their approach is also starkly opposite the brick-and-mortar branches. This helps them in keeping their operating expenses low, despite having higher cost of funds compared to banks' due to latter's access to public deposits.

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Agricultural NBFCs can act as a bridge between the farmer's credit requirements and the banks need for a more secure lending environment. These institutions act as an additional safety net, raising capital from banks and passing it on as loans to the farmers. The flexibility of NBFCs to customise product offerings to suit the varying needs of farmers and expedite loan disbursement to meet pressing requirements has also made such institutions enviable part of the agriculture financing ecosystem.

The Agricultural NBFCs are growing steadily for the past few years and so is their contribution to the agriculture sector and the economy. These NBFCs are acting as an important catalyst, transforming the agriculture sector by not only providing short and medium term credit access to small and marginal farmers but also loans for the purchase of agricultural tools and machinery. This has empowered farmers to invest in better seeds for higher yield and better protection of standing crops as well as logistics and warehousing. Success of agricultural NBFCs can also be gauged from the diminishing farmer's reliance on moneylenders which eventually leads to farmer getting caught in a web of debt.

In India, a majority of agricultural NBFCs were initially set up by the various agricultural produce marketing companies and warehouse providers as a natural extension to their business to cater to the existing clients. These captive units have now grown and expanded their business to be successful standalone businesses in themselves. It is anticipated that due to the focused and specialised nature of the business, agri-NBFCs could create a niche for themselves in lending to the entire value-chain of the agriculture sector and the success stories of existing entities will attract more firms and investors to invest in this growing segment.

Despite the key role played by agricultural NBFCs in transforming the agriculture sector in India, these firms are forced to offer higher priced loans in comparison to banks. Moreover, their borrowings from banks do not qualify as priority sector credit under RBI Norms, even if this money is used exclusively for agricultural lending. These NBFCs are also not eligible for seeking protection of the Credit Guarantee Fund (CGS) set up under the Small Farmers' Agribusiness Consortium (SFAC) to provide comfort to lenders reaching out to FPOs. This calls for policy reforms to enable agricultural NBFCs access low-cost capital to extend farm credit at competitive rates.

The role of NBFCs in transforming the agriculture sector is increasingly becoming critical as demand for food items continue to evolve with changes in our food habits. We therefore must make our farming practices more versatile to meet emerging needs and NBFCs can be the gateway to access funds required to modernise the sector.

(The writer is CEO, SLCM Group)

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...So shall you reap

By Sandeep Sabharwal , Thursday, 8 March 2018

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