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The role of collateral management in reducing risks in agricultural supply chains b PREMIUM

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The time is ripe for embracing collateral management as a transformative tool for agricultural resilience

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Agricultural supply chains are fundamental to global food security and economic stability. However, they are fraught with challenges that threaten the livelihoods of farmers and the efficiency of markets. Collateral management emerges as a critical mechanism to address these challenges, offering solutions that mitigate risks and foster trust among stakeholders. This article explores how collateral management reduces risks and enhances agricultural supply chains' resilience.

Understanding risks in agricultural supply chains

Agriculture is inherently unpredictable, making its supply chains highly vulnerable. Farmers and traders face challenges such as price volatility, post-harvest losses, and storage inefficiencies, often compounded by unpredictable weather patterns. These risks can disrupt the flow of produce, increase costs, and reduce profitability, impacting everyone from farmers to end consumers. Furthermore, financial institutions face difficulties in extending credit to the sector due to the lack of secure mechanisms to manage and monitor collateral, further exacerbating the supply chain's fragility.

What is collateral management?

Typically, collateral management involves securing loans or credit by monitoring and managing stored commodities. Speaking about Agriculture industry, it involves a structured process of managing, storing, and safeguarding the commodities pledged as collateral to ensure their quality and quantity until the loan is repaid. This system plays a critical role in facilitating credit access for farmers, traders, and allied stakeholders. By ensuring that stored commodities remain intact and accessible, collateral management facilitates smoother transactions and mitigates risks at various levels.

How does collateral management mitigates risk?

Collateral management mitigates risks in agriculture by safeguarding the commodities used as collateral, ensuring quality, and providing transparency in financial transactions. Here's how it achieves risk mitigation:

Protecting collateralised commodities: Commodities should be stored in warehouses to prevent spoilage, theft, or damage from pests and weather. Along with tech-enabled solutions such as CCTV cameras and smart locks should be deployed at warehouses for real-time monitoring and surveillance.

- Comprehensive insurance policies cover risks such as fire, flood, and natural disasters, protecting both the lender and the borrower.

SOPs for quality & quantity assurance: Periodic quality checks and audits ensure the stored commodities maintain their agreed-upon standards, reducing the risk of value depreciation.

- Follow standardised processes for accurate measurement of produce, eliminating disputes and discrepancies.

Fully digitised warehouse management: Many collateral management systems use the latest technologies like ERP systems to provide real-time data on the status of commodities and improve transparency in departments across functions.

- The warehouse operations team can access real-time information on stored commodities, track commodities, and receive alerts through digital platforms anytime, anywhere.

Minimises price volatility impact: Market price fluctuations are a constant challenge in agriculture. Collateral management helps mitigate these impacts by securing produce as collateral, providing stability to both lenders and borrowers.

- It also enables farmers and traders to leverage hedging strategies, further insulating them from sudden price drops.

Innovation and its adoption in collateral management

Technology plays a pivotal role in modernising collateral management practices. Real-time commodity monitoring through ERP systems ensures transparency and accuracy. These systems enhance traceability, reduce risks and foster trust among stakeholders. Predictive analytics offers insights into potential risks, allowing stakeholders to act proactively. By integrating these innovations, collateral management becomes more robust, and scalable, enhancing the overall resilience of supply chains along with efficient loan recovery. The agri industry is also seeing the integration of AI-based algorithms in these systems which are highly scalable and efficient at the same time due to strong R&D done over a period of time.

Skill building in collateral management:

- **Infrastructure Development:** The rise of scientific storage mechanism for collateral frameworks necessitates skilled personnel to manage and operate these facilities.
- **Technology Adoption:** Innovations in collateral management, such as IoT sensors and ERPs, require stakeholders to be trained in digital tools.
- **Financial Awareness:** Farmers and agribusinesses need knowledge about financial products linked to collateral, fostering skill building in financial literacy.

The way forward for agricultural stakeholders

Collaboration is key to building resilient agricultural supply chains. Farmers, traders, and financial institutions must work together to embrace collateral management as a standard practice. Awareness campaigns and training programs can help stakeholders understand its benefits and encourage adoption of technology in collateral management processes. Governments and policymakers can also play a significant role by formulating supportive regulations that promote the use of modern collateral management techniques.

Conclusion

Collateral management serves as a cornerstone in mitigating risks within agricultural supply chains. By reducing post-harvest losses, enabling access to credit, and leveraging technology, it creates a more stable and efficient ecosystem. As stakeholders continue to adopt innovative practices, the potential for a more secure and sustainable agricultural future becomes increasingly achievable. The time is ripe for embracing collateral management as a transformative tool for agricultural resilience.

-Sandeep Sabharwal, Group CEO, Sohan Lal Commodity Management Limited