Agriculture Value Chain Financing: Opportunities Ahead/Lack of Access to Affordable Credit

Sustaining the agriculture sector through Collectives, Cooperatives & FPOS post Covid-19'

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At the outset, I congratulate Dr. Tripathy and VAMNICOM for having organized this webinar on the theme of 'Sustaining the agriculture sector through Collectives, Cooperatives and FPOS post covid-19'. A seminar with this theme could not have been organized at a more opportune time.

The Covid-19 pandemic has not spared any economy and India is no exception. The pandemic has wreaked havoc and caused unprecedented damage to our economy. Our GDP has seen a sharp contraction, something that has not been witnessed by us in the recent past. However, in the midst of all this economic gloom, our Agriculture sector has shown tremendous resilience and has performed exceptionally well clocking a growth of 3.4% as per the latest GDP data available for June 2020.

The economic performance of a developing country like India largely depends on the performance of its agriculture and allied sector. This sector plays a significant role in rural livelihood, employment and national food security. It happens to be the largest source of livelihoods in India. Proportion of Indian population depending directly or indirectly on agriculture for employment opportunities is more than any other sector in India. As high as 70 percent of its rural households still depend primarily on agriculture for their livelihood, with 82 percent of farmers being small and marginal. Having been associated with this sector for over three decades, I am fully convinced that the objective of inclusive development in India can be achieved only through a concerted focus on agriculture.

However, if one looks at the performance of agriculture sector in our country, it is evident that agriculture growth has been fluctuating: having increased from -0.2% in 2014-15 to 6.3% in 2016-17, and then declining to 2.8% in 2019-20. The gross fixed capital formation in agriculture decreased from 17.7% of Gross Value Added (GVA) in 2013-14 to 15.2% of GVA in 2017-18. The share of agriculture and allied sectors in the Gross Value Added (GVA) of the country at current prices has declined from 18.2 per cent in 2014-15 to 16.5 percent in 2019-20. The decline was mainly due to a decrease in share of GVA of crops from 11.2% in 2014-15 to 10% in 2017-18. The share has been declining on account of relatively higher growth performance of non-agricultural sectors. This is a natural outcome of development process that leads to faster growth of non-agricultural sectors owing to structural changes taking place in the economy[1].

Notwithstanding this aspect, there is a also a growing demand for food especially due to the changing demographics in our country.

The demand for food and processed commodities is increasing due to growing population, changing consumption trends owing to rising per capita income. The demand for high-value commodities (such as horticulture, dairy, livestock and fish) is increasing faster than staple foods —for most of the high-value food commodities demand is expected to increase by more than 100% by 2030. These commodities are perishable and require specific, high cost infrastructure for handling, value-addition, processing and marketing. I see this as a challenge and a huge opportunity as well. The challenge is that it is capital intensive, technology intensive that require significant credit support and expertise. And the opportunities lie in augmenting farm incomes, generating employment and new business avenues for lenders across the value chain players and nodes.

However, there are certain issues in the agriculture value chain that need to be identified and addressed if India has to harness the opportunity that is presented to itself.

These issues exist at different levels in the agri value chain right from the production stage till the time it reaches the consumer's table viz., Farmers level, Market intermediaries level, logistics related issues and processor/user industry level.

[1] Economic Survey 2019-20

At the farmer's level the issues relate to :

a. Limited access to better inputs including credit and technologies,

b. low marketable surpluses (food crops) coupled with absence of aggregation mechanism

c. Inadequacies in warehousing facilities including cold storage, cold chain, etc., for perishable agri produce

d. Inadequate risk mitigation interventions to address production and market risks

At the Market intermediaries' level, the issues relate to:

a. Inadequacies in infrastructure for produce handling, sorting & grading

b. Dominance of unorganized trading

c. Restrictive APMC Acts (though liberalized now)

d. Qualitative and quantitative losses

e. Opportunistic profiteering

f. Multiple layers in marketing channel contributing to high price build-up – which neither benefits the producer nor the consumer

When it comes to Logistics, the issues largely relate to :

a. Connectivity in rural areas

b. Use of open trucks even for perishable produce – which is the most predominant mode of transport.

c. Absence of an Integrated cold chain – these are yet to make in-roads

d. High costs

At the Processor/user industry level, the issues relate to:

a. Long/disjointed supply chain – There are too many non-value adding players / layers

b. There are no controls over quality of raw material sourced in the absence of adherence to grading by the producer / intermediary

c. The Concept of traceability and product standards are yet to penetrate

d. The Contract farming laws – seldom honoured

e. Issues relating to higher costs of procurements and erratic supply of raw material

f. Food Safety / Hygiene issues, especially due to large 'unorganised' processing sector

g. Short processing period /single product

Besides the above issues, the agriculture value chain is also confronted with other issues like low investments in quality control, product innovation and market intelligence and Lack of brand building and access to organized market players.

Notwithstanding the issues and gaps in the agriculture value chain, it would be interesting to understand the **Emerging opportunities for Integrated Value Chain approach**

As most of you are aware, Value Chain broadly encompasses 'Full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers and consumers' final disposal after use'.[2] By far, agriculture production process in India continues to be in conventional and dis-aggregated mode.

However, there are certain sectors where one can see the dominant presence of the value chain and not surprisingly, India ranks no.1 in this sector. The cooperative dairy sector is one such classical case where an excellent value chain prevails, with a participatory role for every stakeholder in production and processing. This is also an area where a healthy producers' cooperatives federating at higher levels and a vibrant corporate/private sector investment/participation coexists in a healthy and complimentary environment.

The Poultry sector – both in meat and egg production – is another good example where active participation of the larger corporates in hatchery and processing industry with capital and technology investment at entrepreneur level, facilitated a well- defined production, value addition and distribution system with a participatory role for every stakeholder. Contract faming in the broiler sector with quality inputs (DOCs, feed, etc) and veterinary support and buy-back at farmers' doorsteps with a fair deal (price linked to bird weight) ensured space even for a very small entrepreneur/farmer.

Under crop production system, the interventions have been more towards addressing gaps in production related investments. Further integration with post production areas of processing and marketing are yet to take place to the desired extent both in staple food crops and commercial crops.

[2] 'Value Chain Dynamics – Food and Agribusiness' – Prof. Sushil Kumar, IIM, Lucknow (sourced from web)

A few successful examples, however exist in areas where user-industry interventions were involved, like a) where processing industry is involved through contract farming and b) where cooperative/corporate agri retailers are involved in procurement of agri produce directly from farmers.

With the increasing demand for quality food and emerging opportunities for export, and emphasis of the policy makers on produce aggregation for marketing through farmer institutions like producer organizations, the opportunities for promotion of value chain approach are becoming wider.

The enabling environment for value chain approach include:

- Varied agro-climatic conditions and large production/consumption base.
- Gradual shift in orientation amongst farmers from conventional farming to agri-business enterprises towards commercial agriculture.
- Access to better inputs and technology options.
- Consumer basket exhibiting preferences to value-added/ processed products: changing food preferences.
- Demographic advantage: Growing young urban population (in their 30s/40s) with higher disposable incomes leading to increasing discretionary spends, especially on quality food.
- New Value Addition avenues: Environmentally low-impact foods, fair trade practices, growing preference for organic foods, food safety issues.
- Expanding network of institutional credit dispensation mechanism/ credit purveyance.
- Inclination amongst bankers on integrated value chain financing projects

Integrated value chain approach – a win win for all stakeholders

- Professional Management
- Ramping up scale exponentially: deriving economies of scale/scope, result: organized production and market aggregation
- Access to latest technologies
- One-stop service access (especially where user industry tie-up or contract farming are involved)
- Quality awareness
- Attracting investments in critical infrastructure
- Minimizing role of intermediaries, improved margins, better price discovery
- Greater role for private players/corporate entities in extension, marketing and investment in post-harvest handling infrastructure including warehousing,

Value chain financing by Banks

There are instances of success stories of value chain financing by both banks and NBFCs. The NBFCs being nimble structured, technology oriented and with speed of delivery are able to penetrate deeper into the ecosystem as compared to the banks. Though, the interest rate charged by the NBFCs on such loans may be relatively higher, they have ensured timely and adequate financing to every part of the value chain. There is a need to mainstream Banks as well into this value chain financing so that banks are able to pass on credit at lower costs due to the inherent cost advantages they have. Ultimately, deeper and wider penetration of credit by banks would lead to better price realization for the farmers.

I strongly suggest that the following approach will address the challenges in financing agri value chain

1. Evolving new Integrated Value Chain financing models that may involve,
   - Identification of potential crops / interventions ; designing of crop / activity specific projects
   - Market facilitation interventions – feasible options like end-user linkages, bulk buyers/exporters, agri retailers, etc.
   - Investments in input supply management
   - – Seed supply management
   - – Ventures in the related field of biotechnology for production of tissue culture plant material for crops of commercial significance

2. Investments in infrastructure for integrated supply chain management especially for Warehousing / collateral management services through Hub-Spoke models for postharvest management (aggregation, sorting, grading, NWR financing)
   - IT enabled technology dissemination services including crop advisories, digitization of farmers database, virtual aggregation and market facilitation through e-platforms (market portal services)
   - Integrated cold chain infrastructure more specifically for high value perishable agri produce
   - Modern Quality Control laboratories especially for analysis of chemical and pesticide residues in food products (an emerging area to meet exporters / quality food processors requirements)

3. Integrated production, labelling, branding and marketing of organic produce including retailing

4. Integrated projects (Both commercial cultivation and processing) for Medicinal and aromatic plants of commercial significance both from traditional Indian medicine and allopathic drugs

5. Exhorting bankers and FPOs to utilize the opportunities provided under programmes such as Agri Infrastructure Fund of GoI to address infrastructure credit needs in the value chain.

6. Developing business / financing models with special reference to FPOs and dovetail with the facilities of equity grant and credit guarantee under the Central Sector Scheme for formation and promotion of 10000 FPOs, NABARD is in the process of setting up a Credit Guarantee Fund exclusively for FPOs, with contributions from GoI and NABARD. The primary objective of CGF is providing a Credit Guarantee Cover to lending institutions to enable them to provide collateral free credit to FPOs. The lending institutions avail this facility for extending credit to FPOs

- Continuous capacity building of the stakeholders in the value chain such as bankers, farmers / FPOs, user industries, government departments, etc
- As per the new Priority Sector guidelines issued by the RBI, loans upto ₹50 crore to start-ups (as per the definition of Ministry of Commerce and Industry, Government of India) that are engaged in agriculture and allied activities are permitted to be reckoned as Priority Sector advances by the banks.

Before I conclude, let me leave a thought with all of you – a thought that has been engaging us for some time now. I am sure all of you might be aware of the term 'India Stack' a digital infrastructure created on the Aadhaar platform. In a short span of time, it has transformed the way we carry out digital transactions in a secure and seamless manner.

On similar lines, creation of an 'Agri stack' that would bring all stakeholders in the 'Agri value chain' viz., farmers, input suppliers, processors, warehouses, cold storages, e-markets, banks, insurers, etc., on a common platform would be a game changer. We strongly believe that time is ripe for rolling out the 'Agri stack' by anyone even through PPP mode which has the potential to unlock tremendous benefits to all stake holders, most importantly the farmer to propel India's agriculture to greater heights.

With these thoughts, I conclude my address and thank all the participants for a patient hearing. I also thank VAMNICOM for giving me an opportunity to address this Webinar.

Thank you and Best wishes to all of you.