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Budget and 'ease of doing farm business'

REFORM MEASURES. Integration of credit schemes, modification of KCC norms and value chain financing could help small farmers and FPOs

The more things are changed, the more they remain the same. This holds true for recent attempts at agricultural reforms in India with even the three well-intentioned farm laws being rescinded in 2021 following widespread farmer protests. However, the challenges faced by small and marginal farmers, who make up nearly 85 per cent of the community, cannot be addressed without sustained reforms. The sector is of such critical importance that progressive changes must be continually pursued. Budget 2025 presents a timely opportunity to stay focused on reform-tweaks, especially in creating conditions that support the "ease of doing business" for farmers.

Below are nine suggestions that could be considered by both the Government and the RBI working in tandem, as many powers overlap. Several of these recommendations were already outlined in 2021 by a committee led by CS Setty, the current SBI Chairman.

Interest subvention for term loans for small and marginal farmers: Currently, interest subvention is available only for Kisan Credit Cards (KCCs), but it should be extended to agricultural term loans as well. This includes loans for the purchase of equipment (e.g., tractors), land development, rainwater harvesting, and farm pond construction, provided the total subvention per farmer does not exceed ₹3 lakh. For instance, if a farmer has already availed of a KCC of ₹1.5 lakh, he would receive interest subvention for an additional ₹1.5 lakh term loan (even if the total loan amount is higher). This benefit should apply to standard term loan accounts, incentivising small and marginal farmers to invest in agricultural improvements, particularly for smaller investment credits where no current incentives exist.

Omnibus credit guarantee scheme for agricultural loans: Currently, separate credit guarantee schemes exist for different agricultural sectors (such as NABARD's schemes for Agriculture Infrastructure Fund and FPO financing, and Small Farmers' Agribusiness Consortium's scheme, or SFAC, for Farmer Producer Company loans). However, unlike the MSME sector, there is no single guarantee scheme for agricultural and allied loans. An omnibus scheme under NABARD could integrate these existing programmes and expand coverage to include all agricultural loans up to ₹2 crore. The Government could contribute an additional corpus, from participating lending institutions, similar to the CGTSME scheme. This would allow collateral-free loans up to ₹2 crore, reducing capital and credit costs for lenders while benefiting farmers.

Regulatory definition of agricultural value chain financing (AVCF): While discussions on AVCF have been ongoing, there is no common understanding or definition. To promote AVCF, a comprehensive regulatory definition should be laid down covering the entire set of activities —from input supplies to sowing, cultivation, harvesting, procurement, processing, and retail sales — under "Agriculture". This would allow seamless financing across the value chain. Notably, two activities currently excluded from regulatory 'Agriculture finance' are: finance for input suppliers (fertilizer dealers, seed suppliers, and agricultural machinery dealers); and finance for farm produce aggregation or procurement.

Flexibility in FPO member requirements: The minimum number of members required for farmer producer organisations (FPOs) to be eligible for credit guarantee schemes is currently set at 300 for the NABSanrakshan scheme and 500 for the SFAC scheme, with exemptions for the North-East and hilly regions. To facilitate the growth of FPOs, the eligibility threshold for bank funding and guarantee coverage should be lowered to a minimum of 100 members. This would accelerate the spread of the FPO model and encourage more farmers to participate.

> **The Government could introduce an incentive scheme to incentivise corporates in the food** and agro-processing sectors to source directly from f...

Simplifying the KCC process for farmers: KCC loans have proven to be an effective tool in supporting farmers at the start of the agricultural value chain. To ensure the continued success of KCCs, regulatory changes should allow that, for renewal, interest servicing alone be sufficient, rather than requiring full repayment. This change may be made applicable at least for loans up to ₹3 lakh, which are typically taken by small farmers, who transact in cash. Simplifying the renewal process would encourage wider availment of KCCs by farmers.

Leveraging digitised land records for collateral-free loans: In States where land records are digitised and banks can record loan interest on these digital portals, the RBI should mandate that banks provide collateral-free loans of up to ₹3 lakh for any agricultural activity within the value chain. This would simplify access to credit and boost agricultural financing. Currently, the RBI mandates collateral-free loans up to ₹2 lakh, but digitising land records could make higher amounts feasible.

One Nation, One Scale of Finance for MSP commodities: Given that the uniform across the country, there is a strong case for adopting a 'One Nation, One Scale of Finance' policy for the 23 commodities covered under MSP. This reform would simplify financing for crop cultivation by aligning input costs across States with a leeway of 10-20 per cent for individual banks. It would reduce complexity and improve the ease of doing business for farmers availing KCCs.

Sourcing-linked incentives for corporates engaging with farm collectives: The Government could introduce a 'sourcing-linked incentive' scheme to incentivise corporates in the food and agro-processing sectors to source directly from farmer collectives. This would encourage corporates to bypass intermediaries, such as individual aggregators or commission agents, in favour of more direct relationships with farmers' collectives. The incentives could be offered in the form of tax breaks or other financial mechanisms.

Increase in regulatory limit for warehouse financing: The current regulatory limit for warehouse receipt financing in agriculture is ₹75 lakh. This should be raised to ₹5 crore for farmer interest groups, FPOs, and similar farmer collectives. The increased limit would better meet the financial requirements of larger farmer groups engaged in agricultural value chains.

These changes will strengthen our agricultural sector, making it more productive, inclusive and responsive to the needs of farmers.