

Credit Guarantee Scheme for eNWR-based Pledge Financing

A GAME-CHANGER FOR INDIAN AGRICULTURE

The Indian agricultural sector has long struggled with liquidity issues, price volatility, and distress sales, particularly post-harvest.

The newly proposed **Credit Guarantee Scheme for eNWR-based Pledge Financing (CGS-NPF)** aims to address these challenges by boosting post-harvest financing options for farmers and creating a more secure, transparent agricultural economy. This revolutionary initiative, recommended as a Central Sector Scheme by the Department of Food and Public Distribution (DFPD), will be operational from 2024-25 until the end of the 16th Finance Commission cycle, i.e., till 2030-31. The scheme is backed by a robust corpus of Rs 1,000 crore, designed to facilitate pledge financing against electronic negotiable warehouse receipts (eNWRs), ensuring

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farmers have easier access to much-needed credit. This scheme covers lending and warehousemen risks and is expected to improve trust in warehousemen to increase post-harvest finance through eNWRs.

To add a further boost to the scheme, Food Secretary Sanjeev Chopra announced that the new credit guarantee fund aims to address the credit risk and ensure a pick-up in loans against the pledge of eNWRs to Rs. 1,05,000 crore in the next 10 years from the current level. As per reports, the pledge post-harvest financing was only Rs. 3,962 crore in the total Rs. 13 lakh crore credit in 2023-24. The lower pledge financing was due to "reluctance on the part of bankers anticipating a credit risk. As of

today, the portion of post-harvest credit is minuscule as compared to the Rs. 12 lakh crores dedicated to pre-harvest finance which constitutes mostly of traders as the benefactors.

It should also be noted that in March 2024, the government launched an online digital gateway, the e-Kisan Upaj Nidhi (e-KUN) portal, which will allow farmers to store agricultural produce in WDRA-accredited warehouses and easily obtain post-harvest loans from banks within the portal itself. With such initiatives, the government's focus on improving access to post-harvest credit for farmers is quite evident.

A Strategic Step towards Doubling Farmers' Income

The **Dalwai Committee on Doubling Farmers' Income** recommended the creation of a credit guarantee fund to boost pledge loans for farmers. Further support came from the Reserve Bank of India (RBI) Governor, who emphasized the importance of creating a credit guarantee mechanism to facilitate smooth transfers of pledged goods. This laid the groundwork for the Credit Guarantee Scheme (CGS-NPF), which aims to provide a reliable and scalable solution for agricultural financing, directly benefiting farmers and stakeholders across the agribusiness supply chain.

Key Objectives

The CGS-NPF scheme has clear goals centred around improving financial accessibility for farmers, especially post-harvest. The key objectives of this scheme include:

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- **Increasing Post-Harvest Finance:** Helping farmers avoid distress sales by ensuring easy access to credit.
- **Expanding Agricultural Lending:** Encouraging banks to extend pledge loans against eNWRs, benefiting both farmers and traders dealing in agricultural and horticultural produce.
- **Mitigating Risks:** Addressing credit risks and risks associated with warehouse management.
- **Reducing NPAs:** Aiming to decrease Non-Performing Assets (NPA) in the Kisan Credit Card (KCC) portfolio by helping farmers repay pre-harvest loans through pledge loans.
- **Supporting Digital Initiatives:** The scheme aligns with the Government of India's push for a digital economy, particularly in the agricultural sector.

Scheme Highlights

The CGS-NPF will play a crucial role in enhancing post-harvest agricultural credit preventing farmers from selling their produce at a loss. By providing easy financing through eNWRs, the scheme will directly improve the income stability of farmers.

- **Increased Confidence in Lending:** By leveraging eNWRs, the scheme aims to increase the trust of lenders, including Regional Rural Banks (RRBs), in offering post-harvest finance.
- **Digital Transformation:** The eNWR system supports the Government's Digital India initiative with a focus on improving the ease of doing business within the warehousing sector, thereby enhancing transparency and efficiency.
- **Protection against Price Volatility:** With loans secured against eNWRs, farmers can store their goods in WDRS-accredited warehouses, sell their produce when market conditions are favourable, and avoid distress selling due to urgent cash needs.



By creating a digital ecosystem for agricultural financing, eNWRs make it easier for farmers to access credit, trade their produce, and settle transactions efficiently.

Key Features and Impact

The CGS-NPF scheme's features are designed to provide comprehensive support for both small and large stakeholders in the agricultural ecosystem:

- **Loan Limits and Coverage:**
 - **Small and Marginal Farmers:** Loans up to ₹75 lakh with a coverage of 80-85%.
 - **MSMEs, FPOs, and Traders:** Loans up to ₹2 crore with a coverage of 75%.
- **Interest Rates:** The interest rate is capped at a maximum of 3% per annum above the Marginal Cost Lending Rate (MCLR), with an additional 1% over the lending rate for cooperatives.
- **Collateral Requirements:** Loans are provided against the commodities stored in eNWRs, with no additional collateral required.
- **Targeted Beneficiaries:** The scheme places a strong emphasis

on Small and Marginal Farmers, as well as women farmers, SC/ST communities, and Persons with Disabilities (PwD), offering minimal guarantee fees for these groups. MSMEs, FPOs, and small traders will also benefit from this initiative.

- **Reduction in KCC NPAs:** By enabling farmers to pledge stored produce and access funds to repay pre-harvest loans, the scheme aims to significantly reduce NPAs in the KCC portfolio.

Macro-Economic Impact

Beyond individual beneficiaries, the CGS-NPF scheme is set to bring about several macroeconomic benefits:

- **Improved Liquidity:** By increasing access to credit and facilitating better storage and warehousing practices, the scheme will enhance liquidity in rural areas.
- **Standardization of Warehousing:** The scheme promotes the upgradation and standardization of warehousing, leading to better storage conditions and reduced post-harvest losses.
- **Improved Commodity Trading:** By improving warehouse standards and reducing risks in financing, the scheme will lead to more organized and efficient agri-commodity trading in India.
- **Scientific Storage:** The promotion of scientific storage of agricultural

commodities, which is a WDRA mandate for registration, will reduce wastage and enhance the shelf life of stored produce.

Benefits for Stakeholders

Farmers

- **Access to Affordable Credit:** Farmers will find it easier to secure loans with lower interest rates, improving their access to timely finance.
- **Avoiding Distress Sale:** By pledging their produce in accredited warehouses and receiving loans against it, farmers can avoid selling their crops in distress, leading to better price realization.
- **Improved Incomes:** With access to finance and the ability to sell at remunerative prices, farmers' incomes are expected to rise.

Government

- **Price Monitoring and Control:** The scheme will help the government centrally monitor agricultural prices more effectively, controlling food inflation and stabilizing market prices.
- **Doubling Farmers' Income:** By enhancing access to finance and creating a more efficient agricultural value chain, the scheme aligns with the government's goal of doubling farmers' incomes.

Banks

- **Safe Lending Portfolio:** By offering loans against digital warehouse receipts which are regulated by WDRA, banks can reduce the risks associated with agricultural lending.
- **Reduction in Fraud:** The digital nature of eNWRs and the regulatory oversight from the Warehousing Development and Regulatory Authority (WDRA) will help reduce the risk of fraud in lending.

Promoting eNWR as an Instrument of Financing

eNWRs are digital receipts issued by WDRA-registered warehouses, and they are poised to become a critical instrument for agricultural financing. These electronic receipts can be used



for financing, trading, and settlement, functioning similarly to dematerialized shares in a stock market. Their integration with a central repository platform simplifies the lending process and increases transparency.

By creating a digital ecosystem for agricultural financing, eNWRs make it easier for farmers to access credit, trade their produce, and settle transactions efficiently. This streamlining of operations promises to reduce costs and increase efficiency across the entire agricultural value chain.

Recommendations for a Secure Future for Agriculture

For an effective and impactful implementation of this scheme, it is recommended to reduce the guarantee premium. eNWR can claim this benefit since it is a relatively secure product in comparison to liquid collateral. Simultaneously, increasing farmer participation is a necessity for the success of this scheme which can be addressed by having WDRA-registered warehouses at the farm gate. Subsidies in warehouse rentals for farmers up to a limit of 15 lakhs worth of commodities stored in these warehouses could give further impetus to the scheme and bypass deterrents like long distances between warehouses

and production centres, and affordability of storage spaces.

We can already see that many FPOs have to come forward with effective market linkages which have provided respite to depositors from storage charges and pledge interest with an aggressive PPP model of procurement by large commodity players at assured prices. This needs to be replicated across the nation.

The Credit Guarantee Scheme for eNWR-based Pledge Financing (CGS-NPF) represents a transformative shift in India's agricultural financing landscape. By improving farmers' access to affordable credit, reducing risks for lenders, and fostering digital innovation in the warehousing sector, the scheme has the potential to drive a sustainable and profitable agricultural economy. Over the next decade, this initiative could significantly reduce post-harvest losses, lower the burden of debt on farmers, and foster a more secure, transparent agricultural sector — all critical steps toward realizing the goal of doubling farmers' incomes.

In essence, the CGS-NPF is not just a financial tool, but a catalyst for structural change in India's agriculture, empowering farmers and stakeholders to navigate the challenges of modern agriculture with greater confidence and resilience.