

CAs Can Add Value to Agriculture

The agricultural sector occupies a very important position in the Indian economy. Nearly one-fifth of the Gross Domestic Product (GDP) of our nation is made up of agriculture and more than 60% of our population is dependent on it for livelihood. This typical eco-

portance. Chartered Accountancy is one of the professions whose practitioners are geographically better spread across the country— from town to tehsil, and as such the professionals can act as better change agents in the society concerning the agricultural sector.

how the social goals and business goals can be combined. This model is being adopted as a case study by various international business schools. This model is very interesting and encouraging for the professionals also. E-choupal is a mechanism by which the ITC processor of the agro-commodity has procured the raw material at fair price eliminating the middleman from the system that eats most of the profits, which the real producer in fact deserves. Farmers take keen interest in the mechanism as there was no need to move to mandis in the far-off places or approach an Aditya (broker) in such *mandis* where prices or the weighing system are prone to manipulation. The role of *mandi* cannot be undermined but the mechanism has empowered the farmers with an alternative place to sell their commodities. Today, the ITC concept has transformed into a more than Rs.3000 crore business, which is adding significantly to the bottom line of the business. The choupal concept has been further extended to provide equipment, pesticides, insurance and other household articles at one place. ITC e-choupal is one such classic business model, which gives us a definite message that opportunity in agriculture is not small.



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Agriculture is in sharp focus once again. Big corporate and business houses are evincing keen interest in farming and the contract farming framework is fast taking a final shape. Even as the era of green revolution and self-sufficiency in food-grains continues in our country, newer trends have started stimulating Agriculture in India. As the Government promises to promote agriculture on priority, the Crop Insurance and Forward Trading are two crucial devices that the finance world has offered to the farmers for beneficial application. Although the agriculture income is tax free, Chartered Accountants have a great role to perform in this area. The new theme in agriculture will require professional involvement at various levels. This article is a journey to significant developments and various areas in which Chartered Accountants can play a pioneering role.

economic composition of GDP and occupation structure is hard to ignore. It is generally felt that agriculture income is tax-free and hence there is hardly any role to play. But such a notion is very narrow. It is believed that India is set to grow by 8% per annum and the growth of agriculture will be an important contributing factor. Every progress has a crucial economic dimension and the nationalisation of banks can be taken as one such example. We have to participate in the progress that the nation is registering by good distribution, and ensuring contributions in various conventional and non-conventional areas of im-

A little shift in the approach of the professionals can make us more fertile in delivering significant solutions to the society.

Noteworthy Developments in Agriculture

To put the subject in perspective, let us take the inventory of some recent and noteworthy happenings in the Rural and Agriculture area (see Box-1)

The ITC e-choupal— There is enough space at the bottom of the pyramid:

ITC e-choupal is a successful example of how agriculture can be harnessed for the growth of business and

Contract Farming— A consortium approach to Agriculture:

Contract Farming mechanism has provided a common platform to the participants to demonstrate their individual

skills. Farmers are uncertain about marketability and the price of their products. Agro-based and food industries on the other hand require timely supply of raw material with good quality and competitive rates. The limitation of the farmer is that it lacks market intelligence. On the other hand the limitation of producers is the absence of personal involvement, which an individual can better provide. This concept overcomes the limitations of both the parties. Corporates buy the products in advance at predetermined rates or based on any defined formula. Corporates not only give assured market but help in arranging financial resources and the technical know-how for the concerned crop. This mechanism is a consortium, which recognizes specific role of finance intelligence, market intelligence, etc. and differentiates and integrates the typical roles of everyone for a common

objective. The experiences in this field are quite interesting. States are doing their best to provide a workable Contract Farming Framework for the growth of Agriculture.

Agriculture Insurance and Forward Trading— Powerful tools to manage uncertainty:

There are two serious uncertainties surrounding agriculture. One, Indian agriculture is largely dependent on the monsoon and second, prices are different at the time of harvest. The finance world has provided weapons to minimise the incidence of such uncertainties. A new Agriculture Insurance Company has started its operation giving solution for insuring crops. Forward Trading is another gift of finance to the farmers. Forward Trading in various agriculture commodities like Soya bean, Gram, Guar, etc. has been made possible.

Three Exchanges have been recognised by the Government as National Commodity Exchanges. Besides, 22 regional commodity exchanges are also operating in narrow set of commodities. Introduction of Forward Trading in Agriculture Commodities has provided an alternative market mechanism to the farming community wherein they can manage to sell their products if the prices are not favourable in the physical delivery market.

Rural Godown and Food Processing Unit as Post Harvest Management Exercise:

It was seen that nearly one third of the agricultural produce goes waste because of non-availability of market, poor transportation facility, perishable nature of product or absence of economic price to cover the cost associated. In view of this fact, the government has promoted rural



private warehouse along with big warehouse owned by the government like FCI & Warehousing Corporation, etc. Rural godown is promoted by way of investment-linked subsidies and the success is overwhelming. Setting up of food processing unit is another step in post harvest management of agricultural produce. Processing of Agricultural products adds value or increases the life of the product to the benefit of the farming community.

Agriculture – Area Where CAs Can Add Value

After briefly discussing recent happenings in the world of agriculture in India, let us travel to the areas where we can make a mark as a Chartered Accountant.

Agriculture Accounting— Presently, accounting and agriculture are strangers to each other. We can make an attempt to bring both close to each other. Agriculture was carried as subsistence farming or with no strict commercial logics. Agriculture was subsidised by cheap or concessional power and water, which are key ingredients. The markets for agriculture commodity were immune to world happenings. But now the situation is fast changing. The 'Protectionist approach' has not yet been lifted by the Government but has been marginalised over a period of time. It is the need of the hour to take decisions based on sound commercial principles. Here the role of Chartered Accountants is not only desirable but essential. Attempts should be made to educate farmers about the system of recording cost and revenue. In the long run with the entry of the private sector in farming, players having viable commercial proposition will only earn rewards on their capital. The ICAI should bring a separate guid-

ance note for farm accounting, and the members can spread this awareness at an individual level and even collectively by forming NGOs in this area.

Rural Credit— Proper Extension and Monitoring: Rural Credit, of which agriculture credit is a part, is a key input in the development of rural India. According to the RBI Report 2004-05, agriculture credit extended by Banks has crossed the one lakh crore mark. The distribution aspect of rural credit is very significant. The Finance Minister has highlighted in his budget speech 2005-06, para 48, and I quote his words of wisdom to gauge the scope and ramification:

“Particularly in agriculture credit, innovations are possible. I propose to request the RBI to examine the issue of allowing banks to adopt the agency model, by using the infrastructure of civil society organisations, rural kiosks and village knowledge centres to provide credit support to rural and farm sectors”.

We have an important role to play here. We as a consultant can influence the client to borrow appropriately for only productive purposes, and based on sound commercial logics. No doubt the Sahukar phenomenon is eliminated with the spread of branches in remote areas. Moreover, banks are liberal and generous in loan disbursement but such an environment calls for discipline, and such discipline can be provided by us in a very spontaneous manner which is a hundred times healthier than any harsh measures. Two new innovations have emerged -- Kisan Credit Card (KCC) and Micro-Finance. Awareness of RBI circulars and the ability to apply knowledge in a given situation makes us competent to perform successfully in the area of rural credit. It is experienced while practising in the field

that there is lack of knowledge at the operational level, sometimes resulting in difficulties to the borrowers. It is for us to fill the gap and ensure that the ideas of the policy makers are implemented in form and substance for the benefit of the deserving ones. For example, Budget 2004-05 gives out the RBI agreeing to revise the norms of repayment for rural housing loans by banks so that instalments coincide with the crop cycle.

Micro-Finance is a noble concept to link Self Help Groups (SHGs) with the banking system for their fund requirements. Micro-Finance Institutions obtain finance from banks according to guidelines issued by the RBI and provide financial assistance to low income households for small business, etc. The RBI, as the apex bank in the country, is keen to expand this concept. We can help Self Help Groups in organising their fund requirements following the Apex Bank Guidelines. We can also ensure end utilisation of funds for the banking sector, if called for. Budget 2005 had expressed its intention to make the eligible few, qualified NGOs involved in the micro finance activity to get funds under the ECB scheme. Therefore our role in arranging adequate funds for the activities of MFI is set to grow in the future.

The author has personally experienced that checking of interest application is beneficial from the point of view of farmers as errors may creep in the process of applying rate of interest chargeable and/or mistakes in calculations. Though computerised branches are less prone to such phenomena but manual branches have inherent limitations of their own resulting in higher interest being charged sometimes, though not intentionally.

Arrangement of Risk Capital or Venture Capital—

Venture Capital is to nurture the bright ideas. The theme was a great help to technology start-ups in the West as experienced in the past. Various banks and other agencies are floating Venture Capital Funds. We, as Chartered Accountants, can provide a hand-holding role here. We can give financial discipline and framework to the raw ideas of first generation entrepreneurs in the area of agriculture. With the abundant availability of skilled manpower and bright and talented youngsters, the theme of risk capital, though largely underutilised, has great potential. Recently, the Ministry of Agriculture launched a scheme of venture capital assistance to promote agro-business in the country in association with commercial banks.

Viability— Study for Appropriate Selection of Crop or Agribusiness:

The literacy level has improved, but financial literacy is yet to take new dimensions in the country. Viability is a key concern associated with any economic exercise. Viability assessment is a role, which we

alone can play with precision because of our awareness of accounting, legal and risk management issues. Assessment of viability calls for the development of cost and revenue model, appropriate in a changing situation. As we are comfortable with Excel and other quantitative tools used for rigorous computational exercise, we can do justice to the job of preparation of viability study of a particular crop or a venture related with agriculture. As the agriculture inputs will be costly, and prices will be integrated with the rest of the world in agriculture commodities, our role as a professional is set to grow as a facilitator and monitor.

Planning with Subsidies and Incentives:

The government has announced various promotional measures for the growth of agriculture and agribusiness. Knowledge of such measures and schemes are not widespread as they should have been. It is our role to spread the awareness and ensure that the benefits of the scheme are extended to the deserving projects. For example, there is capital investment subsidy for rural godowns. Subsidy for herbal and medicinal

plant cultivators being offered by central/state agencies, subsidy for eligible food processing units, etc. Subsidy will enable to lighten the burden of the investment on the part of entrepreneur. If the project is cheap it is better equipped to fight the pressures prevailing in the market.

Increasing uses of Agriculture Insurance and Commodity Derivatives:

Agriculture insurance or insurance in rural area is a subject in which the Chartered Accountants can play a leading role. Any insurance is a combination of legal and financial issues. We can capitalise on the trust the society reposes on our skills and abilities by motivating the farmers or rural clients to utilise the insurance for minimising the incidence of uncertainty, and make the projects bankable. Commodity Derivatives have been making fast progress across the country and it is for us to convince the potential rural clients to induce hedging and price discovery benefits that these products offer. □

Box -1	
Significant Developments in Agriculture Area— an Overview	
1.	ITC e-choupal
2.	Contract Farming-- A consortium approach to agriculture
3.	Rural Supermarkets
4.	Organic Farming
5.	Increasing Interest of Corporates
6.	Ratanjot or Jatropha Farming – a bio-fuel
7.	Medicinal Farming
8.	Agriculture Insurance' and 'Forward Trading'; Powerful tools to manage uncertainty
9.	Rural Godown and Food Processing Unit as Post Harvest management of produce

Box-2	
Role of CAs in Agriculture– An Overview	
1.	Viability Study for selection of appropriate crop or Agribusiness
2.	Devising Agriculture Accounting System
3.	Detailed Project Report (DPR) Preparation and arrangement of Funds for Agriculture Project
4.	Planning of Project with Subsidies and Incentives
5.	Arrangement of risk-capital for unique and novel concepts in agriculture
6.	Increasing the use of Agriculture Crop Insurance to make the project bankable
7.	Planning Food Processing Unit in rural area to secure geographical advantages and other available incentives to the industry
8.	Advise on Commodity Derivatives in Agro-commodities
9.	NGO formation and management for rural welfare