OPINION

How to cultivate agri-startups

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Starved of funds Government should create an investor-friendly regime to attract funds in the agri-startup sector istock

Seed capital from banks, a dedicated FPOs will give them a boost

Seventy-five startups/new age companies mobilised Rs. 89,066 crore in April-November 2021 through the initial public offering (IPO) route, the highest in a decade, according to the latest *Economic Survey* . However, the share of agri-startups in this is negligible.

It appears that the startup ecosystem in India is skewed in favour of services – Big Data, Edtech, fintech, logistics and supply chain activities – rather than agriculture and manufacturing. While startups have several options to mobilise funds, their early stage break-through funding normally comes from angel investors (private equity and venture capital) and the government (seed capital).

While venture capitalists are keen on investing in startups based on, among other things, their disruptive business model, high growth potential and their ability to make quick profits, agri-startups have been lagging in attracting funds.

Need for agri-startups

It is a well-established fact that Indian agriculture is largely not a viable profession due to many structural issues. As a result, very few investors are interested in deploying their funds in this sector.

However, India is a rural-centric and agri-based economy, and nearly 60 per cent of the population depends on this sector for livelihood. Therefore, agri-startup entrepreneurs need to be encouraged in the following ways:

First , seed capital from the banks and hand-holding of agri-startups by institutions such as National Bank for Agriculture and Rural Development (NABARD), by extending credit plus services, will go a long way in this direction. In September 2020, the Reserve Bank of India directed banks to treat loans up to Rs. 50 crore to agri-startups under priority sector lending.

Further, the announcement of a fund for agri-startups by Finance Minister Nirmala Sitharaman in her Budget speech is a welcome move. The exclusive fund for agri-startups and rural enterprises will be launched through NABARD in order to give a fillip to the farm produce value chain. However, the government should ensure 'ease of funding' for agri-entrepreneurs to attain the intended objectives.

Second, by taking a cue from the social business model promoted by Muhammad Yunus, agri-startup entrepreneurs may tap low-cost funds.

Third, a dedicated exchange for agri-startups may be established just like a stock exchange for small and medium enterprises.

The Securities and Exchange Board of India (SEBI) may stipulate liberal regulatory norms for listing of agri-startups on the bourses. This will pave the way for raising much needed risk capital for scaling up agri-startups and rural enterprises.

Fourth, renewed thrust on collectives – Farmer Producers Organisations (FPOs) – will enhance the economic viability of agriculture by fostering penetration of technology and technical knowhow, improving productivity, and enabling enhanced access to inputs and services to the farmers. This will improve the collective bargaining as well as purchasing power of farmers so that they will be able to pay for the services of agri-startups in India.

AgroStar, an agri-startup, offers an online marketplace for farmers to buy farm inputs besides providing real-time advice on management of their crops to increase their yields. Similarly, Ninjacart, and WayCool offer B2B platforms to control end-to-end agricultural supply chains to enable the farmers to sell their produce through multiple distribution channels.

Fifth, the entrepreneurs should be imparted with financial literacy and education as the startup world is full of domain professionals and engineers, who hardly know anything about finance and investors.

Therefore, entrepreneurs would be successful in mobilising capital from the market if they team up with agricultural researchers, financial experts, and technology wizards. For instance, IIT Madras and Tamil Nadu Agricultural University promoted incubation centres and accelerators to promote agri-entrepreneurs by connecting the dots in the ecosystem.

Sixth, agri-startups that focus on climate change and disaster management will flourish in the near future. Even international agencies such as the World Bank and International Fund for Agricultural Development are willing to assist agri-startups in the context of achievement of sustainable development goals in general, climate action (SDG 13) in particular.

Seventh, angel investors, venture capitalists and private equity holders may be given tax incentives on capital gains apart from providing ease of doing business at the time of their exit from the agri-startups.

More specifically, the government should create an investor-friendly regime to attract funds in the agri-startup sector.

Eighth, the Indian Council of Agricultural Research and State Agricultural Universities have developed numerous farmer-friendly technologies but the same have not been commercialised so far. So policymakers may be proactive in this context by identifying right stakeholders under public private partnership, for conversion of brilliant ideas into useful products/services.

Ninth, an insurance mechanism may be developed to de-risk genuine failures of agri-entrepreneurs. This will improve their risk appetite.

Finally , agri-startups will flourish in India if they are associated with industry associations like Agricultural and Processed Food Products Export Development Authority (APEDA), Indian Chamber of Food & Agriculture, NASSCOM, etc., especially for testing/validation of prototypes before their launch.

In sum, concerted efforts should be made for promotion of agri-startups in order to implement climate-smart agricultural practices in rural India, thereby ensuring food and nutritional security of the nation.

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