

# Cashless on the farm: Fantasy or opportunity?

**Demonetisation, contrary to fears, has not led to major disruption in agri value chains.**

75

SHARES  
Email

Share to Facebook

Share to Twitter

Share to Google+

Share to

Written by Pravesh Sharma | Published: December 1, 2016 4:57 am



The AzadpurMandi in Delhi. (Source: PTI)

As we complete three weeks since the government's demonetisation announcement, it appears that the various economic agents in the agricultural value chain have adjusted smartly to the reality of a temporary drying up of cash in the system.

The strongest evidence of this trend is the behaviour of prices. "Watch prices" was a mantra drilled into us as civil servants in the 1980s, which were marked by periodic shortages, be it in wheat and rice, sugar, edible oils, milk or paneer (yes, paneer, believe it or not!). The first signs of something being wrong somewhere in the agri supply chain

were an overnight rise in wholesale prices; the private trade clearly had information here about disruptions that it could leverage to its advantage. The ultimate price was, of course, paid by the end-consumer.

### **Watch what else is making news:**

By that yardstick, the relative calm in wholesale and retail prices seen through the last month is confirmation of no major disruptions in the agri supply chain, which would have facilitated exploitation of information arbitrage opportunities. Stable prices also indicate how producers, traders and consumers have shown remarkable flexibility in aligning their expectations while dealing with currency shortage. The experience of sabziwala — our small start-up, which sources fresh fruits and vegetables from producers for servicing retail customers through regular kirana and general stores — might be instructive in this regard.

From our perspective, three things stand out when we look back at the past three weeks. To start with, farmers have continued supplying, not just to us, but also to local village-level aggregators, commission agents in wholesale mandis, and institutional buyers such as Mother Dairy/Safal, Big Bazaar and assorted e-commerce retailers. Their explanation was that payments from traders, even in the normal course, happen only a week to ten days after supply; demonetisation merely extends this credit period to 2-3 weeks. The important thing is that nobody wants to break long-established relationships: At the end of the day, trust is far more valuable capital than any short-term loss. On top of it, institutional buyers sourcing directly from farmers were anyway paying through cheque or bank transfer. Thus, from the farmers' end, the fresh produce value chain has been function with least disruptions.

Secondly, transport networks, too, have been running smoothly, at least for short-haul operations. Local transporters bringing fresh produce to Delhi's Azadpurmandi from within a 50-70 km radius are typically single vehicle owner-drivers, dealing with the same set of customers along well-travelled routes. Since fresh vegetables are produced almost round the year within a 100-km radius of Delhi, it generates regular business, which also makes these transporters open to working on credit. Most transporters we are dealing with have had no issues accepting cheques or direct transfers into their bank accounts.

Thirdly, at the front end, retail outlets initially refused to lift our produce. Several kirana shop owners tried to push us to accept payment in the old notes, but we held firm and suspended operations for a week. The stand-off ultimately worked to our advantage. One by one, they came back, citing pressure from customers, who liked the convenience of picking up fresh produce along with other daily needs from a familiar neighbourhood outlet. Almost half of the partner stores to whom we supply have now adopted some form of mobile wallet solution, while others have committed to pay us in new currency or through cheques.

Does this brief experience of a small start-up hold lessons for a cashless future in agri marketing? One great learning from the past three weeks for us has been that there is public support for demonetisation. The adjustments to accommodate cash shortages are all justified and cast in a moral framework: the curbing of black money and corruption.

Coming to farmers, cash transactions at their end — whether for purchase of seed and fertiliser, payments to labourers or receipt of money from traders against produce sales — are lumpy and episodic events. Yes, they do require regular cash flows for running their household, paying school fees, incurring medical expenses, recharging mobiles, and purchasing fuel, cattle feed, etc. But farmers coming to our collection centres have also been talking about how the present demonetisation had shown that things can work quite well, after all, even with little physical cash. There is, no doubt, a lack of awareness and also suspicion about mobile payment systems. Yet, an enormous window of opportunity has opened up to promote cash-less transactions in agri value chains. With concerted follow-up action post the currency replacement period, there is scope for making substantial headway towards this goal.

Four immediate steps could be taken to kick-start the process.

Firstly, regulated APMC (agriculture produce market committee) mandis can direct traders to make all payments to farmers, against purchases above a level of say, Rs 10,000, through bank transfers. Secondly, all community service centres should be mandated to offer banking correspondent services within the next three months, so that they become rural windows for disbursement of cash and collection of deposits. Thirdly, all central and state government services that require payments by users — from school fees, hospital charges and driving licences to taxes and duties — should be moved to cashless mode by March 2017. Fourthly, a massive public awareness-cum-enrollment campaign should be initiated by all banks, e-wallet companies and mobile payment platforms for education of rural communities about the ease of use and safety of these payment formats.

These four steps will convince citizens of the seriousness of intent to usher in an era of minimal cash handling. The Prime Minister is right to put his own and his government's prestige behind this step. Nothing less can move the system to convert this into a watershed moment for our economy and country.

The writer, a former IAS officer, is promoter of Sabziwala, an agri-marketing start-up, and also visiting senior fellow at the Indian Council for Research on International Economic Relations.