

CHAPTER - V

DATA ANALYSIS AND OBSERVATIONS

Primary Research by way of market survey through the medium of questionnaires each for the category of farmers, traders/commission agents, bankers and agri-marketing entrepreneurs was conducted in different market areas of various states as detailed in Chapter-III. The results of the field survey conducted in various states have been compiled and analyzed separately for each category of respondents to arrive at the observations in the following section. The limitations of the survey have also been brought out at the end.

A. Response of Farmers

Majority of Farmers (unless otherwise stated, word 'majority' in this chapter implies more than fifty percent) were picked up randomly for survey in the wholesale markets (including APMC markets). Few farmers were also surveyed in rural periodic markets to increase the ambit of the marginal and small farmers. From the survey response tabulated, majority of farmers surveyed were found to be big farmers (land ownership > 5.0 acres) followed by small farmers (land ownership between 2.0 to 5.0 acres). The number of marginal farmers (land ownership < 1.0 acre) seems to be less. The state-wise summary of category-wise number of farmers, from whom responses were received, is produced in the Table- 5.1.

Table- 5.1: State-wise and Category-wise Farmer's Responses Received

Region of India	State	No. of APMC market areas covered	No. of marginal farmers	No. of Small farmers	No. of big farmers	Total
Eastern	Odisha	2	5	10	14	29
Southern	A.P.	3	2	8	8	18
	Karnataka	2	1	6	13	20
Western	Maharashtra	7	4	11	38	53
	Gujarat	5	2	----	15	17
	Rajasthan	5	1	6	7	14

Northern	Punjab	3	-----	7	23	30
	H.P.	1	-----	-----	5	5
	Uttarakhand	1	2	3	-----	5
	U.P.	2	3	4	-----	7
	NCT of Delhi	1	-----	2	2	4
	Total	32	20	57	125	202

Since majority of farmer's survey was carried out randomly in APMC yards/sub-yards, relatively less proportion of small farmers and still smaller number of marginal farmers surveyed may perhaps be explained to the possible difficulty being faced by marginal category of farmers in mustering economic volume for wholesale trading in regulated mandis. Added to this is the relative difficulty faced by this category in accessing the wholesale APMC markets, scaling up the complexity of operations involved in auction process in these wholesale markets as well as handling of volatility in market price may make it difficult for this group to regularly use such markets in the absence of clusterisation. Since the APMCs in most cases in India have not provided the backward linkages to production centres, only those relatively better off small farmers, the big farmers and the intermediary consolidator are able to operate in the regulated markets. This is also corroborated by survey responses, whereby marginal and majority of small farmers surveyed, are found also to be trading with village commission agents (at village level). Some of the farmers surveyed were observed to be share cropper (who himself was also the owner of land and additionally doing share cropping).

Proper post-harvest handling and treatment of perishable produce helps in reducing field and storage post harvest losses while helping the standardization of commodities for better trade and better margin. Use of machinery and equipment for harvest/post-harvest operations such as threshing/winnowing, cleaning/grading/sorting, weighing, bag stitching machine and labeling machine for the bags, helps in that direction. It is observed that the adoption of harvest/post-harvest mechanization at the level of small and marginal farmers is very low, while the big farmers use some of these equipments, however without

having to avail credit for most of it for their procurement from any source. It appears that post-harvest mechanization level is low which will have a bearing on quality of produce being marketed even by big farmers. With regards to the mode of transportation of the produce to market place, marginal farmers are observed to use combination of head load/cycle/animal driven cart, while the small farmers use combination of animal driven cart and tractor trolley (tempo in some cases). Majority of big farmers have responded to have been using tractor trolley.

Very few of the big farmers have stated to have availed credit/loan from banks/cooperatives for purchasing tractors, while others have stated in negative. It appears that while facilitation by financial institution has led to such acquisition of tractors, they must have been acquired for combined production and transportation process. The use of tractor trolley by big farmers/small farmers without procurement seems to be based on hiring from neighborhoods. As regards processing of the produce in post-harvest scenario, while such processing is virtually absent at the level of marginal farmers, limited processing such as rice milling, pulse milling, fruit pulp and juice extraction is done by both category of small and big farmers (in respective high density production belt) without recourse to formal/informal credit, thus implying that such processing is done through a commercial unit in the neighborhood or if at all done in own household then level of technology used must have been of low level. In order to reduce post-harvest loss, to render primary value addition and to improve shelf-life for improving farmer's margin, there is an urgent need to focus on primary processing and value addition at farm gate level in the country by way of proper door to door village level extension backed up by provision and availability of area appropriate economical scientific processing facilities to be supported by development of value chain to facilitate marketing of processed products.

Majority of those, who produce cereal and pulses, do also store the harvested commodities. The storage is primarily household storage rather than commercial storage godowns and mainly by both categories of small and big farmers, while not availing credit for the same. Household storage at present,

don't facilitate warehouse receipt system in the country, which could have otherwise served as a good vehicle for credit flow to rural areas. This could perhaps be due to lack of availability of scientific and standardized accredited storage system in rural areas near to production belt available at low cost with facility of negotiable warehouse receipt system in the country. With the establishment of Warehouse Development Authority recently by Department of Food and Public Distribution, Govt. of India, it is hoped that issue of low cost accredited commercial storage godown with facility of negotiable warehouse receipt system will get a push, without which farmers will still not have the convenient means of approaching a financial institution in post-harvest period to avail loan for sustaining themselves (in the face of price depression in immediate post-harvest period due to the situation of over-supply). However, this needs further investigation.

None of the farmers surveyed were engaged in either contract farming or direct marketing with the corporate, two major source whereby input as well as credit to farmers in most such cases are generally facilitated through the intervention of the sponsor company. NABARD's Task Force on Credit Related Issues for Farmers in its report (June 2010) stated that women farmers, who were members of SHGs, had also borrowed for agriculture, but these had not been recorded as agricultural loans. But on the contrary, it is observed from the survey response, that none of the respondents seems to have availed credit from the Self-Help Group (SHG) for agriculture or agriculture marketing purpose. The major source of credit/advance for farmers seems to be banks (Nationalized/ PSU/ RRBs/Private sector), cooperative credit societies. In addition to this, another major source of financing is by trader/village commission agents (despite denial during survey by some APMC officials of the existence of such trader oriented credit supply in APMC markets). Very few seem to have availed credit also from micro-finance institutions.

Trader financing seems to be of two types: (i) advance provided prior to harvest linking it to the purchase of crops by the same trader on either cash basis or credit basis (inter-linkage) (ii) interest bearing loan with or without inter-linkage of crops. It is observed from responses that in almost all cases of advance by trader, inter-linkage of produce of beneficiary farmer is made mandatory, whereby the farmer sells his produce only to the trader providing advance. The advance amount is provided by the trader in advance of the harvest which may range from one month to more than three months. The mandatory inter-linkage ensures repayment of traders advance. This inter-linkage is informal in nature and is with tacit understanding of both sides. The inter-linkage of trader advance to farmer's produce may have two dimensions i.e.; of that of manner of pricing of the crops and that of time lag for settlement of payment to farmers for his crops; thus having a possible inherent interest built-up into the system. Such of trader advance provides flexibility to the marginal and small farmers in meeting their veritable needs on regular basis, particularly during production period when the farmer does not have any other income. Even the big farmers are observed to have been availing such trader advance facilities only with difference that they are also able to sale their crop additionally to other traders on either cash or credit basis. This may be due to the two fold reasons of i.e.; (i) quantum of agriculture produce of big farmers exceeding the quantum of advance by large margin (ii) better bargaining power of big farmers . From trader's point of view, this may also be a sort of contract for assured supply in lieu of advance to cater to the much needed financial requirements of the farmers. Similarly, it is understood during survey that such a system reduces the huge cash flow requirement for traders in immediate post-harvest period, when farmers line up with their supply for sale.

In addition to advance, traders also provide loans to the farmers. However, not all the traders providing advance against inter-locking of produce, also additionally provide interest bearing loan. The amount of loan/credit decided by the trader, is stated to be based on estimation (or guesstimation !) of the crop

harvest. In a good number of cases, stored commodities of the farmer is primarily the basis of estimation of quantum of loan as well as the basis of collateral against the loan by the trader. While in states such as Rajasthan and Punjab, trust seems to be collateral in large number of cases, more than physical asset based collateral. In majority of other states, either ownership paper of landed property or that of house of the farmer seems to serve as collateral against loan. Few responses from Odisha and Andhra Pradesh reveal that household gold/silver jewelry owned by the farmer is also considered as collateral by trader while providing loan. In few cases also, Post Office National Savings Certificate (NSC)/Indira Vikas Patra(IVP)/Kisan Vikas Patra(KVP), were reported to be serving also as additional collateral. Such regional variation in collateral requirements seems to be working to balance the credit need of small and marginal farmers with the security needs of the trader. Determination of loan amount by trader is generally not linked to bank deposits of the farmer. The bank passbook of loanee farmer with authority slip to withdraw, don't form the part of collateral system against the loan. Even the farmer's credit card with code to operate is not a feature of collateral for trader credit system. It appears that trader credit system seems to be working on a distinct premise, without mixing up with formal banking system. It is not clear however that this may be due to rigidity of the Indian formal banking system in liquidating the assets of individual by a third party.

As regards the factors affecting advance as well as loan from traders/ commission agents, as revealed in survey, are as follows: (i) long-term relationship with traders (ii) easy and speedy availability of loan from traders. In addition to this majority of farmers surveyed have responded that loan/credit by trader can be for meeting any kind of farmer's need, and is mostly for meeting the combined requirements of production, agri-marketing and obligatory expenses such as marriage, education, birth of child and medical need etc of majority of small and marginal farmers. These credits are generally short-term in nature, mostly corresponding to the crop season. Majority of responses reveal

that traders don't generally alter the period of loan or interest rate unilaterally; rather many of them have reported the flexibility in re-adjustment of the period of repayment, if the loanee farmer found it difficult to repay. It is striking to observe that none of the respondents availed loan from trader for capital intensive infrastructure projects/ agri-marketing infrastructure projects such as for storage, transport, processing infrastructure and other machinery and equipment, which are generally linked to value addition for primary agriculture produce. This may be due to the fact that capital intensive infrastructure loan has a relatively longer period of repayment and from the farmer's perspective a trader loan with higher interest rate makes it very expensive for him. A trader, who would like quick cash, would also prefer lending on short-term basis.

Most of the farmers availing trader credit have responded about difficulty in availing consumption loan from the banks/cooperatives. Even the cumbersome procedure by the banks and tight scrutiny of agriculture linked projects seem to be factors for majority of small and marginal farmers in discouraging lending from the banks/cooperatives. For a small and marginal farmer devoid of valuable physical assets, such of trader advance interlinking the produce serves to assure him of financial resources required to continue with the production process while passing on some of production risk to the trader-lender. Generally, the banks/cooperatives, which operate on commercial consideration, try to reduce risk by way of securing themselves with valuable physical assets, possibly tend to miss out the marginal farmers, share croppers and landless tenant farmers by not having such a financial instrument linking the loan/advance to future produce of the farmers. Rather the loan instrument (warehouse receipt) available with bank is the pledge loan scheme, whereby collateral is based on actual produce being stored. Lack of expertise by the farmers, in formulating the loan proposal, is another major hurdle for the farmers in dealing with a formal financial system. Absence of awareness about various government schemes for assistance by the farmers, add to their woes. Though majority of farmers surveyed were aware of the relative lower interest rate, yet the higher latent transaction cost, hassles and

delay associated with completing all formalities for availing the loan from the banks/cooperatives, seems to be a major discouraging factor.

In addition to above generalized observations, some specific state related observations are provided below:

i. Odisha

- (i) Majority of respondent were carrying out primary processing of rice milling. But no loan reported for the same.
- (ii) While almost all the marginal farmers respondent had availed trader advance facility (with some also loan facility) from village commission agents/trader, very few had additionally availed credit from cooperative credit societies.
- (iii) More than half of the respondent in small farmers category had availed loan from cooperative credit societies, while more than 3/4th respondents in this category had availed advance facility with trader with inter-linkage of crops, thus having overlap in many cases. None of the respondent had availed loan from banks.
- (iv) As regards big farmers, majority of them were found to trade with village commission agents as well as in regulated market. Many of the big farmers also availed advance from trader/village commission agents and also availed loan from banks/ cooperative credit societies.
- (v) None of the farmer-respondents seems to have availed credit for purchase of mode of transportation, construction of storage, processing and other post-harvest machinery & equipments for facilitating marketing of agriculture and allied produce.
- (vi) Combined loan from trader is also availed by majority of small and some marginal category of farmers with interest rate ranging between 21 to 40%. Majority of big farmers, who availed trader loan, had it for combined purpose of production, obligatory expenses and marketing with interest rate between 31-40%. In a particular district, some of the big farmers have

reported interest rate for trader loan as high as between 41-60%. The repayment period is invariably more than 3 months.

With Government already set to promote *second Green Revolution in Eastern Region* for substantially augmenting the productivity and production, the financial institutions have to play a matching and crucial role in reaching out to farmers to support new technological initiative in production and marketing.

ii. Andhra Pradesh

- (i) Primary processing in terms of cleaning /sorting/ grading is being carried out by farmers.
- (ii) More than 3/4th of respondent in all category of farmers have availed loan from either Nationalized Banks or from cooperative credit societies (even overlapping) with scale tilting in favour of Nationalized Banks. Yet majority of such loanee reported to have availed advance from trader interlinking their produce without availing any loan from trader.
- (ii) Majority have responded that loan is for combined purpose including obligatory and marketing purpose. The loan duration is typically found to be short-term, i.e.; up to a fortnight; with majority response for interest rate ranging from 21-30%.
- (iii) It seems while trader advance system is playing a complimentary role to the loan from bank/cooperative institutions in ensuring assured market, trader loan operates in a competitive market (unlike in case of Odisha where interest rate for trader loan is very high) due to good penetration of financial intuitions.

iii. Karnataka

- (i) Primary processing in terms of cleaning/sorting /grading seems to be favorites with farmers.

- (ii) More than half of the farmers in all categories were observed to have availed credit of Nationalized Banks as well as trader advance facilities (with inter-linkage of produce marketing). Unlike Andhra Pradesh, very few were observed to have credit facilities from cooperative credit societies.
- (iii) Less than half of respondents had availed trader loan for combined purpose including that for marketing, with loan duration of generally one to three months. Majority have reported interest rate between 1-10 %, with stored agricultural commodities (cereal and pulses) of farmer serving as collateral. Thus traders in Karnataka are operating a loan system equivalent to loan against warehouse receipt system promoted by banks and to that extent by providing loan at low interest rate, traders are generating stiff competition for the banks in similar category of loan instrument.

iv. Maharashtra

- (i) Unlike other states, here few of the respondents have reported about contract farming and direct marketing with sponsor companies. Even some of the farmers have reported to be doing primary processing in terms of cleaning/grading also additionally juice and pulp extraction of fruits and vegetables etc. but without availing any separate loan facilities.
- (ii) Nationalized banks followed by cooperatives seem to have made tremendous progress in providing loan to the farmers with almost 3/4th of respondent having loan from either source or even overlapping.
- (iii) Interest free trader advance with interlocking of farmers produce is practised in moderate scale in the state. The period of such advance was found generally less than three months, implying thereby that it is more in the nature of contract for assured supply from the farmers. There was hardly any response with trader loan facilities.
- (iv) Few of the respondents have reported to have availed micro-finance lending with none from Self-Help Group.

v. Gujarat

- i. Majority of farmers surveyed were big farmers with land holding more than ten acres, who have generally availed loan from Nationalized Banks followed by Cooperatives or even overlapping. Institutional finance seems to have worked well.
- ii. Trader credit (loan) system does not appear to be a preferred one. Very few who had reported of having availed trader credit, have availed it at interest rate between 1-10%.
- iii. On the other hand trader advance is availed by many (less than half) farmers, one to three months in advance of harvest, with inter-linkage of produce being sold on credit basis(not on the spot cash basis).
- iii. The mode of transport used is mainly tractor and in some additional cases tempo. Loan from financial institutions have been availed in majority cases at an interest rate between 7- 10%, to acquire tractor.
- iv. Majority of farmers producing cereal and pulses store their produce in both combination of household storage and warehouses. Few of the respondents have availed institutional credit at an interest rate between 7 - 9% against stored commodities (pledge loan) in warehouses.
- v. Majority of farmers surveyed have availed institutional credit to acquire post-harvest machinery and equipments such as grading/packaging, threshing/winnowing at an interest rate of generally 8%.
- vi. Few of respondents have been doing rice milling.

vi. Rajasthan

- (i) More than half of respondents seem to have availed loan from Nationalized Banks.
- (ii) Nearly half of respondents in the category of small and big farmers have procured tractor for transportation of agricultural produce. But strangely, most of the cases of loan for the same is through trader financing with

interest rate up to twenty four percent. Even some of the respondents have availed finance from cooperatives/banks at a high rate up to twenty four percent. In addition to this, a majority of respondents, who produce coarse cereal, have procured threshing and winnowing machines for post-harvest operation. These have been mainly procured with the assistance of institutional lending with reported interest rate up to fourteen percent (even in case of trader financing of this, interest rate is competitive). As area covered per unit of regulated markets is perhaps the highest (796 sq km per regulated market), amongst any states in the plains, there is a dire need to improve the transportation facilities for the farmers to connect to the markets. To that extent, Nationalized Banks need to devise some special package for Rajasthan to finance transportation mode in large scale at affordable interest rate; alternatively state should promote specialize transportation of agricultural goods on hire purchase mode.

- (iii) More than 3/4th of respondent have availed trader advance facilities interlinking their produce. The advance has been for a period of up to three months. Majority of respondents have availed trader loan facilities at the interest rate of 21-30%. Trust seems to be the basis of majority of loan transactions instead of physical collateral.

vii. Punjab

- (i) Contract Farming/Direct Marketing with corporate seems to have been developed to some extent. Majority of respondents (who are big farmers with more than ten acres of land) are in use of tractor for transportation and processing is normally carried out.
- (ii) Almost half of the respondent have availed cooperative credit with even less than one third availing trader advance facilities, with even less than one-fifth with trader loan facility. However as per the response few respondents have availed credit from banks which seems to have been availed for production purpose.

- (iii) Few of the respondent have availed cooperative credit facilities for procurement of threshing & winnowing implements for post-harvest purpose with interest rate up to twelve percent, while few of the respondents have availed either institutional credit or trader financing for procuring tractors with interest rate up to twenty four percent. As Punjab has the smallest area spread per regulated market in the country, it appears that the tractors are mainly procured for production purpose and is also being used for transportation of harvest from to the market.
- (iv) Trader loan has been availed mostly with interest rate of 21-30% (in many cases between 18-24%). Many cases trader lending were without collateral, probably due to ability of farmers to repay on account of good harvest.

B. Response of Traders/Commission Agents

Total of 163 responses have been received from traders/commission agents located in different markets of eight states and both Union Territory of Delhi and Chandigarh. General observations arising out of the analysis of responses are provided herewith. Traders provide loan to farmers which covers their various needs(combined) ranging from purchase of input for production to purchase of packing material and transportation of harvested commodities to the market. This also generally covers obligatory expenses of the loanee farmer. Majority requirement of such loan by farmers, pertaining to marketing aspect, is mainly on account of buying packaging material. Such loan is provided generally at least before one month in advance of harvest to help the farmers to meet their need including post-harvest requirements. However while these seem to cover working capital requirement of farmers for agriculture purpose, none of the respondents have agreed to having provided such loan for setting up agriculture marketing infrastructure and its operation for meeting the working capital needs. This had been earlier corroborated for the farmers' responses as provided in the preceding section.

As regards the basis of determination of loan, most of the respondents have stated that estimation of likely harvest as well as trust and long-term relationship with the farmers, forming the basis. Hardly any respondent have stated that ownership of cattle, and quantity of gold/silver jewelry possessed by loanee farmer as the basis of determining amount of loan. However, very few of respondents have agreed to 'landed property' being considered as basis to decide the loan amount. One of the critical factors mentioned is the repayment of earlier loan by the farmer as being the basis of providing loan to him. The loan is short duration with average period of loan repayment being between one to three months and coinciding with the harvest season. The loan size is typically very small, with majority of respondent stating it to be below Rs. 50,000/- per person in a year either given once or twice in a year with the exception in Rajasthan where it goes up to Rs 60,000/- in a year. Majority of respondents have stated the interest rate to be between 21-30%. Interestingly, unlike in case of trader's advance, where interlocking of produce of the farmer is the basis of adjustment of the advance, the interlocking is not mandatory in case of the loan. Here farmers are free to sell their produce to any trader. The trader himself, who also trades with the loanee farmer, does settle promptly the farmer's due on account of buying farmer's produce. Very few respondents have stated about interlocking of produce with the loan and yet settlement with farmers on cash basis within two days. As reported by traders, though recovery rate is 100%, in few cases it is as low as 90%.

From the trader's perspective, loyalty due to long-time trusted relationship (trust and faith developed over a period of time) seems to be the basis for such loan transaction. Invariably, traders have stated that loan provided by them is very quick (speedy) in nature as compared to that sanctioned by Nationalized Banks, RRBs, Cooperative Credit Societies. It does not require much of documentation. However, as to the collateral, about one-third of traders have not responded at all, with rest of the opinion being divided with more than half of traders demanding collateral against lending, excepting for the cases in

Rajasthan, where collateral is not mandatory. It is easy to get a trader loan for consumption as compared to that from financial institutions. Interestingly, majority of traders have identified poor literacy and absence of entrepreneurship amongst farmers as the factors for continuation of the trader lending. They have also corroborated the absence of farmers' knowledge about government schemes and about formal lending process as also the factors contributing to trader's lending system.

C. Response of Agri-Marketing Infrastructure Entrepreneurs

A total number of 127 responses from entrepreneurs of agriculture marketing infrastructure project were received from eight different states. The survey responses are summarized in Table-5.2 below:

Table-5.2: Details of Responses Received From Agri-Market Infrastructure Entrepreneurs

State	Districts Covered	No. of Responses	Type of Project
Odisha	Cuttack, Ganjam, Berhampur, Khurda, Jajpur, Mayurbhanj	25	Honey Processing, Spice Processing, Rice Huller, Oil Mill, Flour Mill, Storage Godown
Andhra Pradesh	Warangal, Krishna, Kurnool, Guntur	13	Storage Godown, Cold Storage, Turmeric Processing
Maharashtra	Akola, Latur, Nagpur, Nashik, Ratnagiri, Satara,	51	Juice/Pulp Unit, Grading Unit, Fish Processing, Storage Godown, Milk Chilling, Pack House
Rajasthan	Kota, Sri Ganga Nagar	2	Storage Godown
Punjab	Bhatinda, Faridkot, Ferozepur, Ludhiana, Moga, Patiala, Sangrur	20	Rice Color Sortex Plant, Cotton Ginning Mill, Kinnow Grading Unit
Himachal Pradesh	Shimla	5	Fruit Grading & Packaging, Horticulture Market Yard
Uttarakhand	Dehradun	8	Juice/Ketchup, Pickle Unit, Storage Godown
Uttar Pradesh	Lucknow	3	Dal Mill, Storage Godown

The survey covered a wide range of market infrastructure projects such as Storage Godowns in rural areas, Cold Storage Units, Fruit Grading/ Packing Units, cleaning/sorting/grading of cereals, Milk Chilling, Fish Processing, Juice

Extraction units, Rice Huller, Rice Colour Sortex Units, Dal mill, Pack-houses etc. The general findings are given below:

- (i) Majority of entrepreneur have expressed that agriculture marketing infrastructure projects are not viable without government support. Almost all of these entrepreneurs had availed government support (subsidy) as well as loan from Financial Institutions such as banks and cooperatives.
- (ii) Majority have expressed that formulation of an agri-marketing infrastructure project proposal for seeking loan from financial institution is difficult.
- (iii) The financial institutions insist for collateral which may not be very difficult to meet. However, majority have stated that Financial Institutions also insist additionally for guarantor in addition to the collateral.
- (iv) Financial Institutions also insist for land ownership as collateral for sanction of such loan. On enquiry , it is understood that one of the critical condition for infrastructure projects requiring fixed piece of required land, on which such project is to be commissioned, must belong to the entrepreneur. However this has several implications. In most of North-Eastern Region, land ownership is on community holding pattern and does not have individual ownership. In many rural areas in plains, the ownership of land has not been transferred to descendants, who are still living in joint family. Even the 'Panchayat' and 'abadi' land which doesn't belong to individual may not facilitate for being used for such projects. Married ladies generally do not own the land as the ownership right vests with the husband in most part.
- (v) The bank's project appraisal system seems to be tight, as even for small units similar procedure for appraisal seems to be applicable. Most have responded that prior rigorous field inspections are carried out by bank officials even for small projects with total financial layout of less than ten lakh rupees. This will definitely increase the administrative cost for small projects and is bound to delay the approval of loan.

- (vi) Many have expressed that bank loan for infrastructure project, provides for initial working capital to operationalization the project, which is a very positive feature.
- (vii) Majority of respondents have stated that Micro-Finance Institutions don't provide loan for agriculture marketing infrastructure project. Many also don't see any advantage with micro-finance organization vis-à-vis the banks, in providing loan for infrastructure projects.
- (viii) Availability of suitable land for market infrastructure project is a major issue.
- (ix) As regards components of *agriculture market infrastructure projects which are not financed by the banks* are: (i) entire cost of land not being included in total financial out lay for the agriculture market infrastructure project (ii) pre-operative expenses of the project (iii) furniture used in the project (iv) mode of transport for transporting agriculture commodities as raw material (backward linkage) to processing units. In addition to this the cost ceiling and ceiling on subsidy in the government supported projects being generally small, integrated market infrastructure projects don't get the subsidy at the prescribed rate, despite availing loan from the banks. The cost norms for government supported credit-linked projects don't change (no inflation indexing of the cost norms fixed on a base year) for a long period, despite high inflationary pressure, thus making the government assistant look miniaturized.
- (x) Banks don't encourage pre-payment of the loan for infrastructure projects in case of better than expected cash in-flow to the project.
- (xi) Majority of entrepreneurs have identified the lack of expertise to formulate the project as well as lengthy procedure adopted by banks as the major factors hindering the formal lending. Added to this is reluctance of bank to finance all components of a project, rigid repayment system and guarantor provision.
- (xii) One of the major bottlenecks identified by such small agri-marketing entrepreneurs for such projects to operate smoothly, is the lack of marketing linkage in the country.

D. Response From Banks/Cooperatives

The banks/cooperatives were slow in responding to survey questionnaire. It was not due to their opposition to respond to the questionnaire (as was experienced with the traders), but sheer bureaucratic inertia in the pretext of need for higher approval and being over-burdened with work. Total of 101 responses were received from six states of Maharashtra, Odisha, Andhra Pradesh and Rajasthan, Punjab and Uttarakhand despite vigorous persuasion. The observations from bankers' survey w.r.t. lending for agri-marketing infrastructure projects as well as lending for working capital relating to agriculture marketing are summarized as follows:

- (i) Appraisal of project proposal is carried out for all proposals irrespective of the size of the project.
- (ii) The important and critical factors for approval of loan proposals are: (a) project should give regular profitable return, (b) good credit recovery history of entrepreneur. As regards collateral issue, private sector banks were very particular of the need as conditionality for approval, whereas response of public sector banks/cooperatives seems to be divided. Good educational background is not considered as a critical factor.
- (iii) Reasons for modification of original project proposal submitted are non-viability of project, negative market report, negative cash accrual, non credit-worthiness.
- (iv) Type of collaterals required for market infrastructure projects are: land, building & machinery, Term Deposits, National Savings Certificate, Indira Vikas Patra, (both of Post offices).
- (v) Generally third party guarantee is required in addition to collateral as liquid collateral cover is not obtained.
- (vi) Prior verification is carried out for the entire project proposal irrespective of the financial outlay.

- (vii) Agriculture market infrastructure projects attract interest rate between 13-15%.
- (viii) Average time taken for approval of project is reported to be up to one month. However, this needs verification, as with so much of formalities; it may be really difficult though not impossible.
- (ix) Market Infrastructure entrepreneur also generally approach in many cases for sanction of separate working capital loan to operate the project.
- (x) Banks don't provide subsequent infrastructure loan to the entrepreneur without insisting for repayment of outstanding loan.
- (xi) There seems to be no internal targets for the banks/ cooperatives for sanction of loans specifically for agriculture marketing infrastructure projects.
- (xii) Generally cash credit is provided as working capital loan.
- (xiii) None of the banks/cooperatives provide loan for commodities stored in the house of the prospective loanee, though loan can be provided against warehouse receipt against the stored commodities in a standard warehouse.
- (xiv) Interest rate for working capital loan is up to @ 15%.
- (xv) Repayment period for working capital is generally more than six months.
- (xvi) In case of loan against warehouse receipt, valuation of stored commodity in accredited warehouse is carried out by internal method without resorting to wholesale price quoted in AGMARKNET website of Ministry of Agriculture. While grading for commodity for loan against warehouse receipt is essential, it is not mandatory to follow AGMARK grading.
- (xvii) Banks/Cooperatives strongly feel that implementation of Warehouse (Development & Regulation) Act, 2007, would substantially improve lending to agriculture sector against negotiable warehouse receipt.
- (xviii) Some of the major factors for relative slower growth of banking credit flow to agriculture market infrastructure projects are: improper project formulations by entrepreneurs, lack of entrepreneurship, easy and quick availability of loan from various informal sources.

Major Limitations of the Study

- (i) While the study for farmers is limited to ten states and one Union Territories, the survey of traders/commission agents is limited to eight states and two Union Territories. Even in these states the number of sample sizes particularly that of farmer category is small compared to number of indebted farmer house-holds in the country. But, care has been taken to cover different districts in a state being surveyed, in order to have relatively better geographical representations of the sample.
- (ii) Due to logistical reason, study could not be carried out in North-Eastern States. However, in order to cover the Himalayan States, survey has been conducted in Himachal Pradesh and Uttarakhand. The study does not specifically focuses on details of short-term credit by farmers. Since informal credit for marketing could cover also combined credit for production, marketing etc., same has been mentioned in the questionnaires for both farmer and trader.
- (iii) As during the design and finalization stage of questionnaires for traders, it was realized that there could be resistance in getting the details about informal loan size, only the ceiling limit of loan has been incorporated in trader questionnaire. Yet questionnaire did contain points relating to rate of interest and period of informal loan, which can be solicited with relative ease.
- (iv) Survey was limited to study the credit for agriculture marketing by farmers and agri-marketing entrepreneur's and was not to assess the credit need of trader/commission agent himself, or even of the credit system between wholesaler or trader and between wholesaler and retailer.
- (v) While the awareness about government supported credit linked market-infrastructure project is low or even the understanding amongst the stakeholders regarding formal agriculture marketing credit is low, there is no clear cut definition of marketing credit. Hence identifying respondents and defining coverage and scope is difficult.

- (vi) Majority of the primary survey of market infrastructure projects was carried out with government supported projects. Primary survey of informal lending is limited to cases of lending by traders/commission agents, who in general, have a business relation with the farmers unlike other category such as money lenders, NGOs, thrift societies, relatives and friends.

Major conclusions drawn from both secondary research and primary research have been brought out in the last chapter (chapter-6). As the XII Five Year Plan (2012-17), will start from April 2012, a set of recommendations have been provided in the last chapter to facilitate taking up appropriate decision in both policy sphere as well as for implementation mechanism.