CHAPTER - VI

RECOMMENDATIONS AND WAY FORWARD

"Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little."

---Adam Smith

Summing Up

Poverty and uneven income characterize a vast segment of our population in rural areas, which survives on subsistence agricultural activities due to small and marginal nature of holding and low level of employment. Given the predominant role of agriculture in their livelihoods, rapid growth in the agriculture sector is crucial to income distribution and consequent poverty reduction. Supportive government policies and well-functioning private and public market institutions are required to sustain increased agricultural output and raise rural incomes. While market reform initiative by the government in attracting private investment for setting up markets and market infrastructure and bringing alternative marketing channels to producers by way of simultaneous reduction of government control, have started gaining ground gradually, the long-term credit needs of the farmers have to be augmented substantially to increase overall investment in agriculture particularly in value addition and processing and storage infrastructure.

One of the criticisms could be that subjecting a farmer, who is already indebted due to credit primarily for meeting his needs for production and other obligatory expenses, further subjecting him to institutional credit for marketing purpose, may lead to his more indebtedness driving him to further desperation. In this debate, however, one should not lose sight of the fact that capital for value addition, grading and packaging of the agricultural produce at farm gate/village

level can lead to sumptuous gain in terms of earning to the farmer. With proper designing of marketing linked credit packages, backed up by proper extension and marketing linkages, can come to the rescue of the farmer. For example, in Punjab where the amount of per farmer household debt is highest in the country, per worker productivity in agriculture for the state is also the highest in the country. This may be due to relatively high degree of mechanization in production and post-harvest operation, as well as better primary value addition and market linkages. From farmer's remuneration point of view, credit for proper marketing through value addition supported by clusterisation and supply chain linkages can be as important a factor, if not more, as compared to that for production.

Due to persistent policy focus by successive government and initiatives undertaken by RBI the credit to agriculture has seen tremendous growth in volume and number of accounts as is evident in growth of both direct and indirect credit to agriculture. While credit for agriculture production has grown substantially, the credit to agriculture marketing for primary value addition as well as for improving market infrastructure and supply chain has to improve substantially to meet the huge requirements of investment in that sector to be led by private initiatives. This entails improving credit flow for agriculture marketing through both convergent policies focus, backed up by streamlining of banking practices and procedures. As already brought out in chapter-IV, lending for agriculture marketing in both aspect of primary value addition and setting up and managing various critical post-harvest infrastructure has neither any specific earmarking within priority sector lending for agriculture, nor has it any priority in both direct and indirect category over lending for other purpose including that of production. And that lending for development of critical post-harvest market infrastructure, such as for setting up storage facilities, cold storage facilities, market yards, suffers from limitations of i. 'squeeze' in the indirect finance category in overall loan portfolio, ii. higher interest rate for loan leading to longer pay back period.

As due to universal nature of priority sector lending to agriculture, arising out of its definitional attributes, banks are not found generally framing an internal targets corresponding to lending for the purpose of agriculture marketing. This may be explained to the fact that a generalized broad category of indirect finance to include high-value lending for institutional (lending for on lending purpose) and commercial purpose (lending to input and implement dealers) facilitate banks to go after such lending rather than lending for market infrastructure under this category. Similarly, clubbing of the lending for working capital need in marketing such as pledge financing etc with that of lending for production, may not get the priority attention for it by banks, as much as that for production purpose. Hence there is a need to redirect a part of the institutional credit towards value additions, processing and marketing and pledge finance to help boost income to the farmer. This may be achieved by redefining the priority sector lending to agriculture.

The inadequacy of financial Institutions in India, in providing working capital to farmers particularly to small and marginal farmers, is not a major constraint to the functioning of agricultural marketing systems. The existence of integrative forces within marketing system automatically linking farmers to the market through the trader financing system has acted as an enduring backward linkage based on mutual trust and convenience. The trader financing of agriculture marketing as observed in the preceding chapter, has been playing a crucial role in its aspect particularly of <*trader advance*> with inter-linkage of the produce, fulfilling on one hand the financial requirement of the producers during the period of production with low income flow, while ensuring the supply of agricultural produce for the trader on other hand to carry on with the trade. Though the system might have appeared as 'exploitative' in nature in past decades with traders exploiting the hapless farmers, yet the very fact of inadequacy of availability of quick small credit from formal financial sources, can

only add to the stress without such an informal arrangement which serves almost as <*collateral substitute*>.

Increasing horizontal geographical spread of the market, emergence of specialized marketing verticals such as contract farming and direct marketing, increasingly better road and transport connectivity to rural areas and deepening of general rural credit especially through institutional mechanism, has helped improve the chances of large number of farmers to access the markets and marketing channels in the era of liberalization. The penetration of various poverty alleviation and employment generation programmes, deep down in rural pockets, has helped to some extent in reducing vulnerability of farmers to traders' exploitation. The trader advance system thus plays a complimentary role in as much as assuring the farmers of the valuable working capital for production/assured market, as to the traders in terms of assured supply. By providing supply to trader and sale guarantees to farmer, 'trader advance' helps in reducing transaction costs, in minimizing time and risk in tying up with an unknown trader particularly in selling highly perishable commodities. Certainly clusterisation of farmers and marketing innovations, such as contract farming and direct marketing arising out of market reforms, can even put such a farmer trader relationship on even keel.

On the contrary, '*trader's loan*' system serves to finance in small quantity, the various need of producers and is generally without interlocking of produce. Though it is again a short duration mechanism, a very high interest rate is charged unlike that by financial institutions. In addition, collateral is insisted linking generally to landed property. In some cases even, gold jewelry serves as additional collateral. This financial product by traders, which is a competitor to institutional finance, seems to thrive due to inadequacy of institutional finance in meeting veritable need of producers. Farmers need quick money to borrow during the process of agriculture production, which is short duration in nature.

This may lead one to believe that the collateral system, which is meant to secure the banks against possible risks, are used selectively by the banks themselves to screen the loanee, to keep very small loan demand out of reach of farmers, being administratively costly and risky as well. Although banks can seize collateral in case of default, this can prove to be a cumbersome and costly procedure for the banks for a relatively smaller thus becoming possibly avoidable.

Investment capital for development of marketing infrastructure appears to suffer from limitations due to inadequate focus and structural constraint faced in the sphere of formal financing. Some are critical of this on the ground of absence of participation of informal financing in this domain perpetuating its apathy in the eyes of the government, which seems to be grossly concerned about exploitative informal money lending practices(by moneylenders) in general for agriculture sector. Inadequate infrastructure credit restricts both entry of new participants as well as expansion by existing participants, particularly of small and marginal farmers who finds it difficult otherwise to empower themselves in doing primary value addition to their produce. While the direct credit has grown phenomenally over period of time, the proportion of long-term credit in it has shrunk over period of time as brought out in chapter-IV.

The cases of collateral free loan by banks are few and far between. On the other hand the innovations in the form of Joint Liability Group(JLG), which was required to bridge the confidence gap of banks in serving as social collateral for the group to the bank, has remained a distant reality due to supposedly supervision problem by the banks. Even the SHGs don't seem to be serving the need of agriculture marketing. There is a dire need to reactivate banks to align themselves to the SHGs, JLGs and Microfinance Institutions towards meeting the small marketing credit requirements of small and medium farmers with ease and greater responsiveness, at a lower cost and without physical collaterals. *Then*

only, institutional finance can be imagined to be replacing trader loan system, which may have some exploitative elements unlike that of trader advance system.

One of the major challenges faced by the farmers is the non-proximity of a bank branch to deal with credit matters. Our banks, which operate on a commercial basis, are generally urban oriented with little interest in veering towards rural branch expansion and still much less interested in small lending being costly proposition. As brought out in Chapter-IV, as per RBI data, default due to agriculture lending within the priority sector, is the lowest amongst all other sub-sectors such as that by small-scale industries etc. This is a silver lining to agriculture lending, as it may be interpreted that on an average, a small and marginal farmer would not like to default deliberately as contrary to the view being held by many bankers. It is essential that banks operate mobile banking system (as virtual extension of a bank branch) to periodically visit to deal with such small loan by small and marginal farmers.

Small and marginal farmers involved with agricultural marketing and processing may experience difficulties in identifying and approaching suitable banks for a loan. Most commercial bank branches are located in the major urban areas and are primarily interested in lending to known larger clients. Even the so called rural branches of many banks are located on the periphery of urban, semi-urban and peri-urban towns and lack their presence in remote localities. For such banks, the processing costs and overheads involved in making small loans to the agriculture sector make such loans unattractive. A common complaint is that commercial banks do not understand the agricultural sector and are thus ill-equipped to assess the viability of investment proposals including that for agriculture marketing infrastructure projects. This thinking gets louder due to inability of the banks to meet the huge credit gap in agriculture sector. It may be time to make a rethink in starting a low cost *agricultural bank*

purely to meet the credit requirements relating to agricultural activities including that for agriculture marketing.

From the field survey it comes out that following components of agriculture market infrastructure projects which are not finance by bank are: (i) entire cost of land (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. It has further come out that cost ceiling and ceiling on subsidy in 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 (not being inflation indexed) for government supported credit linked projects don't change for a long period despite high inflationary pressure. This reduces the proportion of government support in comparison to actual project cost.

Farmers want to invest and be paid immediately, but lack the collateral to obtain loans. Traders need working capital so they can buy and transport produce. Processors need capital to buy equipment or ensure a steady supply of inputs. But neither the financial institutions nor the government has come up with integrated packages on pan-India or even regional basis to link *<farm to the kitchen>*. ***Value Chain*** finance is a solution to such dilemmas which needs to be taken up on priority basis both in the sphere of policy making by government and RBI as well as through targeted but packaged lending by financial institutions. Value chain finance is when specialized financial institutions are linked to the value chain around specific commodities grown in a cluster/zone and offer services that build on the business relations along the chain. For example, a bank may loan money to a trader because the trader has a regular supply of produce from a farmers' group and a supermarket as a loyal customer. When lead firms are willing to vouch for their suppliers, even smallholder farmers

become creditworthy. A success story on commodity value chain pertaining to 'mint' (mentha) may please be seen at Box-1.

Box-6.1

Mentha Value Chain in India

Mint descends from the Latin word mentha, which is rooted in the Greek word minthe <a nymph who was transformed into a mint plant>.India became the world's leading producer of mentha immediately after the green revolution. Mentha was introduced as a winter season crop and continues to be so. The foothills of the Himalayas in India, with a semi-temperate climate support mentha production. Major share (80%) of mentha is cultivated in these areas only and the prime producing areas are Punjab, Haryana, Himachal Pradesh, Uttar Pradesh and Bihar. Commercial cultivation of this crop was started in district of Rampur (Uttar Pradesh) by some progressive farmers to replace some low yielding winter season crops which gradually spread to neighboring districts. Major breakthrough was visible after the intervention of the Spices Board of India and also entry of new players in the value chain such as aggregators, distillers and crystallization unit. Anticipating huge demand for mentha crystal and flakes in both overseas and domestic markets, pharmaceutical companies have already upgraded their processing facilities in order to meet the demand for mentha derivatives. Surya Pharmaceuticals Ltd- a large exporter of mint/menthol derivatives like flakes and crystal and exports to countries like China, Europe and United States of America (USA) is procuring mentha oil from the state of Uttar Pradesh. The local aggregators, traders, brokers are very active in the mentha growing areas and offers a range of services to the growers. The banks and the financial institutions also supported this growth by extending financial solution.

Source- Financing Value Chain – Case Studies, FAO (2009)

Recommendations and Way Forward:

As various corporate entities including big processors and exporters entering into contract farming and direct marketing, have the financial wherewithal to finance the contract farming or facilitate financing of contract farmers from institutional sources easily. It will also be worthwhile to innovate financial products through the institutional mechanism to facilitate financing the working capital and market infrastructure needs of large number of marginal and small farmers, who remained unbanked for the purpose and are either not able to link to such big corporate houses or at best connect to small processors or small exporters. In order to address the issue of improving institutional credit for

working capital and investment relating to agriculture marketing, two-pronged suggestions are made in following sections, i.e.; i. suggestions which can be implemented in short period(let us call it short-term) , ii. suggestions which may take long duration to implement (let us call it long-term).

i. Short-Term Suggestions

There is a need for mandated *mobile banking* services by all schedule commercial banks for facilitating visit to remote rural areas periodically. This can save the farmers in remote villages from the hassle of having to run to the nearest bank branch to meet their credit need. On the other hand *ICT enabled such mobile banking facilities* will increase coverage. Hence RBI may enjoin upon all the banks to undertake a minimum number of weekly visits to various villages. This will enhance the bank supervision over and coordination with JLGs/SHGs and will help them to deepen the small credit in rural area without doing branch expansion.

It is suggested that banks should improve their linkage with Joint Liability Groups (JLGs) by either improving direct supervision or through *delegated supervision* to improve lending through them, which stand as good social collateral for members. Even banks (particularly RRBs) should redesign their Bank-SHG and Bank-JLG link to ensure better *micro-lending* to agriculture sector including for agriculture marketing. NABARD may coordinate in this regard. This will help improve Credit to Deposit (C-D) ratio for rural areas.

The major obstacle on the way of eligibility of small and marginal farmers is routed in the collateral system of the financial institutions. Despite the enhancement of limit for waiver of margin/security requirements for agricultural loans from Rs.50,000 to Rs.1 lakh vide RBI circular dated June 18, 2010, not much headway seems to have been done. There is a need to educate both small and marginal farmers on this by NABARD.

RBI has stipulated that no collateral is required in case of lending to SHG by Banks. This is required to be put into action through the SHGs of producers. It may also be prudent for Government to come up with scheme for assistance for formation of commodity oriented Self Help Group to derive synergy in both production and marketing while availing hassle free credit from banks. Following the BASIX experience (Box-6.2), the Micro-Finance Institutions also be encouraged by banks to participate in lending process through JLGs. In addition to above, there is a need to improve the functioning of lead bank scheme, for which state government should play a leading role. There is a need for regular review at the level of both district administrations as well as at State level to ensure that Lead Bank scheme delivers properly. Proper training of state government officials need to be carried out for facilitating monitoring of lending for agriculture marketing. NABARD may undertake such training activities.

Box-6.2

BASIX- Agricultural Lending for Livelihood

***BASIX** is a livelihood promotion institution established in 1996, working with over a 3.5 million customers, over 90% being rural poor households and about 10% urban slum dwellers. BASIX works in 17 states - Andhra Pradesh, Karnataka, Orissa, Jharkhand, Maharashtra, Madhya Pradesh, Tamil Nadu, Rajasthan, Bihar, Chhattisgarh, West Bengal, Delhi, Uttarakhand, Sikkim, Meghalaya, Assam and Gujarat. **BASIX** strategy is to provide a comprehensive set of livelihood promotion services which include Agricultural / Business Development Services to rural poor households. BASIX uses Joint Liability Groups of five to six rural producers by mutual choice, to guarantee each other's loan. Repeat loan is given unless all members have repaid the earlier loan. JLG act as substitute for collateral. This is based on the pattern followed by Bank of Agriculture and Agricultural Cooperatives (BAAC), which does agricultural lending, but no lending exclusively using JLG method.*

Primary and secondary processing facilities for specific commodities be identified with the help of local producers associations, traders associations and

local chamber of commerce by lead banks on value chain basis and encouraged for lending.

Bank should target lending at soft rate to utility service providers such as the service providers of tractors, harvesters and post harvest equipments to farmers to enable economic use of such machineries by small and marginal farmers. RBI may prescribe lending ceiling.

Considering the labour shortage for agriculture sector, possibly arising out of implementation MGNREGS in rural areas, Tractors and Harvesters must be considered under priority sector lending with lower interest rates to absorb the shock of labour shortage in otherwise labour-intensive harvest operations. To the extent possible, government subsidy should be linked to such machineries to promote mechanization. Even the loan for repair of such machineries should be considered on soft lending basis.RBI may direct banks in this regard.

ii. Policy Recommendations

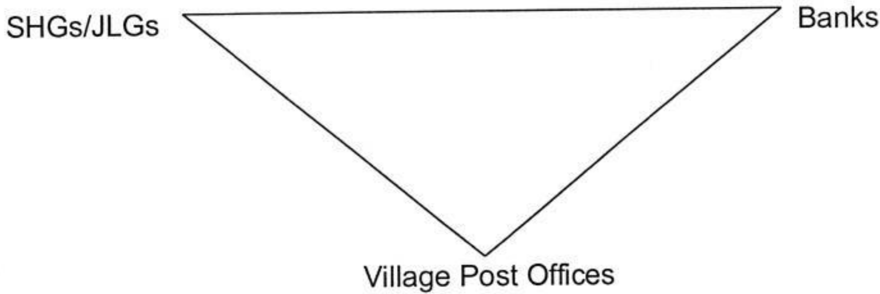
There is a need to redefine priority sector lending to agriculture for better directing the credit for production and marketing activities. This is to be achieved by relocating credit for critical post-harvest processing infrastructure under priority sector direct lending (in addition to existing sorting/grading/packaging facilities and pledge finance), while creating a separate sub-category for agriculture marketing under priority sector direct lending, with allocation of specific percentage of fund for it. This needs to be backed up by fixing annual targets for bank branches to lend proportionate amount for agriculture marketing. This will also help RBI to specifically monitor this category of lending separately within priority sector lending to agriculture, thus providing much awaited intensive focus by the regulator. Along with this, definition of Non-Performing Asset (NPA) for primary value addition infrastructure at farm gate needs to be relooked.

A set of policy recommendations which are long-term in nature, is suggested herewith. A low cost *Agricultural Bank* may be started purely to meet the credit requirements relating to agricultural activities including that for agriculture marketing in rural areas. Even the shortfall of all the scheduled commercial banks in meeting their priority sector lending to agriculture can be diverted to this bank as capital for investment in agriculture instead of channelizing to RIDF. In this context it is also suggested that post-offices which has about 1,28,00 branches in villages (making one post office to five villages), has more than all the branches (urban & rural) taken together for all schedule commercial banks. As majority of these post offices carry out savings bank operation and rural postal life insurance, which is low cost in nature. India Post can either start a new division/subsidiary of rural banking with organizational and staff re-orientation, or even may align with schedule banks to start a new joint venture Rural Bank.

As the traders and commission agents lack the interest in an infrastructure linked credit system, possibly due to its long-term nature of repayment, it may be worthwhile to suggest model for credit for market infrastructure projects without much involvement of traders. While the big ticket infrastructure projects anyway will require the entrepreneur to deal with the banks, it may be essential to give a big push to primary value addition by the producers near to the farm gate in the rural heart-land. Given that bank branches are not remotely located in real sense, it may be worthwhile to associate the branch post-offices(village post offices) located in the villages to act as <*business correspondent*> in acting on behalf of the banks in providing loan for primary value addition(in case post office doesn't wishes to open a rural banking subsidiary). Even one of the striking feature of the village post-office is that the village post-master generally belongs to that area, which gives him tremendous advantage of knowing the villages being served by that post-office, the advantage which no other bank in India ever

enjoys. Here, it is suggested that the PSU Banks, Post Offices and SHGs/JLGs to partner the credit flow process in triangular cooperation (Fig.-6.1).

FIG.-6.1 Bank-SHG-Post Office Linkage

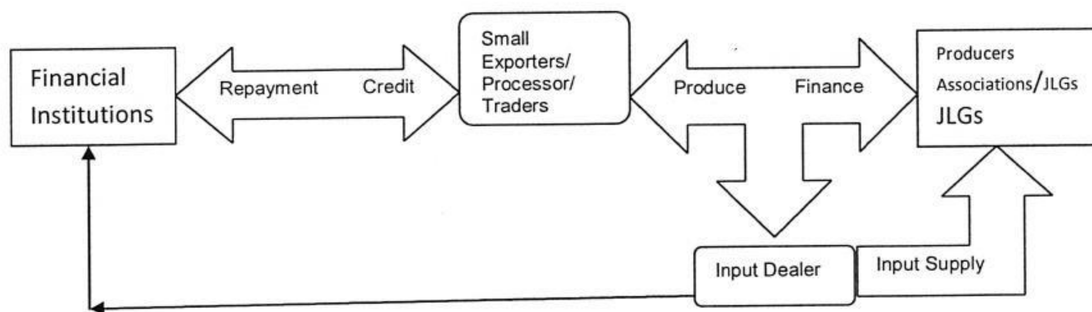


The post offices in villages, also can act as extended arm of the bank on agency-charge basis to promote the bank lending specifically for promoting loan for setting up and operation of small facilities such as cleaning/sorting/grading/packaging, pack houses, rice huller, spices processing, pickle making, fruit pulp/ketch up making fish and poultry farm/processing, milk chilling etc.. This will, to a large extent, facilitate primary value addition at farm gate level, leading to reduction in post-harvest losses, improvement in shelf-life of commodities and better remuneration to the producers.

As has been brought out in many past recommendations for the banks to improve their linkages with Self Help Groups(SHGs) and with Joint Liability Groups(JLGs) including financing through Input dealers, the system in this regard has remained a far cry, due to lack of marketing linkages. Hence while the banks/cooperatives can continue in their effort in that direction, I proceed to suggest two additional alternative models involving financial institutions, small processor/exporters or even traders/commission agents (where no processing facilities exist), input dealer and producers to facilitate in meeting such need. While one of the module (Fig.-6.2) can be that Bank-Trader-Producer Linkage

whereby banks/cooperatives finance (say credit) the traders, who in-turn continue to finance in advance to the small requirement of working capital and obligatory expenses of marginal and small farmers through interlocking of produce with Joint Liability Group(JLG) or Producer's association. The financing of farmers by traders can be either in the form of advance or with a small interest bearing loan to serve the interest of farmers as well as traders. This can take a form a contract between the financial institutions and traders as well as between traders and producers associations/JLGs.

Fig.-6.2 : Bank- Trader- Producer Linkage

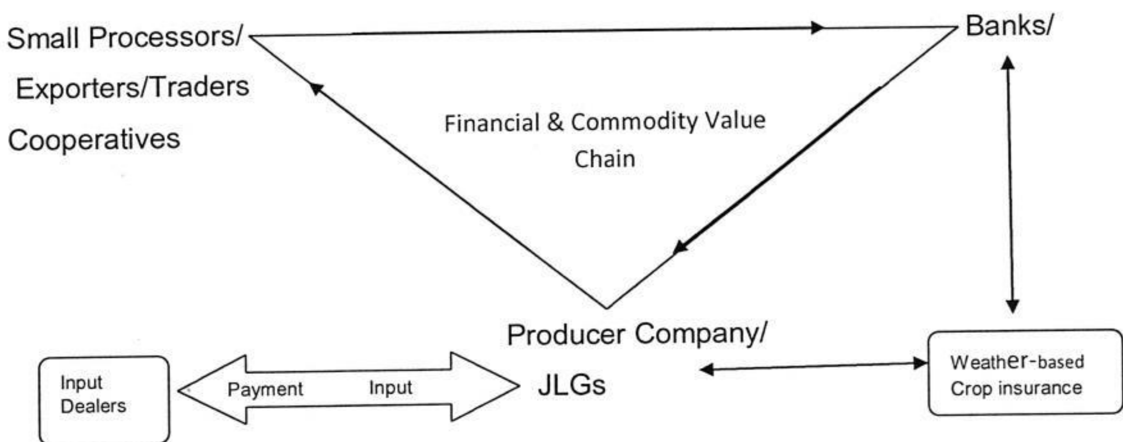


Even the trader's contract with Producer association/JLGs can include the input supplier in a tripartite agreement to ensure input supply and credit supply to farmers in time. The pricing of produce in interlocking pattern can be market based and can be easily computed based on AGMARKNET network and other ICT based network or even based on APMC rates. To begin with such traders need to be registered with APMCs/ Private Wholesale Market. The maximum interest rate by trader to the farmers may be specified through the medium of bank.

The other module of financial linkage (Fig.- 6.3) can be Bank-Processor/Exporter-Producer Company/JLG linkage, whereby the financial institutions (banks/ cooperatives), traders and producer

companies/Associations/JLGs enter into tripartite contract. Such traders/commission agents who are registered with APMCs/Private Wholesale Markets/ Corporate Supply Chain, can be encouraged to enter into such agreement whereby the financial institutions to provide credit to such producers company/JLGs, who in turn would sell their produce to the traders/commission agents. It will be the traders/commission agents in the agreement, who will buy the produce at market rate and after adjusting the loan amount of the bank/cooperatives as availed by producer company/JLGs, make the payments to the producer company/JLGs. On behalf of producer companies, loan repayment will be carried out by traders/commission agents.

Fig.- 6.3 : Bank-Processor/Exporter- Producer Company/JLG Linkage



This will also help consolidation of layers of intermediation arising out of small nature of intermediation and consolidation. To cover the risk associated with both above models arising out of vagaries of weather leading to drought, flood, pest attack, it is also suggested that the weather-based crop insurance schemes which have relatively speedy mechanism for settlement needs to be forming part of the agreement with producers, which will protect his interest as well as minimize risk to both financial institutions and traders/commission agents.

As most of the schedule commercial banks have now the agriculture trained staff, it may be possible to start the process on pilot basis without orchestrating the demand for setting up an exclusive bank for promoting agriculture marketing in the country.

Though Warehouse Development and Regulatory Authority has been set up to promote accreditation of warehouses and negotiable warehouse receipt system, it can only lead to good credit flow to agriculture sector and particularly to small and medium farmers, provided the rural based storage godowns are scientifically designed to facilitate accreditation and large number of such godowns are available spread across length and breadth of the rural India. However this is a herculean task at the moment and the government while stepping up quantum of assistance for construction of such godowns in rural areas, must provide specific assistance to help the conversion of all existing rural godowns as per the technical standards prescribed by the Warehouse Authority for its accreditation.

However, given the huge requirement of working and market-infrastructure related capital in the country, and increasing need of employing specialized and well-trained staff for agriculture in the financial institutions, it may be prudent for government for setting up Nationalized Agriculture Bank in the country to lend to production, transportation, marketing and processing of agricultural commodities. Till such time that a specialized commercial bank is created as suggested, NABARD may design such products and refinance it through the Banks/Cooperatives in the larger interest of the country.

As brought out through survey in Chapter-V that currently banks are lending @ interest rate up to 15 % annually for development of agriculture marketing infrastructure. This is unviable, considering the uneven nature of agriculture production being weather dependent, making Internal Rate of Return

(IRR) in this sector very low. Hence lending at soft rate through the route of direct lending can help boost much needed market infrastructure development. Government may also consider providing *interest subvention* for agriculture market infrastructure project lending.

There is a need to fix specific internal targets for lending to agriculture market infrastructure projects by public sector banks at National level, Regional Level and local level followed by rigorous monitoring by Reserve Bank of India to ensure its implementation to avoid the tendency of the banks to transfer it to RIDF in the pretext of non-utilization. As mainly state governments and its agencies are empowered to spend from RIDF, the use of this fund in market development has remained meager as brought out in chapter-II.

One of the major requirements of the farmers for marketing of agriculture commodities in post-harvest stage is the need to pack it properly before transportation to the wholesale market and if required from there to retail point. The type of packaging materials varies from commodity to commodity. Without proper packaging, perishable agricultural commodities are subject to post-harvest losses due to various reasons. It was observed that many of the small and marginal farmers were availing loan at a high interest rate from traders for buying packaging materials. Appropriate commodity specific low cost packaging materials have not been developed in the country and require attention of by Government and research organizations in this direction. However, non-availability of low cost credit for packaging material would add to the cost of marketing thus reducing his margin. It is essential that financial institutions design short-term but very low interest bearing credit package (say less than 10% for small and marginal farmers) to give a big boost to marketing efforts in the country. Considering the difficulty of banks in reaching out in rural areas, aforesaid arrangements with post-office can be leveraged to achieve the objective. These arrangements involving post-office will get a fillip with

computerization of village post-offices and particularly the savings bank activities, which must be taken up on national priority. The post-offices in rural areas have demonstrated the effective way in which they have delivered the wages to the beneficiaries of Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) in many states through the route of post-office savings bank scheme. Hence if Government decides, it will not be a distant reality for development of symbiotic relationship between the postal system and the banking system.

One of the major components for agriculture marketing infrastructure project is land. Land is an expensive factor of production. Given the recent introduction of a new Land Acquisition and Rehabilitation Bill in the Parliament, the cost of land is bound to go up even in rural areas substantially, thus making agriculture marketing infrastructure projects very unviable. Though in the credit-linked government sponsored market infrastructure projects (which have limited kitty) such as "Construction of Rural Godown", "Development/Strengthening of Agriculture Marketing Infrastructure & Standardization/Grading (AMIGS), "Wholesale Market", even the *land component* factored in the project cost is up to 10% in rural areas and up to 20% in urban areas. This is highly inadequate and needs to be enhanced up to 30% of project cost in the government sponsored credit-linked market infrastructure development schemes, in order to facilitate institutional financing up to a reasonable limit of total cost of project by the banks. This limit should also apply to pure credit linked market infrastructure schemes.

To facilitate land availability for agri-marketing infrastructure projects, it is suggested that State Governments to create a *Land Bank* in each state (land being State subject), out of the large number unused lands held by various State Government Departments and Subordinate and Parastatal Organizations as well as 'abadi' and 'Panchayat' land for promotion of agri-marketing projects. This

land bank can provide land to prospective serious investors, which will facilitate bank lending to such agri-marketing infrastructure projects. In addition to this, financial institutions be encouraged to accept community land as collateral for agri-marketing infrastructure projects by the community backed entrepreneurs in North-Eastern States.

Non-inclusion of pre-operative cost (incurred for setting up market infrastructure project on various account including that for preparation of project documentations etc) by banks in project cost for sanction of loan, keeps away the prospective investors from the market infrastructure projects as the same is then required to be additionally borne by entrepreneur, thus actually requiring higher equity contribution. It is recommended that *pre-operative cost for projects* should be included in project cost for consideration of loan by the banks.

In order to develop entrepreneurship in rural India, it is proposed that Government should open Rural *Agri-Marketing Entrepreneurship Club* in association with NABARD, Banks and Panchayat in rural areas. Such a Club should be designed to provide training, project guidelines, model projects and must facilitate the entrepreneurs in seeking finance and management guidance. It is suggested that NABARD with the help of Lead Banks, should provide consultancy through such clubs.

Reading of the Viability Grant Fund (VGF) created by Ministry of Finance to promote infrastructure projects in the country on PPP basis brings out that agri-marketing infrastructure projects are not included as eligible category under VGF. Similarly agri-marketing infrastructure project has not been granted '*infrastructure status' in the country.* This would have otherwise facilitated access to host of financial resources. It is suggested that government should accord infrastructure status to agriculture marketing infrastructure projects and bring it under *Viability Grant Fund (VGF)*.

Infrastructure such as storage godowns and cold storage has very long pay-back and turn around period, typically 12 to 13 years. The investment in this infrastructure is not therefore attractive compared to other sector of infrastructure investment. Hence for attracting private investment, the percentage of government subsidy to such credit-linked projects particularly in rural areas, must increase from existing level to 50% of actual cost of construction to bring down their payback period. Also it is suggested that government must provide *tax holidays*, say for first ten years of operations of these projects, to help them stand up on their feet.

Foreign Direct Investment (FDI) up to 100% by direct automatic route should be permitted in multi-brand retail, which will greatly help in development of integrated supply and value chain necessitating strong backward linkages to farm gate. This will definitely enhance the demand from producers for value addition and processing for improvement in quality and shelf-life, which in turn will give rise to demand for infrastructure linked credit from the producers.

There is a need to create a specialized *Marketing Credit Linked Risk Mitigation Fund* by the Government, to assure the banks of adequate risk coverage in case of failure in credit business for agriculture marketing sector.

The working group of Planning Commission for XII Plan on Agriculture Marketing has recommended an investment of Rs 64,312 crore during XII Plan period (2012-17) on agriculture marketing infrastructure of which Rs 30,625 crore will come from Private sector. As regards the investment in warehousing and cold storage and cold chain sector (the two most critical market infrastructure), total investment proposed is Rs. 23,000 crore (of which government support is recommended for Rs 8675 crore, implying that bulk of the rest has to come from private sector. Apart from this an investment of Rs 2500 crore has been

proposed for XII Plan by the working group with recommendations of government support of Rs 1250 crore. Presuming that one-third of the private investment will come from private equity, rest has be in terms of lending from financial institutions for development of marketing infrastructure during XII Plan. It is recommended that a sum of say Rs 20,000 crore be earmarked in the direct lending category (long-term) during XII Plan period purely for lending to individuals, entrepreneurs, corporate houses and companies for investment in marketing infrastructure for agriculture produce (doesn't include food processing sector-secondary processing).

Conclusions

In the short run, suggested concrete measures have to be taken up to reduce gap in credit need of vulnerable sections of the peasantry. For this, the institutional arrangements for credit, extension and marketing need to be revived. In the long run, a serious attempt has to be made to rejuvenate the agricultural sector with large investments in market infrastructure, and in agricultural research and technology. As we are almost on the door-step of XII Plan period, advantage may be taken to introduce policy changes as well as to create new channels of flow of institutional credit to agriculture marketing as suggested, while earmarking funds under priority sector direct lending for the same. The improved and qualitative credit flow would ultimately result in improved post-harvest infrastructure and practices resulting in better value addition and shelf-life of the perishable agriculture produce, reduction in post-harvest losses, resulting in better remunerative prices to the farmers for his produce, thus improving his income. It will help the farmer in linking to traders, retailers, agro-processors and exporter etc. At the same time it will ensure quality supply to the consumers at appropriate price. It will also greatly improve the employment prospects in rural India.