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The critical importance of Second Level Institutions (SLIs) managing agricultural products in a strategy for including small Producers in sustainable growth

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This paper is based on the writers experience as a member of the Steering Committee on "Agriculture & Allied Sectors" for the 12th Plan, his experience of 30 years in Myrada and 3 years in NABFINS

My first interaction with NABARD was in 1986 when I approached the then Chairman Shri P.R. Nayak for a grant to match the savings of the Credit Management Groups (CMGs) that had emerged in Myrada and for training them. The members of the CMGs(all poor) had lost faith in the PACs which they said were dominated by a few powerful families; as a result they could not access loans and if they did, the loans were offered by the President and his cronies at 30%-40% interest. Nabard gave Myrada a grant of Rs 1 million in 1987. But more importantly between 1987 and 1992 (when the SHG-Bank Linkage was launched) NABARD and RBI took three policy decisions: To allow Banks i)to give one bulk loan to the SHG;the SHG had the freedom to decide on individual loans to members- it functioned as the last mile; ii) to give loans to unregistered groups and iii) to give loans without physical collateral. More importantly it was agreed that the SHG would be given the space to decide on the size, purpose and repayment period of loans (the SHG was really the last mile), to set its own agenda –which went beyond savings and credit - and would not be compelled to follow the rules governing loans of official financial institutions. Briefly the SHGs would not be mainstreamed, much less co-opted by official financial institutions. Till 2002 NABARD took the lead in promoting SHGs and providing grants to train SHGs in Institutional Capacity Building (ICB). The GOI gradually took over the SHG concept and integrated it in the SGSY and more recently the NRLM. Reports from the field indicate that the space for SHGs had diminished considerably-but this is another story. **The reason for this brief history** is to place the SLIs in context. The SLIs emerged as the SHG members wanted to grow and diversified into cash crops and produced small surpluses in food grains .These members formed informal collectives to aggregate and market their products. Later these emerged as formal Producer Companies. When Davesab invited me to deliver this lecture, I agreed for two reasons: i) to take this opportunity to express my gratitude to NABARD for its leadership in promoting the SHG movement and ii)to request NABARD and other Government related agencies to provide equal if not greater support to form and nurture the SLIs.

1. India is a land of small agricultural producers. This paper is about them. **They produce 41% of total grain and over half of the total fruits and vegetables**. It is these small farmer producers who will continue to provide the basis of food security to the country; they are also more efficient than large farmers both in terms of inputs and yields. [1] This paper does not deal with the issues that have been raised by the small retail shops, kirana stores, in cities related to the policy allowing FDI in retail.

2. The report on the state of India's agriculture for the year 2011-12 brought out by the National Academy of Agricultural Sciences (NAAS) points out: that i) poverty in the rural sector will not diminish **unless farmers move to other sectors** which are more productive, and ii) those remaining in agriculture need **to diversify**

[1] A study by Gandhi and Kosky in 2006 of wheat reveals this.

products with a shift away from focusing only on food grains. However there is a growing category of farmers (both marginal and small) who have products (food grains, other food crops, small ruminants and non food crops) for the market; these small producers cannot get remunerative prices. There is another category of farmers located in States where rainfall is adequate for them to produce surplus food crops and non food crops, but they do not invest in increasing productivity or in diversification because of the lack of markets which ensure them a fair and sustained income; these are potential small producers.

3. **Market as a driver**: The National five year Plans have generally focused on enhancing production in agriculture and related sectors – **marketing** as a driver of production was in second place. Fortunately the thrust of the **12th Plan in Agriculture and Allied Sectors is on marketing as the driver**, though the impact on the ground is still to be seen. It is envisaged that this marketing support will encourage farmers: i) to invest in increasing productivity in food grains; ii) to diversify into fruits, vegetables, poultry, small ruminants, pulses; iii) incentivize farmers to invest in increasing productivity in food grains primarily in States like Odisha, Jarkhand, Bihar UP,MP. (Chattisgarh already has taken a first step to set up a Decentralised Procurement System for paddy on behalf of GOI; a study is required to ascertain whether this has had an impact on investment in productivity and additional acreage under cultivation.) It is also envisaged that this market support will be provided by: i) Government - especially in the case of food grains but also in fruits, vegetables and meat products especially small ruminants. A step was taken by NDDB in setting up SAFAL- a procurement and marketing complex for vegetables and fruits - in Whitefield, Bangaluru, and later handed over to Ministry of Agriculture GOI. Unfortunately, it is now languishing when what is required are another 50 strategically located SAFALs but not of the same size at the one in Whitefield; ii) private Sector in food and other allied sectors like small ruminants and poultry; iii) APMCs- there is an effort to reorganize them and to exclude fruits and vegetables from their purview; iii) Informal Sector which is already a major player and growing and iv) Para Statal institutions like NCDEX supported by warehousing and spot exchanges.

4. **Small producers need to be organised and to have the space and ability to make choices among several marketing systems.** This paper seeks to emphasise that small producers will not be able to protect and promote his/her own interests and benefit from these new marketing systems unless he/she is organized into institutions owned and controlled by them, which aggregate, add value and market their products. These institutions are referred to as Second Level Institutions (SLIs - like Producer Companies, Co-operatives and Informal Collectives). [2] **The ideal scenario would be where the SLIs are able to choose among various market systems set up by Government (procurement, APMC etc) and the Private sector**. This group of small producers usually has a marketable surplus of foods like cereals, minor millets, legumes, spices, vegetables, oil seeds and/or non food crops; many of them are also increasingly **leasing in** land from others. Small holders currently do not have an organisational or financial scaffolding to aggregate, add value and market surplus of food products. Without this organization at the second level (and later at higher levels) they cannot move up the "value chain". As a result they often realize lower prices than the larger farmers or those who aggregate and market their produce. Is it surprising therefore that many of these small holders are expressing a desire to get out of agriculture? If this happens food security will become a major problem.

[2] Some legal forms of producer organizations are: Producer Company under Section 581A in Part IXA of the Companies Act; Producer Cooperatives registered under Cooperative Society Act in respective State or under Society Act, 1860; Multi State Cooperative Society; MACS (Mutually aided cooperative society); Self Reliant Cooperative Society and Primary Agriculture Cooperative Society

They will provide a basis for food security only if **they continue to earn an adequate and sustained income** from a range of products. The institutional basis on which this security is based are the SLIs. The country that has perhaps invested the most in building this organisation, market and financial scaffolding enabling small surplus producers to aggregate, add value and market their products is Vietnam; perhaps we need to shift our attention from Bangladesh (for which many have a predilection–especially for the Grameen bank) to Vietnam.

5. **A shift from agriculture and diversification are not adequate**. While I fully agree with the need for the shift from farming to other more productive sectors and for diversification,(in fact these shifts are already happening across the country wherever people see market opportunities), this must be accompanied by investment in building and maintaining an organisation, market and financial scaffolding to ensure a fair and sustained price for the surplus products of small producers. This will ensure that their income from agriculture will increase while the shift out of agriculture takes place. With overall growth rates declining sharply especially in nonagricultural sectors, this shift from agriculture will take longer than anticipated as opportunities have diminished. Further unless adequate marketing support is provided, production of cereals (which today is in surplus and yet prices have risen sharply)will not be adequate to cope with future demand as more and more people move out of agriculture. Production of vegetables, poultry / products, small ruminants etc which are already in short supply will not increase adequately to cope with increasing demand as people continue to shift their food preferences from cereals towards these food items ; the rise in prices of these food items is due to short supply, lack of producer management/control from farm gate to market and fair markets. Food inflation has averaged 10% growth a year over the last 9 years, suggesting that inadequate supply is the root cause. Food inflation cannot be addressed by monetary policy; structural issues which affection production and supply must be tackled.

6. **Small ruminants**: These small producers also rear small ruminants (sheep, goats and pigs) mainly for the market where the demand for meat is growing- something that policy makers seem to fight shy of admitting with the result that this sector fails to attract adequate resources for breeding, hygienic and humane processing and marketing ; this sector was neglected in the 11th Plan and even earlier. As a result of inadequate strategies for breeding and feed, the size/weight of small ruminants is decreasing. The entire chain of processing is unhygienic and inhumane and the market is captured by powerful middlemen. As a result the gap between prices at farm gate and market has increased and is really wide during festival seasons. The 12th Plan has addressed this lacuna and made breeding and care of small ruminants, processing and marketing a priority. However, the impact on the ground has still to be seen. The links in the value chain of meat products has several factors which are different from the value chain of agricultural products which is the main subject of this article and therefore will have to considered elsewhere.

7. **Private Sector:** By December 2012, the Government of India had sanctioned joint ventures, foreign collaborations and 100% export oriented units totaling an investment of approx Rs 19,100 cr. in partnership with major private operators. With private companies entering the agribusiness sector, the small producer will be increasingly marginalised as the private sector prefers to deal with larger farmers and that too in parts of the country where there is adequate infrastructure. This again excludes less developed States referred to above which have a poor infrastructure. Further, where they enter, these private companies will own all links in the value chain except production (which they will also influence through provision of seed and technical support). Most will aggregate through middlemen/organizations under their control and directly manage even the initial stages of

grading and packaging. Further up the value chain, the processes that require high technology will be owned entirely by them. In this scenario, the small producers at least need to own and control lower links of the value chain like aggregation and basic value addition which should be done as close to the farm gate as possible. Otherwise, this writer anticipates that the small producers will be increasingly marginalised once the private sector enters retail. **To ensure growth in productivity and sustained income the small producer needs to be able to make choices between various marketing systems (Govt.,Private etc) that penetrate his/her area. He/she will not have this freedom to choose unless he/she is organized into SLIs. Govt. proposes a Regulator for multi-brand retail; instead Govt. should encourage SLIs to be able to bargain with organized buyers and focus on managing competition arising from vested interests.** Regulators take time to be put in place and many do not have much faith that regulators will be effective especially in agriculture and related areas. The proposal to set up a bio-technology regulator – in the context of the debate on BT cotton – was made in February 2010; it is still not implemented**.**

8. For a cohesive strategy directed towards achieving inclusion of small producers in growth to emerge, **the distinction between small and marginal farmers based on size of land holdings needs to be complimented by another distinction between**: i) subsistence farmers who consume all they produce on their own lands, with nothing left to sell; most of them have to work additionally as wage laborers to bring in cash income; we can call them **subsistence farmers**[3] and ii) farmers with small surplus (hereafter referred to as **small producers**) of food crops (cereals, vegetables, pulses, small ruminants) and nonfood crops like cotton which are for the market. Field experience shows clearly that categorization of farmers according to size of holding is not the basis for a strategy towards inclusion in growth; marginal farmers (with less than 2.5 acres rainfed lands), if provided with irrigation (or in good rainfall areas or in years of adequate rainfall) can have marketable surpluses; on the other hand small farmers (2.5 to 5 acres) can become subsistence farmers in drylands with erratic and low rainfall

9. This paper does not deal with milk, as it is supported by a good organizational network which ensures aggregation, quality control (grading), storage, transport, bulk collection, marketing and processing. We need to recall that large amounts of grants were made available to establish the infrastructure which made this possible. Unfortunately this organizational scaffolding is absent for agricultural products.

10. **SLIs need a Supporting ecosystem to take off :** For SLIs to emerge and become viable, they need the support of Institutions (both Government and NGOs) backed by policies and supported with grants for training and infrastructure. Unfortunately this supporting ecosystem is weak. A few major requirements for an appropriate and adequate financial supporting system are the following:

    i) One institution (or at least a window) which can help the SLI to access markets and which can provide or mobilise from various sources a portfolio of loans/ grants. The SLIs cannot do this by themselves during formative years. These loans/grants include working capital, term loans, revolving funds at low cost, grants for equity and to reach viability; this portfolio needs to be provided through one window or

[3] The appropriate strategy for subsistence farmers as a first step for inclusion in sustainable growth includes investment to reduce production risk through watershed management which conserves both water and soils, up-gradation of soils through better agricultural practices ,provision of drought resistant varieties and ensured access to low cost credit and other support services for agriculture/ horticulture

organized by one institution like an NGO or Nabard District Office since the SLI usually does not have the ability to do so. The example of how Myrada had to play this role is given in the box below.

***MYRADA an NGO**: As a former Director of MYRADA which has promoted Self Help groups since 1985, I was repeatedly questioned: "the Self Help Affinity groups (SHGs) extend only small loans to rural families -.how can they achieve scale and come out of poverty?. My response is simple: India is a land of small farmers. The members of SHGs are small and marginal farmers (and landless). They are unable to use large loans and maintain assets bought with them . They can achieve scale only through collectivization and outside support. .*

In 2010-2011 the price of pigeon pea (tur)rocketed upwards but the price to small producers remained largely unchanged. Myrada which has a large program in Gulbarga (one of the Districts where tur is cultivated extensively), decided to intervene. It discussed the strategy to aggregate tur with the Self Help affinity groups composed of small and marginal dryland farmers. They agreed to aggregate tur and to transport it to the Community Managed Resource Centers (CMRCs) which are federations of 100-120 SHGs and managed by them. Myrada raised a revolving fund from the Government Tur Board which covered the cost of transport and grading which was done by the CMRCs. Myrada also mobilized grading machines for the CMRC to use. From the CMRCs the graded tur was transported to a warehouse and NCDEX (in response to Myrada's request) stepped in to hire the warehouse as well as to open a spot exchange to establish a wide market. Loan from Banks against the warehouse stocks were extended to the producers.

The organizational basis for this intervention was composed of the SHGs and CMRCs which were well established. There was no time to set up a Producer company. A formal Producer Company emerged only in 2013. Fortunately Myrada is well established in the area and could take off quickly, but even so this intervention required Myrada taking the lead in mobilizing resources and providing additional expenditures.

The responsibilities undertaken by Myrada will be handed over gradually to the Producer Company and supported by Myrada for a year or two. The critical need to bring together several institutions at the right time to aggregate, add value and market can be seen from this example This co-ordination had to be led by an NGO, Myrada is this case, which was also able to pull together various types of financial and marketing support .Myrada was able to do this since it had a strong base of community institutions like SHGs and CMRCs and good contacts with Government, NCDEX and the Banks

- Can NABARD or a Government Dept take the lead in mobilizing the various loans/grants? Do they have adequate staff to identify and support the many informal producer collectives that are emerging all over?

- More importantly do the supporting organization have the ability to build institutions? The focus here is on building peoples institutions, in this case SLIs, which requires special skills, ability to be flexible and to respond quickly to emerging needs. There are proposals from Government to ask institutions like Krishi Vigyan Kendras (KVKs) and the Agricultural Technology Management Agencies (ATMAs) to promote SLIs. The KVKs (as they presently operate) have the potential to train SLI representatives and managers; but it requires a systematic and long term involvement to build an institution like a SLI; this long term handholding requires dedicated staff which the KVKs are not structured to provide at present. The ATMAs in most States are inoperative. Experienced NGOs are the best suited to building SLI institutions and handholding them till they take off; besides handholding is required for at least 3-4 years on a diminishing basis, but many Government programs are time bound.

ii) Grant support to NGOs forming and supporting SLIs: Several NGOs are promoting SLIs and taking the lead in approaching various financial institutions/Government Depts , but the NGOs find it difficult to raise grants to support their own involvement.

iii) Need for a Guarantee Fund for Financial Institutions lending to SLIs. FIs loans to SLIs incur a higher risk than acceptable especially in the initial years. Hence they are reluctant to lend. SFAC has been able to create a Guarantee Fund for Financial Institutions lending to SLIs like Producer Companys (Cooperatives are excluded for the present), but it was launched only on January 2014 and covers 85% of the loan given to SLIs. Nabfins has entered into an agreement with Rabo Bank Foundation under which the Foundation provides guarantee to the extent of 60%-80% of Nabfins exposure to each SLI. I have not heard of any other initiative.

iv) Need for untied equity for SLIs. SFAC is the only organisation providing an equity grant to SLIs but the condition of availing this grant is that the SLI must leverage equity from a bank. This is extremely difficult to fulfill as Banks are unwilling to lend to SLIs till they are viable.

v) Need to separate the grant component from the loan. At present Nabard under its PODF program provides grants and loans; but the SLI must take the loan to avail of the grant. The problem is that to be eligible for the loan the SLI needs to have adequate collateral –the lowest being 51%. This make it very difficult for the SLI to avail of the grant and loan especially in the initial years when its needs a grant to survive.

vi) Need for investment in technology for value addition; For SLIs to gain some degree of control on the value chain, they need to own at least the first step in value addition. For this technology is required. In many cases, it does not require expensive and sophisticated technology. For example Tur can be graded using a machine costing around Rs 25,000/-. Storage facilities especially cold storages are more costly and difficult to access on a small scale. The need for small cold storage facilities is also growing fast; private companies are coming forward to meet this demand from large farmers, but these cold storage facilities must be supported by Government subsidies if they are to be accessible to the small producers.

Investment in appropriate tools to reduce stress and drudgery in production related activities also adds to value addition. Further up the value chain larger and more sophisticated technology and organisations are required which the private sector is beginning to invest in.

How does the SLI raise funds to purchase or even to hire these tools/machines. There is at present no provision in Government sponsored programs for SLIs for low cost value addition. Appropriate agricultural tools and implements that can raise productivity, which are affordable and easy to maintain are required. They can be owned by individuals or collectives to be rented to meet post-harvest requirements related to grading, shelling, husking packaging and storage of perishables. This will reduce drudgery and free up time for leisure, specially for women who are engaged in most post-harvest activities. Appropriate machinery will also help to cope with the increasing demand to make agriculture mechanized in order to reduce the direct use of hands and feet in muddy fields. The present day young farmer is willing to be involved in agricultural operations but is increasingly reluctant to use traditional methods that dirty his/her hands,– this is a growing trend which can be termed as the “sanskritisation of agriculture”. They are also not willing to work from dawn to dusk in the traditional way and demand time for leisure. Appropriate technology is the answer. Unfortunately compact, affordable and easy to maintain machines/tools are not easily available in the country. Over 10 years ago, a Company in Gujarat took up this challenge as part of its Corporate Social Responsibility and had to go all the way to China to import machines to shell maize and then to adapt them to suit local conditions. This illustrates the fact that research, development and popular use of appropriate, low cost machinery is happening elsewhere in the world; in India this initiative is largely left to individuals and private entrepreneurs.

vii) Need for **a policy and marketing infrastructure sadly lacking in most parts of the country which provide choices to the small producer so that he/she is assured of the best price possible** . **The ideal scenario would be where the SLIs are able to choose among various market systems set up by Government (procurement, APMC etc) and the Private sector. Some of** Myrada's Community Managed Resource Centres display daily prices of various vegetables and fruit at the local market, mandi, APMC and SAFAL, leaving the producer to choose where he/she wants to take the produce.**IT plays a critical role in marketing especially by providing SLIs with timely information of prices at various markets, enabling them, to choose where to take their produce. Spot exchanges also play a major role in enabling SLIs to broaden their market reach.** Unfortunately the APMC is still the legal market in many States. Efforts to remove fruits and vegetables from its purview have not succeeded. The rapid growth of informal collectives is due largely to the reluctance of the small producer to approach the APMC. **Today, there are thousands of small informal collectives largely aggregating and marketing produce, but their ability to choose among various markets is limited and their bargaining power is weak.** Excessive reliance on the Government procurement causes complacency and if Government withdraws support the producer is left in the lurch. The history of cotton in Maharashtra is an example. Excessive reliance on one private company easily results in exploitation.

viii) Small producer friendly insurance for crop failure ; present arrangements/mechanisms for crop insurance are skewed in favour of insurance companies which (together with lack of coverage for price risk) inhibits small producers from growing commercial crops which would bring better returns.

ix) A SAFAL complex in every State similar to the one in Whitefield outside Bangalore. It collects fruits and vegetables, provides storage and conducts open auctions. It was started by NDDB but, I believe, is now handed over to the Ministry of Agriculture; it is presently languishing. It has several drawbacks, mainly its unnecessarily large size, but the concept is a sound one and must be replicated. It requires Government investment and handholding. There is little evidence so far to back the assumption that large private companies will invest in providing infrastructure in the agricultural sector.

11. **Apart from a supportive ecosystem, the SLI also requires grants till it reaches viability as well as to cover its marketing risks. If these are provided it would enhance the credit rating of the SLI. These development grants can also be provided as a stand alone by a few financial institutions to begin with ; risk coverage is more of a problem. A SLI requires at least the following to take off and continue:**

    i) **A Development Fund.** The SLI requires a Development Fund to set up its infrastructure, pay its staff conduct market operations cover its risks at least for 3-5 years till it becomes viable. Once it becomes viable Banks and other financial institutions are willing to step in. What about the initial 5 years? The following box contains an example of how a Producer Company (of tribals) was supported with a development grant from Rabo bank Foundation and the problems it had in raising loans

*The Kabini Organic Farmers Producer Co. LTD (KOFPCL) composed of Tribal communities registered as a primary producer company in 2010. It is organized by MYKAPS (Myrada Cauvery Pradeshika Sansthe) a project hived off from Myrada over 6 years ago in HD Kote Taluk which procures traditional long staple cotton grown and other agricultural products mainly spices and markets the product .**KOFPCL is functional today because it was fortunate to receive a grant in 2011 from Rabo bank as a development Support Fund to pay costs of setting up the Company, for initial organic promotion, training of farmers,staff and Board of Directors, certification costs and to cope with costs and delays in mobilizing finance** The paid up share capital as on March 2013 is Rs 11,64,200/-.*

When the Company approached financial institutions for a loan, it encountered several hurdles arising from policy. The Company approached NABARD RO for capital and grant assistance in 2011. The grant component was what attracted the Company, but the grant was attached to the loan. The staff from the RO visited the company promptly and were convinced about its performance. However the loan cum grant could not be sanctioned because the company had only one audited balance sheet as on March 31, 2011..while Nabard required three. The share capital was not considered adequate (it was Rs 5 lakh as on 31st March 2011)and there were no fixed assets owned by the company. Nabard proposed that the Members of the Board of the NGO, MYKAPS take the loan and provide guarantee which the Board of MYKAPS did not agree to. Nabard's policy requirement of a minimum of 50% collateral could not be met with.
KOFPCL approached IDBI, Kuvempunagar Branch in Mysore City. IDBI was not willing to lend to the company directly. However, it agreed to lend to individual farmers as producer loans and to pass on the amount to the company after obtaining loan agreements and authorization executed by the farmers. The procedures involved were too cumbersome since, the loan documents had to be prepared in the name of each and every farmer willing to sell the produce to the company. KOFPCL dropped the proposal and approached NABFINS .

NABFINS sanctioned Rs.50 lakhs as a loan (there is no grant component) during October, 2012 and released the loan in two installments (Rs.38 lakhs during October, 2012 and Rs. 12 lakhs during December, 2012). The loan has been repaid in full by September,2013. RABO Bank meanwhile guaranteed the loan to the Company to the extent of 75%.

ii) A **Guarantee Fund to cover the risk of SLIs arising from marketing operations.** The Guarantee Fund is required especially to cover the SLIs against sudden decline in market prices for reasons which have nothing to do with weather or productivity but due to vested interests of powerful lobbies. The ban on export of cotton in 2012 was one such action which would have put several producer companies (SLIs) managing cotton in the red. Fortunately it was withdrawn in time. SFAC has been allowed to provide some level of guarantee to financial institutions lending to SLIs; I am not aware of any Government related institution willing to cover the risk of SLIs arising from price fluctuations.

12. The Two Government related institutions supporting SLIs are NABARD and SFAC.
NABARD: The National Bank for Agriculture and Rural Development (NABARD) has created a "Producers Organization Development Fund" to support Producer Organizations in different forms across the country. It is the most integrated and comprehensive program in the country. However it still does not address adequately the problem of supporting NGOs and other institutions which are capable of creating and handholding SLIs which requires a full time team in the field. It does not provide a development fund or an equity grant to the SLI; it also does not have provision to cover the risk of Financial institutions lending to SLIs. The requirement of a three year balance sheet of the Company is another obstacle. Many Producer Companies start as informal collectives and transact business for 2-3 years before registering as a Producer Company. This period must be taken into account by Nabard provided audited statements are available. The requirement of 3 years audited balance sheets of the Company before being eligible for loans needs to be reviewed. Once established, however, the Producer Company can expect good support from NABARD. However greater support is required during the initial stages.

NABARD undertakes the following interventions: i) Capacity Building of SLIs. NABARD provides funds to promote organization and skill building exercises and to guide business planning; it also supports technological extension. Support for capacity building could be in the form of grants, loans or a combination of these based on the need of the situation; ii)Financial support: it lends to Producer Organizations for term loans or composite loans comprising both working capital and term loan requirements; iii) Market linkages: It provides credit and/or grant support for setting up marketing infrastructure facilities for sale of produce. iv) Provision of credit to Primary Agricultural Cooperative Societies (PACS) for inputs, hiring of agricultural implements, setting up farmers information centers and storage facilities.

During the year 2012-2013, 34 producers organisations were sanctioned financial assistance of Rs. 55.95 cr (including a grant assistance of Rs. 1.46 cr). In addition, 747 PACs were supported with financial assistance of Rs. 141.17 cr (including a grant assistance of Rs. 5.13 cr) during the same period.

If Nabard decides to restructure is PODF program here are a few suggestions that may be considered:

a) Separate the grant and the loan and provide a grant only to the SLI during the first few years till it becomes viable.
b) Provide an equity grant
c) Identify existing well functioning Producer Companys/Cooperatives and experienced NGOs and enter into a contract with them to promote SLIs; they will have to be provided with grants for this purpose.
d) Decentralise the management of PODF to the States and Districts. The situation of informal collectives is so diverse that managing this program from Head Office with standardised formats will not provide the space required for field staff to actively promote this initiative
e) Incentivise District managers to go out and identify informal collectives that have the potential, want to and need to develop and grow into formal institutions. Focus on these.
f) Revisit the SAFAL model in Whitefield and consider replicating it on a smaller scale in strategic areas throughout the country
g) Arrange for a risk/guarantee fund to cover the risk of SLIs arising from market fluctuations
h) Arrange for a risk/guarantee fund from appropriate institutions to cover the risk of financial institutions investing in SLIs during their formative years (1-3). At present the risk burden is entirely on the SLI ; the present policy requires a collateral which the SLIs find difficult to provide in the initial years.

13. **NABFINS:** Nabard Financial Services Ltd is a subsidiary of NABARD; it started functioning in late 2009 and has taken up the promotion of SLIs as a priority. Its capacity building strategy goes beyond providing grants/loans. To cope with the shortage of SLIs and of institutions to promote and hand hold them, Nabfins is establishing an in house team which promotes and handholds SLIs . It has also taken steps to obtain guarantee support for its loans to SLIs. At present Rabo Bank Foundation is providing guarantee to the extent of 60%-80% of Nabfins exposure to SLIs (Cooperatives and Producer Companys) on individual project basis. NABFINS is making efforts to obtain similar guarantee cover from other institutions.

    Nabfins has already supported a few SLIs interventions in Karnataka, Tamil Nadu, Kerala, Maharashtra and Andhra Pradesh as a learning platform. As its SLI promotion team grows, Nabfins proposes to support smaller and emerging collectives which do not have the good fortune of accessing the services of professionals and/or of an experienced NGO. Nabfins has so far supported 30 SLIs with cumulative financial assistance of Rs. 889.33 lakh

14. **SFAC -Small Farmers Agribusiness Consortium (SFAC)** launched in the X Plan has a minimum investment size of Rs 50 lakh from its Venture Capital Fund; this put it beyond the capacity of small producers and their collectives which require smaller amounts. Fortunately, the 12th Plan has reduced this to Rs 15 lakhs for general areas and Rs 10 Lakh for the North East and backward districts . Initially the scheme was implemented only through public Sector Banks. The 12th Plan has included Cooperatives, RRBs, specialized finance institutions such as the National Cooperative development Corporation (NCDC),Northeastern development Finance Corporation and State Financial Corporations. Originally there was no credit guarantee fund to cover the risk of financial institutions investing in SLIs. The 12th Plan recommended this. As a result a Credit Guarantee Fund for Producer Companies was launched on January1, 2014;it covers 85% of the loan given by Financial Institutions to Producer Companys (Cooperatives are not yet included) . It also provides up to Rs 10 lakhs as equity grant to match member equity. But leveraging bank finance is a condition for accessing this equity support. Since Banks are not willing to extend loans or equity until the SLI is viable, this condition makes it impossible to access SFAC equity and needs to be reviewed.. There is no Guarantee Fund to cover marketing risk of SLIs. There is no provision for a development grants to form, train and handhold these SLIs and for grants or long term soft loans to help them to reach viability . Amazingly, in the 10th Plan the total budget of SFAC was around Rs 50 cr which is nothing more than a symbolic gesture.The 12th Plan outlay for SFAC has been raised to Rs 1000 cr . Though several other products to the SFAC portfolio need to be added to enable it to offer an appropriate and integrated package from one window, it must be pointed out that the pro active role played by SFAC has resulted in several changes which will make it easier for SLIs, especially the smaller ones to access support from SFAC

15. **The 12th Plan**: Several papers and studies were forthcoming as base documents required by the Steering Committee on Agricultural and Allied Sectors for formulation of the 12th Plan. Several of these papers provided useful suggestions on providing a financial and institutional ecosystem for second level institutions. Some of the major suggestions are listed below- some have been incorporated in the final document, others have be modified and some have been excluded.

i) The APMC Act: As a consequence of this Act**,** agricultural produce is the only sector where the producer is prohibited by regulation to sell directly to aggregators, food processing companies and retailers. Small producers are in the clutches of the commission agent and middlemen; this ensur**es** that pricing lacks transparency. Ten states have permitted direct marketing outside APMC. Every paper presented to the Committee dealing with marketing recommends that the APMC Act be abolished or amended to allow direct marketing; but it is also clear that vested interests will continue to agitate against any such change in many States given the high market fee (tax,cess etc) and the high initial investment made by Commission Agents which they have to retrieve. Many APMCs have large resources which could be used to provide a platform for open auction and better facilities and infrastructure like cold storage and communication technologies; but vested interests have not allowed this to happen. The alternative suggested was to support NCDEX to manage small holders surpluses ; it can register as a Commission Agent with the APMC and carry out marketing operations

ii). Complimentary marketing models: There is need for investment to strengthen and increase the number of consumers markets run by the municipal corporations/councils for fruits and vegetables like Rythu Bazars/Kisan Bazaars, which allows farmers to sell directly to consumers. Local institutions ,including prominent religious ones, can be persuaded to provide space for these markets as well as infrastructure support (toilets,water, shelter etc).

iii). Stock Exchanges. Agriculture is unrepresented in the stock exchanges even though it contributes 18% of the GDP. Exchange authorities have not introduced an agro index. Agro companies do not find representation in the Sensex or Nifty. If these changes are made, private investment may be encouraged to invest more readily in agriculture

iv). Spot Exchanges: Legislation is required to enable spot exchanges to function on pan India basis. Large Government companies could reduce the cost of procurement; if their requirements are sourced through spot exchanges. Spot exchanges should be provided infrastructure status and exempted from income tax for a reasonable period..

v). Foreign Direct Investment (FDI) in Retail: Many papers have recommended that organized retail be promoted by removing all restrictions on FDI as this will create competition and bring in new technologies and management practices –but many of them add a condition namely **provided commodities are procured only from Producer organisations.** However this condition to buy from Producer companies, will probably be overlooked given the small number of successful Producer organizations where the producers are able to set the agenda. It is difficult see how FDI in retail will help **unorganized** small holders get better prices as is popularly claimed. It is not market access alone but effective market control by small producers that is the basis of increase in income. They need to be organised into collectives which own and control at least aggregation and basic value addition like grading and packaging as close to the farm gate as possible.

vi). The Status of Warehouse needs to be extended to cover Cold Storages/Controlled Atmosphere (CA) Storages. The warehousing Receipts System needs to be extended to cover horticulture produce which requires long duration storage such as potato, onion, apple etc. Agri Warehousing including Cold Chain Infrastructure needs to be accorded the status of "Infrastructure" which makes it eligible for various benefits/incentives available to agricultural projects. Loans for construction of warehouses for agri commodities should be considered as priority sector lending eligible for subsidised interest rate at par with the Crop Loan.

vii). Tenant farmers Tenancy is increasing as small and marginal farmers lease out land to families who decide to remain in agriculture ;this shift is gaining momentum for a variety of reasons. There are two hurdles here which need to be surmounted. First, several farmers are willing to lease out land but they fear that they will lose ownership rights. Legislation is required which ensures that the land owner who leases out land continues to enjoy full ownership rights and that the lessee has no permanent tenancy rights. Second, the tenant lacks the papers necessary to access finance from formal institutions. Tenants should be issued with "Loan eligibility Cards" to allow them to access loans while protecting the titles of owners. Andhra Pradesh has gone ahead with these "Loan Eligibility Cards".

I will end with the sincere hope(and prayer) that adequate investment is made in organisational and financial support systems to ensure that the small grower is included in the growth that he/she aspires for.