

# AGRICULTURAL MARKETING AND RURAL CREDIT: STATUS, ISSUES AND REFORM AGENDA

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## 1. INTRODUCTION

This paper is a part of a larger study aimed at strengthening policy reforms in the area of agriculture, food security and rural development. In countries like India, strengthening of agriculture is critical for facing the challenges of rural poverty, food insecurity, unemployment and sustainability of natural resources. But, there is a need to redefine agriculture as the science and practice of activities relating to production, processing, marketing, distribution, utilization and trade of food, feed and fibre, which implies that agricultural development strategy must address not only farmers but also those in marketing, trade, processing and agri-business. In this context, efficient marketing and rural credit systems assume added importance. Agricultural marketing system is the critical link between farm production sector on the one hand and non-farm sector, industry, and urban economy on the other. Apart from performing physical and facilitating functions of transferring the goods from producers to consumers, the marketing system also performs the function of discovering the prices at different stages of marketing and transmitting the price signals in the marketing chain. The issues and concerns in marketing relate mainly to the performance (efficiency) of the marketing system, which depends on the structure and conduct of the market. An efficient marketing system helps in optimization of resource use, output management, increase in farm incomes, widening of markets, growth of agro-based industry, addition to national income through value addition, and employment creation.

Rural credit system assumes importance because for most of the Indian rural families, savings are inadequate to finance farming and other economic activities. This, coupled with the lack of simultaneity between income and expenditure and lumpiness of fixed capital investment, makes availability of timely credit at affordable rates of interest, an essential pre-requisite for improving rural livelihoods and accelerating rural development.

The specific objectives of this paper are to review the existing status of agricultural marketing and rural credit systems; to document the policy framework for functioning of agricultural markets and rural credit; and to identify the areas of further policy reforms for strengthening Indian agriculture. The paper has been divided into eight sections. Current status of agricultural marketing system and emerging issues are discussed in the second section. Current policy framework of agricultural marketing is analysed in the third section. This section also includes recent initiatives in the areas of domestic marketing reforms. Areas of further policy reforms and priorities are brought out in the fourth section. The current status of rural credit system is reviewed in the fifth section. The sixth section brings out the issues and emerging areas of concern in rural credit. Suggestions for policy reforms and strategic initiatives for improving rural credit system are identified in the seventh section. Some concluding observations are given in the last section.

## 2. AGRICULTURAL MARKETING SYSTEM: STATUS

Current agricultural marketing system in India is the outcome of several years of government intervention. Agricultural marketing scenario in India has undergone conspicuous changes during the last 50 years, owing to the increased marketed surplus; increase in urbanization and income

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levels and consequent changes in the pattern of demand for marketing services; increase in linkages with distant and overseas markets; and changes in the form and degree of government intervention. While the policy framework that influenced the structure, conduct and performance of agricultural marketing is discussed in the third section, some basic features of the system are presented here.

## 2.1 Marketing Channels

In India, agricultural commodities move from the farm gate to consumers through several channels. Marketing channels for agricultural commodities vary from commodity to commodity but can be broadly divided into four groups viz., (a) direct from farmers to consumers; (b) through public agencies or cooperative organizations; (c) through private wholesalers and retailers; and (d) through processors. Some important characteristics and changes in marketing channels witnessed during the last fifty years are as follows:

- (i) The proportion of total marketed surplus going directly from farmers to consumers continues to be small.
- (ii) The role of transporters and processors in the marketing channel has considerably increased.
- (iii) Specialization of traders in agricultural marketing, both in terms of commodity or marketing functions, has shown an increasing tendency.
- (iv) The length of marketing channel has tended to increase due to increase in demand for value-added services and geographic expansion of markets.
- (v) The share of private trade in handling marketed surplus has continued to be large. Taking all agricultural commodities together, the marketed surplus handled by cooperatives has been estimated as 10 percent, and by public agencies 10 percent. The private trade handles around 80 percent of the total marketed quantities of agricultural commodities (Acharya, 1994).
- (vi) Realizing that the marketing channels for perishable fresh farm products should be as short as possible, and to eliminate intermediaries, direct marketing by farmers has been encouraged during the last one decade. Several states took initiative and established farmers' markets like Apni Mandi (Punjab), Kisan Mandi (Rajasthan), Hadaspur Vegetable Market (Pune), Rythu Bazaars (Andhra Pradesh) and Krushak Bazaars (Orissa). The establishment of such farmers markets helped both consumers and farmers. The success of such markets depends on the kind of infrastructure and facilities provided at these places and upkeep and maintenance of premises. Nevertheless, this is certainly a better alternative system and needs to be encouraged and promoted.

## 2.2 Market Yards and Market Places

Actual buying and selling of commodities mainly takes place in market yards and sub-yards (primary and secondary wholesale markets) and rural periodic markets/haats spread throughout the country. At present, there are 2354 main market yards, 4807 sub-market yards and 27294 rural periodic markets in the country (Appendix 1). These are managed by either Agricultural Produce Market committees (representing farmers and other stakeholders), local self-government institutions or government departments. The users of these markets, mostly buyers, have to pay a fee to the managers of these market places. Facilities in these market places vary extensively. Nearly two-thirds of market yards and sub-yards were laid out on vast land area with such facilities as auction platforms, shops, godowns, rest houses and parking lots. However, studies have shown that facilities available in these yards are considerably short of the requirements. Further, nearly 85 percent of 27294 rural periodic market places have very little or almost no facilities for trade to take place efficiently (Appendix 2).

## 2.3 Market Structure

Market structure is the size and design of the market and refers to those organizational characteristics which affect the conduct and performance of the market (Acharya and Agarwal, 2004). Important structural characteristics of agricultural produce markets include concentration of market power, conditions of entry or exit of firms, flow of market information, degree of product differentiation, and degree of integration - both vertical and horizontal.

The market orientation of Indian farmers has, during the last fifty years, increased manifold both in terms of forward and backward linkages. The marketing system is now required to handle large volumes of agricultural products on account of both increase in output as well as increase in marketed-surplus to output ratios (MSOR). The overall MSOR is estimated to have gone up from 33.4 percent in 1950-51 to 64.1 percent in 1999-00 and is expected to have increased further to around 70 percent in recent years (Acharya, 2003). The marketed quantities in 2000-01 were ten times of that in 1950-51 for cereals, 4.6 times for oilseeds, 5.3 times for milk, 15.4 times for poultry products and 7.4 times for fish. The marketed surplus in 2000-01 was valued at Rs. 4037 billion.

Notwithstanding the direct intervention by the government, the markets for agricultural products in India have remained dominated by the private trade. As already mentioned, nearly 80 percent of the marketed surplus of agricultural products is handled by the private trade. Even in the case of cereals, where government intervention is perceived to be quite high, the share of private trade in total marketed surplus was 72.5 percent during triennium ending (TE) 1982-83, 74.0 percent during TE 1996-97 and was 71.1 percent during 2000-01. The private trade during 2000-01 handled more than 100 million tonnes of cereals. With larger quantities required to be handled by the private trade, the size and structure of the market have considerably expanded.

The wholesale assembly and trade in foodgrains is handled by around two million wholesalers (Acharya, 1998). In the area of retailing, there are around five million private retailers and more than 4.10 lakh fair price shops (under public distribution system). Nearly three-fourths of the fair price shops are in the private sector. On an average, there is one retail shop of foodgrains for a population of 200. Apart from the traders, processors play an important role as they also enter the market as bulk buyers and sellers.

The demand for value-added services and processing has considerably increased the role of processors in the market structure for farm products. In the case of foodgrains, there are 104704 hullers and shellers and 34688 rice mills for paddy processing; 812 roller flour mills and 2.66 lakhs flour-units for wheat processing and 10000 pulse processing units. For oilseeds processing, 131600 cottage level crushers (ghanies) are giving way to 20000 expellers, 130 oil-refining units and 145 hydrogenation units. For sugarcane processing, there are 408 sugar factories, besides several khandsari units. However, the state of processing and value addition in the food segment continues to be grossly inadequate. Only 16 percent of country's milk output is processed in the organized sector as against a world average of 52 percent. Out of total milk production in India, 33 percent is retained at the village level and 51 percent is handled by traditional unorganized sector. Considering the entire food segment, processed segment accounts for 10 percent, semi-processed 15 percent and remaining 75 percent is still fresh food market. Further, the food processing is dominated by unorganized small and even tiny sector. The value addition to food production is estimated to be only seven percent in India as against 23 percent in China, 45 percent in Philippines and 188 percent in United Kingdom (FICCI, 2002).

The processing segment of food market (including fruits, vegetables and livestock products) is growing rapidly and attracting investment since the launch of economic reforms in 1991. The pace can be accelerated further. The multiplier of food industry in India is estimated to be 2.4, which is considerably higher than even power and telecom sector. Expansion of food processing industry can trigger growth in transport, packaging and refrigeration. It also has a strong impact on farmer's incomes and rural employment. Every investment of Rs. one lakh in food processing can generate an employment of 1.8 persons directly and of similar magnitude indirectly (FICCI, 2002).

The agro-industry in India is dominated by the unorganized sector (other than those employing more than 10 persons, using power and more than 20 persons, not using power), comprising of small and micro-enterprises. Between 1994-95 and 2000-01, the number of agro-industrial units went up by 4.5 million, expanding the sub-sector's share in manufacturing sector from 65 percent to 82 percent (World Bank, 2004).

By and large, the structural characteristics of market for agricultural products emerge as (a) the market size is already large and expanding; (b) it is dominated by the private sector; (c) unorganized small segment is much larger than the organized sector, but the share of organized sector is increasing; and (d) despite market being large, due to infrastructure bottlenecks and excessive regulatory framework, the efficiency is very low, adversely affecting both the farmers and consumers.

#### 2.4 Marketing Institutions

Another important structural characteristic of market structure for agricultural commodities is the institutional infrastructure created/promoted by the government for improvement of marketing system. Depending on the objectives and role, the marketing institutions can be grouped into public sector organizations, cooperatives and other formal/informal bodies (Acharya, 1997<sup>b</sup>, 2004). Public sector organizations include Food Corporation of India (FCI); Cotton Corporation of India; Jute Corporation of India; Commodity Boards; APEDA; STC; MPEDA; Commission for Agricultural Costs and Prices; Directorate of Marketing and Inspection; Departments of Food and Civil Supplies; State Agricultural Marketing Boards; Central and State Warehousing Corporations; and Agricultural Produce Market Committees. The role and functions of each of these differ and include policy formulation, implementation, supervision, facilitation and direct entry in the market<sup>2</sup>.

These apart, a large number of farmers' cooperative organizations have been promoted for undertaking marketing and processing functions on behalf of the farmers or members of cooperatives. By and large, marketing cooperatives in India is a four-tier structure consisting of primary marketing societies, district or regional cooperatives, state marketing federations and national level marketing cooperatives. The main marketing cooperatives include National Agricultural Cooperative Marketing Federation (NAFED), Tribal Cooperative Marketing Federation (TRIFED), State Cooperative Marketing Federations (general as well as commodity specific), district level cooperatives or unions of cooperatives, and primary agricultural cooperative marketing societies (general as well as commodity specific). In addition, the government has established some public sector organizations to promote cooperatives. These include National Cooperative Development Corporation and National Dairy Development Board. In quite a few commodities and regions, the cooperative organizations have played an important role in improvement in the performance of the marketing system by increasing competition. They have contributed in not only marketing and processing of farm products, but also in supply of inputs, including credit to farmers.

NAFED was established in October 1958 as an apex organization of marketing cooperatives. Its primary objective is to strengthen cooperative marketing structure in the country. Specific objectives of establishing NAFED include (a) to coordinate and promote the marketing activities of affiliated cooperative institutions; (b) to promote inter-state and international trade in agricultural and related commodities; (c) to make arrangements for the supply of agricultural inputs required by its member cooperatives; and (d) to act as an agency of the government for purchase, sale, storage and distribution of agricultural products and inputs. To fulfil its objectives, NAFED has been undertaking internal trade, exports and imports, price support and market intervention operations, production and marketing of inputs, promotional activities, developing cooperative marketing of tribal produce, and processing and marketing of fruits, vegetables and other agricultural commodities (Acharya and Agarwal, 2004; Acharya, 2004; Deshpande and Prachitha, 2004). As the basic objective of NAFED is the promotion of cooperative marketing, the direct intervention in the market by NAFED has been insignificant. However, it has been playing

the role of national nodal agency for price support operations for oilseeds and pulses and in the implementation of market intervention scheme for fruits, vegetables, copra and other commodities as and when assigned by the government. By and large, NAFED has effectively worked on its set objectives (Deshpande and Prachitha, 2004).

## 2.5 Marketing Infrastructure

The availability of marketing infrastructure affects the structure, conduct and performance of the market. Studies have shown that owing to considerable expansion in infrastructure, there has been significant increase in both horizontal and vertical integration of agricultural markets, which improved the process of price discovery and transmission of price signals from deficit to surplus area. However, the existing situation is far from adequate. Nearly 51 percent of the villages are still not connected by roads. Grading at primary market level is grossly inadequate. Only around seven percent of the total quantity sold by farmers is graded before sale. The scientific storage capacity is only 30 percent of the required capacity. Cold storage facility is available for only 10 percent of fruits and vegetables. As already mentioned, processing capacity is inadequate and inefficient. Physical infrastructure in market yards is inadequate. Most of the rural periodic markets (including livestock markets) have no infrastructure. Nearly 41 percent of the villages have no telephone facility. Due to lack of proper handling (cleaning, sorting, grading and packaging) at the village level, about seven percent of foodgrains, 30 percent of fruits and vegetables and 10 percent of spices are lost before reaching the market.

These apart, there is considerable and continued inter-regional disparities in infrastructure for marketing. The index of infrastructure at state level compiled by the Centre for Monitoring Economy (Appendix 3) shows that the infrastructure is relatively well developed in the state of Kerala, Tamil Nadu, Haryana and Gujarat. But it has continued to be weak in Madhya Pradesh, Bihar and Rajasthan. This is, obviously, reflected in the inter-regional differences in efficiency of agricultural marketing.

## 2.6 Contract Farming

Contract farming is emerging as an important mode of procurement of agricultural products by agribusiness firms (private, public or cooperatives). This is an advance arrangement/contract between the farmers and the firm wherein farmers produce an agreed quality (and quantity) of the produce which is purchased by the firm at the agreed price and time. The contract can be a pure buying arrangement or can extend to supply of inputs and kind of production practices adopted. Contract farming is beneficial to both the farmer as well as contractor. To the farmer, contract farming reduces price risk, to some extent production risk, marketing costs, and uncertainty of credit and helps in acquiring inputs. To the contractor, it helps in ensuring supply of quality product at the right time and at relatively lower cost.

Despite several hurdles, some initiatives, though at small scale, have been taken in recent years in this direction. The Escorts Krishi Sansar, Mahindra Subhlabh, Satnam Overseas and Tata Chemicals have been involved in contract farming in some selected areas but the total coverage is reported to be only 16000 to 40000 hectares. In addition, Coimbatore hatchery (poultry), NAFED (mushrooms in Sonapat), ITC Agro Tech (edible oilseeds), Punjab Agro Industry Corporation and some exporters/bulk buyers have tied up with farmers for assured purchases of such products as babycorn, tomato, chillies, garlic, onion, potato, banana, gherkins, barley, durum wheat, basmati rice, soybean, mustard, oil palm, coriander, grapes, pomegranate and raw cotton in different areas. Though, these initiatives are in the right direction, there are some reported inherent dangers like over use of natural resources, violation of contracts and introduction of undesirable seeds. Keeping the pros and cons in view, the Union Ministry has drafted a model contract farming agreement and a supportive legislation for insertion in the APMR Acts. The model provides for compulsory registration of contracts, dispute settlement mechanism, settlement of claims within three months, and a ban on agreement on farmer's land.

## 2.7 Market Information and Use of IT in Agricultural Marketing

The system of market information has continued to be far from satisfactory. While the traders and processors use their own informal sources, farmers depend both on formal and informal sources. Though, both market news and market intelligence are important, farmers are more interested in market news. The market news of interest to farmers is collected/compiled by APMCs, SAMBs, state departments of agricultural marketing, field staff of Directorates of Economics and Statistics and Department of Food. The information is disseminated through display boards in market yards, announcements during open auction, newspapers, radio broadcasts and some TV channels also. Farmers also gather information through personal contacts with other farmers and traders. However, the market news is able to provide only a broad overview to the farmers due to several defects in the system. The price quotations are not backed by grades and the information is available with considerable lag. This information is not linked to local grade standards. Quite often, the price range is made available, which is of little use to farmers. There is also a serious misconception about the buying and selling price, which are distinctly different.

The development in information technology has great potential for integration of agricultural markets. The Directorate of Marketing and Inspection, Government of India, has set up an Intranet based system (AGMARKNET) for market information networking across the country. The Market Research and Information Network (MRIN), which has already connected 735 wholesale markets, is aimed at catering to the diversified demand for information from all the stakeholders. At present, the data on 300 commodities are available on the portal [www.agmarknet.nic.in](http://www.agmarknet.nic.in) (ADB, 2004). Wholesale data for 154 commodities compiled by the Directorate of Economics and Statistics (GOI) are also available on [www.dacnet.nic.in](http://www.dacnet.nic.in), but this information mostly serves policy makers and researchers.

The information technology (IT) revolution, aided by the revolution in telecommunication has the potential to help in not only market information system but may also change the nature of market functioning altogether by making several intermediaries redundant, reducing the cost of information, lowering the transaction cost and increase of competition. The e-commerce ushered in by the IT revolution has led to enhanced market access and better information and has the promise of circumventing established marketing networks. The model of E-choupals (rural markets) promoted by ITC is the use of e-commerce in procuring agricultural commodities and selling inputs and other goods to the farmers (Sengupta, 2004).

The ITC's E-choupal initiative was launched in 2000 and by the end of 2003, had grown to 2700 choupals, covering 18000 villages and 1.2 million people in five states (Madhya Pradesh, Karnataka, Andhra Pradesh, Uttar Pradesh and Maharashtra). The commodities covered are soybean, wheat, rice, pulses, coffee and shrimp. The company plans to extend it to 15 states with 20000 choupals covering 10 million people. The model consists of village Internet kiosks located around company's supply clusters operated by 'Sanchalaks' from among farmers/rural youths. The kiosks provide real time information to the farmers on inputs, practices, credit availability, product quality required and expected price. Initially, the company faced several problems but were tackled successfully. The problem of connectivity and bandwidth was tackled through upgradation of BSNL kits through RNS kits, installation of V-SAT equipment and mobile choupals. The problem of irregular supply of power was tackled by providing back-up power batteries charged by solar panels. The problem of illiteracy of farmers was solved by providing information in local language through 24x7 help desks. The issue of contractual laws and regulations was tackled by giving public oath to Sanchalaks, as social contracts are more binding than the legal ones. The model has come out to be beneficial to both the farmers and the company. The procurement cost of company went down by 6 to 8 percent and it could procure improved quality of farm products (Sengupta, 2004).

Another example of corporate sector initiative in improving information system and application of e-governance is the Gramdoot project, launched in Rajasthan by Aksha Broadband Ltd., an optical fibre manufacturing company in January 2002. The objective of the project is to link the

villages with national and global markets. Each gramdoot kiosk is equipped with computer, printer, scanner, web-camera, UPS, battery and optical nodes and all kiosks are linked to tehsil and district offices. Around 34 application forms (formats), usually needed by farmers, are available on these kiosks. Each kiosk costs around Rs. 2.80 lakhs and can employ two rural youths. The loan for setting up such kiosks is available from the financial institutions.

With the launch of on-line futures trading in foodgrains, pulses and sugar in National Commodity Exchanges (NCDEX), the government has permitted banks and Department of Posts to set up bulletin boards in all the rural branches to display future prices for NCDEX on real time basis. This would help the farmers to know the harvest time prices in advance at the sowing time. In near future, this may enable them to sell their product in advance at future prices. The cost of bulletin boards (Rs. two lakhs each) will be born by NCDEX. The NCDEX also has tied up with E-choupals of ITC for such displays. This will also help banks in their lending decisions. This initiative will help all stakeholders in the supply chain viz., traders, processors, wholesalers and bulk consumers. The investment potential of this venture is around Rs. 3000 crores.

## 2.8 Marketing Efficiency

The concern for the structure and conduct of marketing system relates mainly to its efficiency. Generally, marketing efficiency is measured either as operational efficiency or pricing efficiency. The former is measured in terms of relative size of marketing costs, net margins and gross marketing margins (GMM) while the latter is measured in terms of price series correlations and through co-integration analysis. A comprehensive review of studies on marketing efficiency (Acharya, 2001; Wilson, 2001; Acharya, 2004) has provided the following evidence:

- (a) The GMM accounts for a substantial share of consumer's price. This includes marketing costs, statutory charges and net margins of middlemen. Statutory charges account for 10 to 12 percent of consumer's price. However, net margins appear to have shown a tendency of decline over time owing to increase in competition.
- (b) The share of farmers in consumer's rupee is higher for foodgrains, oilseeds and spices compared to that for perishable products. GMM in foodgrain markets are lower than for other products.
- (c) The gross marketing margins (GMM) in agricultural commodities, according to one estimate (Acharya, 2003) add upto Rs. 1009 billion, consisting of Rs. 151 billion as statutory charges, Rs. 207 billion as net margins of functionaries (intermediaries) and Rs. 651 billion as cost of performing various marketing functions. About 77 percent of the marketing cost, amounting to Rs. 500 billion is estimated as avoidable loss during handling, transport and storage. Investment in marketing infrastructure can save these losses. For example, if cleaning, grading, sorting and packaging of agricultural products are done in the villages, it can help in avoiding transportation of about four lakh tonnes of organic waste from villages to urban centres every day, avoid pollution in urban market centres, and increase the availability of rich organic manures in rural areas. It has been estimated that in this activity alone, around 2.5 lakh jobs in rural areas can be created (Acharya, 2003).
- (d) The degree of marketing/price efficiency is relatively low for fruits, vegetables, flowers and other perishable products due to inadequate infrastructure to handle such products.
- (e) Foodgrains and oilseed markets are highly integrated both horizontally as well as vertically. The degree of integration of wheat and rice markets has further increased during the nineties.
- (f) With a given change in supply and demand conditions, the prices at farmgate are sticky downwards and at retail level are sticky upward due to lack of competition in letter and spirit.

## 2.9 Some Emerging Issues

- (i) As already mentioned, while the market orientation of Indian farmers has increase manifold, the improvement in the marketing system has not kept pace.
- (ii) Dependence of farmers on purchased inputs has also increased several folds. Purchased inputs now account for 72 percent of total inputs (other than own land and labour) as against 20 percent in 1950-51. During 2000-01, farmers' purchased inputs were valued at Rs. 694 billion as against Rs. two billion during 1950-51 (Acharya, 2003).
- (iii) The accelerated demand for output and input marketing services is now emerging from increased number of production units (farm holdings), which has gone up to 115.6 million. Further, out of total farm production units, 61.6 percent are marginal (operating an average of 0.40 hectares), 18.7 percent are small (1.42 hectares per farm) and 12.3 percent are semi-medium (2.73 hectares per farm), each with a small marketed surplus and demand for small quantities of purchased inputs.
- (iv) Despite large quantities of marketed surplus handled by the private trade, it did not substantially invest in market infrastructure, due to excessive regulatory framework.

Notwithstanding the continuing small proportion of total marketed surplus going directly from farmers to consumers, the initiatives like establishment of farmer's markets needs to be pushed further.

There is a considerable gap in the facilities available and desired in the market yards/sub-yards. For example, even auction platforms are not available in one-third of these markets. Common drying facilities are not available in 74 percent of markets.

Concerns have been expressed in some quarters about the low utilization of marketing infrastructure by the farmers. Examples of under-utilization of warehouses, cold storage units and grading facilities by farmers are cited in this connection. However, non-utilization of these facilities by the farmers should not be a matter of worry so long as somebody else uses these. If traders store farm products in warehouses or transport these through railways or roads, farmers benefit from the infrastructure indirectly.

Removing obstacles on rapid growth of agro-industrial sub-sector can serve as an important means to expand markets for primary agricultural products, foster greater value addition and generate employment in rural areas. There is a great scope, potential and prospects of growth of food processing sector. One of the important hurdles in boosting value addition in food sector is multiplicity of food-related laws and regulations.

### **3. POLICY FRAMEWORK OF AGRICULTURAL MARKETING**

Agricultural marketing in India is characterized by pervasive government intervention<sup>3</sup>. The objectives and forms of intervention have, however, undergone substantial changes overtime. The state intervention in agricultural marketing is by definition aimed at correcting perceived market failures. Several instruments of state intervention in Indian agricultural produce markets have their origin in the experience of Bengal Famine. This paper argues that while market failure during Bengal Famine and a couple of later decades occurred due to inadequate state intervention, in the current situation the market failure (to handle agricultural surpluses) is occurring due to over regulation or excessive state intervention.

The interventions in agricultural marketing system were aimed at (a) ensuring remunerative prices to farmers for inducing them to adopt new technology for increasing the production of food and other agricultural commodities and in turn improving their livelihoods and food security; (b) maintaining supply of essential foodgrains to consumers and raw material to the industry at reasonable prices; and (c) evening out the inter-year fluctuations in supply of foodgrains, mainly cereals, through buffer-stocking operations and operating a public distribution system.

The current policy framework within which agricultural produce markets function can be understood to consist of three broad components viz: (a) Regulation of Agricultural Produce

Wholesale Markets; (b) Regulation of other Marketing Activities; and (c) Agricultural Price Support Programme including food policy.

### 3.1 Regulation of Agricultural Produce Wholesale Markets

At the time of independence, the marketing practices adopted by the farmers in sale of their produce and the practices prevalent in trade circles were perceived to cause losses to the farmers in terms of undue low prices, higher costs of marketing and considerable physical losses of the produce. One of the measures taken to improve the situation was to regulate the trade practices and to establish market yards in the countryside. The Centre prepared a model Act and circulated to all the states. It took considerable time for the states to enact the relevant legislation. Later, most of the states enacted Agricultural Produce Markets Regulation (APMR) Acts and put these in operation. As of now, 27 states have their separate Acts ( A list is available in Acharya and Agarwal, 2004). All primary assembling markets were brought under the ambit of these Acts. Well- laid out market yards and sub-yards were constructed and for each market area, an Agricultural Produce Market Committee (APMC) was constituted to frame the rules and enforce them. The APMC, which consisted of more than half the members representing the farmers of the market area, was chaired by the farmer's representative<sup>4</sup>. The studies on impact of regulated markets (Acharya, 1985, 1988; Agarwal and Meena, 1997; and Suryawanshi et.al, 1995) have brought out several positive features of the regulation programme. These include visibly open process of price discovery; more accurate and reliable weighing; standardized market charges; payment of cash to farmers without undue deductions; dispute settlement mechanism; timing and sequencing of auctions; reduction in physical losses of the produce; and availability of several amenities in market yards. The number of such regulated markets, which was only 286 at the time of Independence, has now gone upto 7161, which cover more than 98 percent of the identified wholesale markets in the country.

Though market regulation programme has initially served the purpose well, in the emerging scenario, several questions relating to the functioning and even relevance are being raised. In a comprehensive study of agricultural marketing system in India during the last fifty years (Acharya, 2004) several problems associated with regulated markets have been identified.

- (i) The marketing committees do not allow the traders to buy from the farmers outside the specified market yards or subyards. This adds to avoidable cost of marketing.
- (ii) Despite expansion in the number of regulated markets, the area served per market yard is quite high. The national average is 459 square km and in some states like Assam, Himachal Pradesh, Orissa, Madhya Pradesh and Rajasthan, it is considerably higher. The farmers are, therefore, required to travel long distances to reach a market place (Appendix 1). With small surplus to sell, most of the farmers try to evade these markets.
- (iii) Though the Acts stipulate for the provision of some prescribed facilities and amenities in each market yard, in several markets, the facilities/ amenities actually created are far from the prescribed norms (Appendix 2).
- (iv) Apart from the primary assembling markets, there are 27294 rural periodic markets, where small and marginal farmers and livestock owners come in contact with the market economy. Most of these (85 percent) have not been developed which hinders the market orientation of rural areas.
- (v) In several states, regular elections of APMCs are not being held. These have been superseded by the government and, for long, are being administrated by bureaucrats. They have thus lost the characteristic of farmers-dominated managerial bodies. The staff remains overly occupied in collection of market fees and construction work rather than market development.
- (vi) With the expansion in the market arrivals, there is considerable congestion in several market yards. This leads to undue delays in the disposal of the farmers produce resulting in long-waiting periods and frustration for the farmers.
- (vii) In several markets, malpractices like late payment to farmers are still prevalent and deduction of certain amount for cash or spot payment and non-issue of sale slips by traders have continued unabated.

- (viii) Market functionaries (like traders, commission agents and labourers) in some markets have organized themselves in strong associations and thus have created barriers to entry of new functionaries.
- (ix) Market fee, by definition, is the charge for the services provided to market functionaries. But a considerable part of the market fee is not ploughed back. In some states, this has even become a source of income for the government.
- (x) By and large, the APMCs have emerged as some sort of government sponsored monopolies in supply of marketing services/ facilities, with all drawbacks and inefficiency associated with a monopoly.

The matter has been under continuous scrutiny during the last five years. On the recommendation of the Expert Committee for Agricultural Marketing (Government of India, 2001), the Inter-Ministerial Task Force (Government of India, 2002<sub>a</sub>) recommended for formulation of another model Act for this purpose. The Department of Agriculture and Cooperation, Ministry of Agriculture, Government of India, has in consultation with state governments, trade and industry has formulated a Model Act and circulated to the states (Government of India, 2004). The salient features of the Model Act are the following:

- (i) Permission to establish new markets extended to cooperatives, growers or local authorities;
- (ii) No compulsion on growers to sell their produce through existing regulated market yards;
- (iii) Establishment of direct purchase centres and consumers/farmers markets for direct sale;
- (iv) Promotion of public-private partnership in the management and development of agricultural markets ;
- (v) Separate constitution for special markets for commodities like onions, fruits, vegetables and flowers;
- (vi) Separate chapter to regulate and promote contract-farming arrangements;
- (vii) Prohibition of commission agency in any transaction of agricultural commodities with the producers;
- (viii) Market Committees to promote alternative marketing system, contract farming, direct marketing and farmers/consumers markets;
- (ix) SAMBs to promote standardisation, grading, quality specifications, market-led extension and training of farmers and market functionaries in marketing related areas; and
- (x) Constitution of State Marketing Standards Bureaus for promotion of grading, standardization and quality certification of agricultural produce.

The Model Act was circulated to state governments in 2003. In 2003, Karnataka permitted National Dairy Development Board to set up, a fruits and vegetable wholesale market. In Bangalore, the NDDB has created all the necessary infrastructure and established its own marketing yard. Based on its experience of organizing milk producers organizations, the Board has organized several self help groups of farmers who are undertaking cleaning, grading and packaging of the produce at the farm level before supplying to the yard of NDDB. The process was formally launched in August 2004. It is now reportedly handling 20 percent of total arrivals of Bangalore city. The traders and commission agents are handling remaining 80 percent of arrivals in the city in the erstwhile APMC yards. There is no reported loss to the APMC as the NDDB is paying market fee to the APMC.

Some other states like Punjab, Haryana, Madhya Pradesh and Tamil Nadu have partially amended their Acts to allow farmers under contract farming arrangements to bypass regulated markets and sell directly to private buyers and contractors. Rajasthan also announced such an amendment in July 2004, but due to resistance from traders' organization, the state government has put the amendment in abeyance.

### 3.2 Other Regulations

Apart from the regulation of primary wholesale markets, several other legal instruments were enacted by the Centre or the states to influence the conduct of the market (Acharya, 2004, Government of India, 2002<sub>a</sub>). Legal instruments that have virtually influenced the process of agricultural marketing till early 1990s include the Essential Commodities Act (ECA), 1955 and a large number of control orders issued thereunder. The ECA empowered Central and state governments to impose restrictions on the storage and movement of commodities such as foodgrains and edible oils, thus restricting the scope of private investment in these markets. These apart, regulations were imposed for limiting the agro and food processing industries to small-scale capacities. One other feature of food processing sub-sector, which did not allow to attain its growth potential, is the multiplicity of food related regulations. At present, there are atleast nine laws/ orders governing food-processing activity, administered by 15 different government departments and ministries. An illustrative list of 222 such Acts/ Orders is available in Acharya (2004) and Government of India (2002<sub>a</sub>). Several of these acts/ orders have been repealed, rescinded or lifted during the last five years. Some of the recent steps towards deregulation are as follows:

- (i) Over the years the commodities included under ECA have been drastically reduced. Even onions have been delisted in the middle of October 2004.
- (ii) In 2001, the government removed restrictions on investment in bulk handling and storage by private investors, including permitting upto 100% ownership by foreign investors.
- (iii) In 2002, the government lifted licensing requirements, stocking limits and movement restrictions on wheat, paddy/rice, coarse grains, edible oilseeds and edible oils.
- (iv) Again in 2002, the government removed the restrictions on access to credit under Selective Credit Control Policy.
- (v) During the same year, GOI amended the Milk and Milk Products, Order, (MMPO) 1992, to eliminate the restrictions on private investment in new processing capacity. The MMPO was refocused on ensuring food safety.
- (vi) In 2002, the Government of India also reduced levy on sugar factories from 15 percent to 10 percent.
- (vii) In 2003, the GOI eliminated the ban on futures trading on 54 commodities including wheat, rice, oilseeds and pulses, which were prohibited under the Forward Contract (Regulation) Act, 1952.
- (viii) The Government of India has removed the restrictions on plant scale and capacity expansion, as also the licensing requirement for most of the food processing industries.
- (ix) The steps to bring out a single unified food-law were initiated by constituting a Group of Ministers at the Centre. This group has drafted an Integrated Food Law.

Nevertheless, there is considerable unfinished agenda of domestic marketing reforms for the agricultural sector.

- (i) Despite, deregulation of food processing industry, small-scale low technology firms established under the old restrictive laws still dominate the industry.
- (ii) Removal of licensing requirements, stocking limits and movement restrictions for major agricultural products is a temporary measure and not enforced in all the states. Being a temporary measure, private sectors sentiment to make investment has not been favourable so far (Landes and Gulati, 2004). The threat of their reimposition discourages both domestic and foreign investments.
- (iii) Due to the threat of reimposition, despite the removal of restrictions on investment in bulk handling and storage and provision of investment incentives, the private sector continues to remain hesitant to invest in bulk handling and storage.
- (iv) Despite automatic approval of foreign equity upto 100% in food processing, owing to multiplicity of food laws, the full potential could not be exploited so far. The integrated Food Law is yet to be formalized and put in place. This, when brought into force, will help in expediting around 7000 cases filed against the food processors.
- (v) Restriction on sugarcane processors in terms of sale of sugar still continue, though at reduced level. Ten percent of the sugar output is required to be surrendered to the government as levy and remaining free-sale part is also subjected to controlled releases in the market.

- (vi) Small scale reservation on groundnut and mustard processing is still continuing (World Bank, 2004).
- (vii) Restrictions on futures trading in livestock products are still in place (World Bank, 2004).
- (viii) Monopsony procurement of raw cotton in Maharashtra is still in place, which comes in the way of free marketing of raw cotton in the country.

### 3.3 Agricultural Price Policy

Agricultural Price Policy has considerably influenced the marketing system of agricultural commodities in India. The policy was basically aimed at intervention in agricultural markets with a view to influencing the level of fluctuations in prices and price- spread from farm gate to the retail level. The objectives, thrust and instruments of agricultural price policy have undergone conspicuous shifts during the last fifty years. Upto the mid-sixties, the main instruments of policy were controls/restrictions, food imports and distribution of foodgrains below the market prices. After mid-sixties, when new seed-fertilizer technology became available, the price policy was assigned a positive role for augmenting the availability of foodgrains by increasing domestic production. The thrust of the policy was placed on achieving the twin objectives of assuring remunerative prices to the farmers and providing foodgrains to the consumers and raw material to the industry at the reasonable prices. The framework of the policy was modified in 1980 and its emphasis shifted from maximizing the production of foodgrains to a diversified production pattern consistent with the overall needs of the economy. Again in 1986, the emphasis of the policy shifted to building into the system the major factors, which in the long run, influence the prices of farm products for making the farm sector more vibrant, productive and cost effective (Acharya, 1997a, Acharya, 1997c, Acharya, 2004). Some of the important price policy instruments, currently in vogue are as follows:

- (i) Fixation of minimum support prices (MSP) for 25 commodities including sugarcane for which a statutory minimum price is fixed.
- (ii) Selective market intervention scheme (MIS) for some other commodities, not covered under MSP policy (fruits, vegetables and spices).
- (iii) Fixation of levy prices of rice and sugar and imposition of levy on rice millers and sugar factories.
- (iv) Maintenance of buffer stocks of wheat and rice.
- (v) Distribution of rice and wheat under public distribution system at subsidized prices – the targeted PDS has a three-tier price structure – APL households, BPL households and the poorest of the poor households.
- (vi) Open market purchases of some commodities by public agencies at market prices during the peak arrival period and their open market sales at the appropriate time (raw cotton, raw jute, and oilseeds).
- (vii) Encouragement to producer cooperatives to undertake marketing on behalf of the farmers.

The level of support prices is fixed on the basis of recommendations of Commission for Agricultural Costs and Prices. A designated agency works as the national nodal agency for undertaking price support operations. The support prices are kept at the same level through out the marketing year and all over the country. The support level varies according to the variety and grade. The inter-year changes in support prices have always been non-negative.

The assessment of impact of agricultural price policies pursued in the country should be based on the achievement of specified objectives, incentives or disincentives created for farmers, and distortions, if any, created in the marketing system. The impact can be summarized as follows (Acharya, 2001; Acharya 2004):

- (i) The policy has been instrumental in creating a fairly stable price environment for the farmers to induce them to adopt new production technology and thereby increase the output of foodgrains.
- (ii) Geographically disbursed growth of cereal production coupled with PDS of cereals helped in increasing physical access to food.

- (iii) Supply of subsidized inputs to farmers and subsidized distribution of foodgrains, enabled to keep the real prices of staple cereals declining vis-à-vis per capita incomes, which helped in improving economic access to food. Owing to the decline in the real prices of basic staple food, the organized sector and the industry could keep their wage bills low, as rice and wheat have a considerable weightage in the consumers price index. The benefits of price policy and input/food subsidies, have, thus been shared by all the sections of society i.e., surplus-producing farmers, farmers deriving their entitlement from production, other farmers who are net purchasers of foodgrains, landless labourers, urban consumers and the industry (Acharya, 1997<sub>a</sub>, 2000).
- (iv) The price policy and related programmes reduced private sector incentives for spatial and temporal arbitrage. For example, for rice and wheat, the inter-year price rise has been considerably lower than the storage cost, discouraging private sector investment in storage and related trading activities.
- (v) While it is true that the private sector participation in foodgrains trade was reduced due to FCI's operations but whether FCI is operating at the costs higher than the cost of private sector for the same operations. This leads to the issue of the efficiency of Food Corporation of India (FCI) vis-à-vis the private trade in price support operations and subsequent distribution of foodgrains. The efficiency of FCI has been questioned on the ground of its economic cost and consequent outgo on food subsidy. In this connection, several aspects of FCI's operations need to be noted. First, both the grain purchase price (support price) and the issue price are administered prices and determined by the Government of India. Second, it has been shown (Acharya, 1997<sub>a</sub>) that out of the total expenditure of FCI on procurement and distribution, 71.6 percent is on those items over which the Corporation has no control as these are determined outside the system. The High Level Committee on Long Term Grain Policy has put 69 percent of the economic cost of FCI as policy induced costs (GOI, 2002<sub>b</sub>). These items include mandi charges, purchase/sales tax, cost of gunny bags, interest on working capital and freight rates. The private trade will also have to incur these costs unless it is able to evade some of the statutory taxes/charges (Acharya, 1997<sub>a</sub>). Third, the losses during storage and transit are estimated at around one percent, which cannot be considered unduly high as compared to the private channels. Fourth, the establishment charges and administrative overheads of FCI are estimated to be 2.8 percent of the economic cost, which are not higher than the net margins of private trade. Fifth, a recent study commissioned by the Union Ministry of Consumer Affairs, Food and Public Distribution (Chand, 2003) has brought out the existing structure of marketing costs of wheat and paddy/rice in the open market. The study has shown that for attracting private trade to buy wheat and paddy from the markets in surplus producing states, the retail prices during lean months in deficit states ought to rule at more than twice of peak season wheat prices of surplus states. This ratio was estimated as more than three in the case of paddy/rice. These ratios are not less than the ratio of FCI's economic cost of wheat/rice to the respective support prices. The findings of High Level Committee on Long-Run Grain Policy (2002) are on similar lines. The Committee has observed that the margin required for private trade to move grain from rural to urban areas of the same state is similar to FCI's distribution margin, which involves an average transport lead of more than 900 kilometers (Government of India, 2002<sub>b</sub>). And sixth, the study has suggested for retention of a public agency to handle foodgrains trade on the ground that in its absence, the private trade may turn out to be exploitative.
- (vi) During the last 6-7 years, lack of prudence in fixing the level of support prices of rice and wheat led to not only accumulation of excessive stocks but also raising the public cost of foodgrain policy. During these years, the government fixed MSPs of rice and wheat at much higher levels than that recommended by CACP (Acharya and Jogi, 2003). With coalition governments, the political economy considerations outweighing the rational factors in determining the level of MSPs are likely to be more frequent in the coming years.
- (vii) Apart from undue hikes in the levels of MSPs for rice and wheat, frequent relaxation of FAQ (fair average quality) norms, inappropriate timing of raise in issue prices of grains for PDS, and improper meshing of export-import policy were responsible for accumulation of stocks with the government at some points of time. Currently the stocks are below or almost close to the minimum prescribed levels.

- (viii) In the case of sugarcane, the state governments in many states have been fixing what may be called 'state advised prices' (SAP) for cane, which are much higher than the statutory minimum prices fixed by the centre. Sometimes the sugar industry finds them unremunerative. The SAPs, coupled with the policy of levy on sugar factories has frequently led to the situation of piling up of cane price arrears and ultimately to the phenomenon of sugarcane/ sugar cycles in the country.
- (ix) There is also a problem of ineffective implementation of price support operations for rice and wheat in states other than Punjab, Haryana, Western Uttar Pradesh and Andhra Pradesh, where surpluses have emerged during the last decade, but farmers could not get the minimum support prices for their produce. This happened mainly because the nodal agency (FCI) and state agencies in the new emerging surplus states are not geared to undertake price support operations. The FCI remains occupied with large volumes of purchases in traditional surplus producing states. Some sort of decentralized procurement and refocusing the operations of FCI to non-traditional states may help in this regard.

### 3.4 Marketing Reform Initiatives

Agricultural marketing reforms have received the added attention of the government during the last six years. Several Committees and Expert Groups were commissioned by the Government of India to suggest the direction of reforms in the field of agricultural marketing. The first was Expert Group on Agricultural Marketing (Acharya) constituted by the Union Ministry of Rural Development in 1998. Following the constitution of this Expert Group, a major structural change occurred leading to the transfer of agricultural marketing division of Union Government from the Ministry of Rural Development to the Ministry of Agriculture. In December 2000, the Union Ministry of Agriculture constituted an Expert Committee on Strengthening and Developing Agricultural Marketing System in the Country. This Committee (Guru Committee) reviewed the entire system of agricultural marketing in the country and submitted its specific recommendations to the Government in June 2001. The Expert Committee's recommendations include various legislative reforms as well as reorientation of policies and programmes (Government of India, 2001). Major recommendations of the Committee are given in Appendix 4.

Subsequently, Government of India constituted an Inter-Ministerial Task Force in July 2001 (Jain) to suggest measures for implementation of the recommendations of the Expert Committee. The Task Force interacted with various stakeholders and identified nine priority areas. Each of these priority areas was assigned to separate inter-ministerial Working Groups to work out a road map for reforms and development or strengthening of each of these areas. Based on the output of Working Groups, the Task Force in May 2002 suggested the direction of change in policies and programmes. It also recommended an implementation plan along with the identification of Ministries/organizations for implementation. Major recommendations of the Task Force are summarized in Appendix 5.

While the Expert Committees and Task Force were on the job, the Union Government launched two other comprehensive studies. One of these was the Millennium Study of Indian Farmers launched by the Ministry of Agriculture. In the Millennium Study, agricultural marketing was an explicit component. This study was aimed at the review of agricultural marketing scenario in the country and changes therein during the last fifty years. The draft of this study report was ready in early 2002 and the main findings were made available to the Expert Committee and Task Force. However, the final report came out in 2004. The lessons for long terms policy of agricultural marketing development, drawn in the Millennium Study, are summarized in Appendix 6. The other comprehensive review launched by the Government was the commissioning of a high level committee on long term grain policy by the Union Ministry of Consumer Affairs, Food and Public Distribution (Abhijit Sen). This committee submitted its report in July 2002. The main recommendations of the Committee relating to marketing of foodgrains are summarized in Appendix 7.

The status of acceptance of these recommendations by the government and their implementation has been reviewed in the earlier sub sections. As is obvious, several of these recommendations are yet to be accepted and implemented.

#### 4. SUGGESTIONS FOR CHANGES IN AGRICULTURAL MARKETING POLICY ENVIRONMENT

Since the mid 1990s, there has been an increasing convergence on the need for reforms in agricultural marketing because pervasive regulations have unnecessarily increased marketing costs and risks and uncertainty. The excessive marketing margins have placed downward pressure on farm prices, increased the cost to consumers, reduced competitiveness of exports and depressed demand of local consumers. The indicators for guiding reforms in agricultural marketing should include (a) improvement in marketing efficiency by reducing costs of marketing; (b) better returns to farmers for their produce; (c) reducing farmers marketing risks; (d) availability of quality products to consumers at reasonable prices; (e) improvement in physical and economic access of masses to food and nutrition; and (f) creation of additional employment in agricultural marketing.

##### 4.1 Amendments in State Agricultural Produce Markets Regulation Acts

The centre has already circulated a Model Act for adoption by the state governments. The Model Act is quite comprehensive and when adopted, will help in improving the efficiency of the marketing system and in encouraging private sector investment in the field of agricultural marketing. So far only a few states have adopted the model and that too partially. The resistance to the adoption of the Model Act is from both state governments and traders/commission agents. The states/APMCs have the fear of losing market fee if alternative markets are established. The traders/commission agents have the fear of losing their business/incomes. It is possible to allay such fears. There are several options available. The contractors (under contract farming) can assure payment of market fee to APMCs. The APMCs can declare more sub-yards to be managed by cooperatives or private entrepreneurs. In the village sub-yards, private sector companies or associations can create cleaning, sorting, grading and packaging facilities, where rural youth can be employed. The traders commission agents may be persuaded to organize into groups or work as individuals as agents of contractors. It may be recalled that when in the fifties, the original model APMR Act was circulated, it took around 10 or 15 years for the major states to adopt it. However, this time, with adequate sensitization of all the stakeholders, the revised Model Act can be adopted by states in relatively short period. For this, a massive campaign of publicizing the benefits of amendments in state APMR Acts and sensitization of key stakeholders is required.

##### 4.2 Improvement in the Management of Agricultural Produce Markets

Independent of the amendments in state APMR Acts, there are certain problems relating to the functioning of APMCs, which require immediate attention. These pertain to bureaucratization of market committees, non-ploughing back of market fees for market development, and cartelization of traders and market functionaries. One other problem relates to the over-emphasis of market committees on collection of market fees rather than promotion of marketing efficiency. These problems can be tackled by the state governments even without amendment in the APMR Acts. This will require state governments to act on the following lines:

- (i) To hold regular elections of market committees.
- (ii) Compulsory ploughing back of market fees for development of marketing facilities.
- (iii) Liberalizing the licensing of traders and market functionaries.
- (iv) Promotion of grading, standardization and quality certification.
- (v) Creating cleaning, sorting, grading and packaging facilities in villages and allow traders to buy in the villages by declaring these places as sub-yards.

#### 4.3 Simplification and Deregulation of Domestic Markets.

The uncertainty created by the lack of stability in the regulatory environment has discouraged private sector investment in supporting marketing infrastructure, agro-processing and agro-industry that could have expanded demand for primary agricultural products as well as generated employment in rural areas.

- (i) The potential of growth in food processing sub-sector can be exploited by quickly bringing the Unified Food Law. A Group of Ministers had been working on it and a draft of an Integrated Food Law is reported to have been prepared. This needs to be expedited.
- (ii) Despite withdrawal of restrictions on storage, movement, bulk handling and other activities, investment from both domestic and foreign investors is not flowing into the sector. The main reason is the fear of reimposition of such restrictions as the withdrawal is temporary. There is a need to allay such fears. This can be done by either replacing ECA by an simplified Act which empowers the government to impose such restrictions only during the emergency or by widely publicizing the withdrawal of restrictions to clear the fear psychosis prevailing among investors.

#### 4.4 Amendments in Agricultural Price Policy and PDS

- (i) A statutory status should be assigned to the Commission for Agricultural Costs and Prices (CACP) and to the minimum support prices (MSPs) recommended by it so as to curb the tendency of fixing MSPs much above the rational level.
- (ii) Certain instruments of price policy that have outlived their utility should be phased out. Such instruments are (a) levy on rice millers; (b) levy on sugar factories; (c) state advised prices of sugarcane; (d) control on release of free-sale quota of sugar; and (e) monopoly procurement of raw cotton in Maharashtra.
- (iii) The system of price support purchases of cereals should be decentralized to make the price support effective in all the states. Specifically (a) in states like Punjab and Haryana, more responsibility should be given to state agencies; (b) FCI Should concentrate its efforts in other states where state agencies are not fully equipped and geared; and (c) price support operations and subsequent disposal of coarse cereals be delegated to state governments, with financial back-up support from the centre.
- (iv) There are several positive features of targeted PDS. The most important problem of leakages and subsidized grains not reaching the intended sections can be checked by publicizing the prices, list of targeted beneficiaries, and stock position of grains at fair price/ ration shops and village panchayat offices and making gram panchayats or local bodies responsible for monitoring.

#### 4.5 Reduction of Farmers' Marketing Risks

Farmers face both yield and price uncertainties. The yield or production risk can be covered by the crop insurance and now weather or rainfall insurance scheme. As regards the marketing risks, three instruments are currently available to the farmers. One is the programme of minimum support prices. Notwithstanding the defects in the implementation of minimum price support policy, it has helped a large number of farmers in surplus producing states to cover a part of the price risks faced by them. Effective implementation of MSP policy, as suggested earlier, will help the farmers in reducing their price risks.

The other instrument for covering price risk is the emerging scenario of contract farming arrangements, which are in a way future contracts on prices. There are several success stories relating to such arrangements. A pre-condition for contract farming to expand is the amendment in State APMR Acts. This apart, a Model Contract has also been formulated and circulated to states. However, several complementary measures are needed for contract farming to expand on a large scale. It will need (a) organization of farmers/producers groups; (b) legislation and effective implementation of a contract law; (c) improvement in the quality of input delivery and research and extension services; (d) training of farmers in maintenance of quality standards; (e)

provision of complementary infrastructure including IT kiosks (like e-choupals) in rural areas; and (f) development of an effective land administration system. This will also require identification of a group of villages for each niche commodity and provision of credit and incentives to farmers to shift to the identified commodity.

The third instrument is the farm income insurance scheme (FIIS), introduced on a pilot scale in 18 districts during Rabi 2003-04 and extended to 100 districts of 16 states during 2004-05. FIIS covers both price and yield risks. The scheme is compulsory for loanee farmers but optional for others. If successful, FIIS will replace National Agricultural Insurance Scheme (NAIS) but NAIS will continue in uncovered districts. The government has announced a subsidy on premium up to 75 percent for marginal and small farmers and 50 percent for other farmers. The scheme is no-doubt laudable but its success will depend on the speed with which the estimates of area, yield and prices realized by the farmers are arrived at. These parameters both at area and individual farmer's level are not easy to objectively compile. Further, the guaranteed level of income is also based on indemnity of 80 percent of moving average of seven years of actual yield. Statistically reliable yield estimates below the district level are not available and special yield estimation surveys at sub-district or lower levels have all the limitations of losing objectivity. The experience of pilot tests of FIIS has not yet been made available. Whatever may be the outcome of pilot testing, the long run solution for the insurance of farmers' risk is an effective FIIS. Till such a scheme is put in place in all the areas, a combination of minimum price support policy, contract farming and crop/livestock insurance scheme would need to continue.

#### 4.6 Farmers Organizations and Capacity Building

The advantages of de-regulation of markets, minimum guaranteed price scheme, contract farming or crop/income insurance will flow to the farmers only to the extent farmers organize themselves in marketing groups, self-help groups, cooperatives or companies and learn skills suited to the new marketing environment. Understanding the quality standards (including FAQ), learning the terms of contract and insurance, and choosing and preparing the produce for the market are going to be essential skills for the farmers. The state marketing departments, APMCs, marketing cooperatives, NGOs and PRIs should pay increasing attention to capacity building and organizing farmers for marketing in the new environment.

#### 4.7 Complementary Public Investment for Private Sector Investment in Marketing

Substantial investment in agricultural marketing infrastructure is necessary. The Expert Committee on Agricultural Marketing had estimated an investment requirement of Rs. 2687 billion during the current decade. Nearly half of this is projected to be made by the private sector. For inducing the private sector to invest, apart from the conducive regulatory framework (as suggested earlier), public investment in certain marketing facilities is necessary. The details of public sector investment necessary to attract private investment (Rs. in billion) are as follows:

Item	Public Centre + State	Private	Total
Rural Roads	740	-	740
Market Yards Development	60	-	60
Fruits & Vegetable Markets	10	-	10
Rural Periodical Markets	21	-	21
Cleaning and Grading in Villages	19	1	20
Storage	27	27	54
Cold Storage	68	202	270
Reefer Vans	1	5	6
EOAZs	2	4	6
Processing & Value Addition	375	1125	1500
<b>Total</b>	<b>1323</b>	<b>1364</b>	<b>2687</b>

While the process of deregulation and amendment in APMR Acts is on going and farmers are increasingly getting organized, the public investment schemes should be put in operation so as to improve the investor sentiment. In this connection, recent announcement of a central sector scheme for setting up of markets and rural godowns in leftout areas is a welcome development.

## 5. POLICY FRAMEWORK AND STATUS OF RURAL CREDIT SYSTEM

### 5.1 Policy Framework

Indian rural credit system, at the time of Independence, was dominated by the private moneylenders, large landowners, traders, relatives and friends. The interest charged by the lenders used to be unduly high. The land or other assets were kept as collateral. The Rural Credit Survey of 1954 brought out the problems associated with the then prevailing rural credit system and made several suggestions for improvement. During the 1950s and 1960s, agricultural credit cooperatives were encouraged as institutional agencies for *inter alia* catering to the credit needs of rural families. However, their reach to the masses in terms of credit delivery was far from adequate. By 1962, the share of institutional agencies in total debt of rural households increased to only 17.3 percent as against 7.3 percent in 1951-52. Nevertheless, the initiative led to the recognition of the importance of institutional credit agencies in agricultural and rural development. A number of studies during fifties and sixties revealed that institutional form of term lending contributed to private fixed capital formation in agricultural and institutional credit support helped the adoption of high yielding technology. The studies also revealed that due to inadequate flow of institutional credit to small farmers, they lagged in the adoption of new technology. Thus, it came to be increasingly realized that a sound institutional rural credit system needs to be evolved not for just financial inter-mediation but also for playing a catalytic role in achieving the national goals of agricultural development, rural employment generation and poverty alleviation. Several steps were taken since then to evolve a conducive rural credit system in India.

The initiatives and measures were based on continuous reviews and rereviews of the entire rural finance and rural credit system from time to time by the Committees, Working Groups and Task Forces. These include All India Rural Credit Review Committee, 1966; Agricultural Credit Review Committee, 1989; Working Group of Planning Commission for IX Five Year Plan; Narsimham Committee of NABARD, 1991; Expert Committee (V.S. Vyas) on Rural Credit of NABARD, 2001; Working Group of Planning Commission for X Five Year Plan; and Advisory Committee (V.S. Vyas) on Flow of Credit to Agriculture of RBI, 2004.

The overall objective of the rural credit policy has been to provide an institutional alternative for supply of adequate credit at lower rates of interest, with a view to achieving the objectives of growth and equity. The major strands of the policy have been catering to the credit needs of poor at lower rates of interest, adopting innovative schemes to target certain groups/sections, providing insurance for risk and integrating lending programmes with rural development and poverty alleviation schemes. The inherent approach has been a multi-agency system, explicit relationship between credit and input use/fixed investment, security remaining no longer a criterion for lending, and using credit planning as tool for serving development objectives.

Some of the landmarks in evolving an institutional rural credit system are:

- 1969: Nationalization of major commercial banks (CBs)
- 1975: Establishment of Regional Rural Banks (RRBs)
- 1982: Establishment of National Bank for Agriculture and Rural Development (NABARD)
- 1990s: Finance Sector Reforms and Launch of several new innovations.

Several institutional innovations introduced and/or tried at different points of time during the seventies and eighties include system wide innovations viz., lead bank scheme, district credit planning, annual action plan, farmers service societies, LAMPS, District Level Coordination Committees (DLCCs), Block Level Coordination Committees (BLCCs) and State Level Bankers Committees (SLBCs). These apart, bank level innovations include rural service centres scheme,

farm clinics, farm information and exchange clubs, future farmers clubs, satellite branches, rural service volunteers and change agents (Singh and Sagar, 2004).

## 5.2 RFI Outlets and Their Share

There has been considerable expansion in the institutional credit outlets in rural areas. These include 33000 branches of commercial banks, 14000 branches of RRBs and around 100,000 outlets of cooperatives, making a total of 147000 RFI outlets. On an average, there is an outlet for a population of 5000 or for 1000 families. The network of cooperatives includes 92682 primary agricultural credit societies (PACS) for short-term credit and 2258 units for advancing term loans. There are 30 state cooperative banks (SCBs) with 686 branches and 366 district central cooperative banks (DCCBs) with 10518 branches. However, 140 cooperative banks are reported to be sick. There are 196 RRBs with 14498 branches in 495 districts. Out of these, 187 RRBs have been provided equity support. Upto March end 2003, their advances stood at Rs. 20700 crores (against deposits of Rs. 48900 crores) with gross non-performing assets (NPAs) of Rs. 3200 crores (14.4% of advances). In 2003-04, around 100 RRBs are reported to have come out of red. The loss making number of RRBs now stands at 20 only.

Despite expansion of institutional credit outlets, the share of institutional agencies in total rural credit (debt of households) was only 61.2 percent in 1982 and around 66 percent in 1991 (Singh and Sagar, 2004). Still considerable part of the credit by rural families is availed from non-institutional sources. This is particularly true more for poor households. Rural poor's credit needs are small but urgent and often unpredictable. Their credit needs do not distinguish between production and consumption. As the institutional credit agencies are not able to internalize the peculiar credit needs of poor in their policies and programmes, rural poor continue to depend on informal sources. The lending terms of informal sources may be harsh but are convenient. A study (Planning Commission, 2002) has revealed that the overall flow of institutional credit to the poor is only 16 percent and 63 percent of credit of the poor is used for consumption purposes.

## 5.3 Trend in RFI Lending During Nineties

During the 1990s, the term lending in rural areas has tended to slow down. The growth of long-term institutional loans decelerated from 20.2 percent during the 1970s to 14.8 percent during the 1980s and further to 11.9 percent per annum during the nineties. This happened mainly owing to the deceleration in lending by the commercial banks. The growth of long term advances by CBs came down from 29.9 percent per annum during the seventies to 18.6 percent during the eighties and further to 12.1 percent during the nineties. The investment lending by RRBs has also decelerated during the nineties (Appendix 8).

Agricultural sector is an important component of rural credit, accounting for around 85 percent of total rural credit (Sharma et al, 2001). The growth of institutional credit for agricultural sector also registered a deceleration during the nineties (Sahu and Rajasekhar, 2002). Over the years, agricultural credit as a proportion of agricultural GDP has gone up from 5.4 percent during the seventies to 8.3 percent during the eighties, 7.4 percent during the nineties and 8.7 percent during 2001-02. However, the ratio of agricultural credit to total bank credit has been declining over the years. This ratio has declined from 20.5 percent during seventies and 20.1 percent during eighties to 14.4 percent during nineties and further to 10.5 percent during 2001-02 (RBI, 2004).

During the nineties, there has been considerable decline in Credit-Deposit (C-D) ratio in rural as well as semi-urban areas whereas the ratio for urban areas has considerably gone up. The share of rural areas in total bank credit has continued to be lower than their share in total bank deposits and this gap has tended to widen after the launch of financial sector reforms in early nineties (Appendix 9). There is, thus, an indication that deposits mobilized in rural areas are being used in urban/metro/metropolitan areas.

## 5.4 Demand and Supply of Rural Credit

The Working Group on Agricultural Credit for the IX five-year Plan had stipulated a target of lending Rs. 229750 crores for the five-year plan period. Against this the actual institutional lending for agricultural sector was marginally higher at Rs. 233703 crores. The institutional lending exceeded the target during the later years of the five-year plan period (Appendix 10). Against a growth rate projection of 16 percent per year in agricultural lending during the IX five-year plan period, the target fixed for the X five-year plan period is 24 percent per year. The X Five Year Plan (2002-07) has targeted a credit flow of Rs. 736570 crores, of which Rs. 381652 crores is the share of scheduled commercial banks. Against this target, actual lending during the first year (2002-03) of the five year plan was Rs. 69560 crores, which was only 84 percent of the stipulated lending of Rs. 82073 crores for that year. The CBs during 2002-03 advanced Rs. 44000 crores which was much lower than their stipulated target.

Actual lending to the agricultural sector during 2003-04 was Rs. 80000 crores, which was also considerably short of the stipulated level of lending for this year. Out of Rs. 80000 crores, CBs lent 54.9 percent (Rs. 43900 crores), RRBs 7.6 percent (Rs. 6100 crores) and cooperatives 37.5 percent (Rs. 30000 crores). Concerned about the slackening performance, the GOI has asked the RFIs to increase their lending to Rs. 104500 crores during 2004-05 which includes 30 percent increase for CBs (Rs. 57000 crores) and cooperatives (Rs. 39000 crores) and 40 percent increase for RRBs (Rs. 8500 crores).

#### 5.5 Inter-Regional Disparities in RFI Lending

There is considerable inter-state and inter-regional variation in access to credit due to (a) differences in credit absorption capacity; (b) strengths and weaknesses of the credit delivery system; and (c) recovery climate. There are also considerable differences in access to institutional credit across rural social classes. The main reasons identified are (a) insistence on collateral security; (b) complicated administrative procedures; (c) cultural gap between RFI officials and poor; (d) long distance from the village to RFI branches; (e) inflexible lending policies; (f) lack of provision for consumption credit; (g) political interference; and (h) wide spread belief that the poor are non-bankable.

The performance of RFIs is relatively poor in the northeastern region. The share of NE region in deposits and credit upto March 2000 was 3.6 percent and 1.75 percent as against 37.9 percent and 33.5 percent respectively for the western region. Inter-regional differences in access of farmers to institutional sources of credit, brought out by the Input Survey of 1991-92 (Government of India, 1991-92) reveal that on an average, 17.5 percent farmers borrow from the institutional sources. The percentage of borrowers is as high as 97 percent in Punjab. The second group of states according to the percentage of farmers borrowing from institutional agencies includes Bihar (51.4%), Himachal Pradesh (44.1%) and Haryana (41.3%). The percentage of borrowers from RFIs is less than 10 percent in Uttar Pradesh (7.1%), Rajasthan (2.7%) and Orissa (8.2%). Out of total borrowers from institutional sources in the country, more than 38 percent are from Bihar alone. Andhra Pradesh accounts for 10.4 percent, Uttar Pradesh 8.2 percent and Madhya Pradesh 7.4 percent of total institutional borrowers. The share of Punjab and Haryana in total institutional borrowers is only 6.3 percent and 3.6 percent respectively (Appendix 11).

#### 5.6 Inter-Farm Size Variation in Access to Credit

Farm size wise distribution of institutional borrowers is nearly in proportion to the total number of farms in each size group. Therefore, there does not appear to be any farm size bias in lending from institutional agencies. Out of total borrowers, 51.1 percent are marginal, 20.7 percent are small, 16.9 percent are semi-medium, 9.3 percent are medium and 2 percent are large (Government of India, 1991-92).

The share of different farm size groups in total borrowings from institutional sources is, however, not in proportion to the number of farmers in each size group. It is not expected also because per

farm demand for credit is not the same across farm size groups. The share of marginal farmers in total borrowings is 24.6 percent, small farmers 20.7 percent and of semi-medium farmers is 24.2 percent. Thus, farmers upto two hectares size account for 45.3 percent of total borrowings and upto 4 hectares account for 69.5 percent of total institutional borrowing (Appendix 12).

### 5.7 Purpose of Borrowing/Lending

The borrowing from financial institutions has traditionally remained concentrated on such activities as farm-machinery, minor irrigation and animal husbandry. Rainfed agriculture, horticulture, storage and processing activities remained relatively neglected as far as lending to farmers is concerned. Advances against stored agricultural commodities were usually made to traders. Advances of commercial banks against stored agricultural commodities in March 2004, stood at Rs. 15771 crores. Out of this, 34.3 percent was against cereals, 26.9 percent against sugar/gur/khandsari, 17.6 percent against cotton/kapas, 10.1 percent against edible oils, 6.7 percent against oilseeds, 2.9 percent against pulses and 1.5 percent against raw jute (Government of India, 2004). The main draw back in the expansion of pledge finance is that the warehouse receipts are not yet negotiable instruments for getting credit.

### 5.8 Recoveries and Defaults

Indian rural credit market is confronted with a paradox. Informal sources charge more than 20 percent interest, keep land or other assets as collateral and yet recoveries are high. But RFIs charge half the interest, do not keep collateral and yet face high defaults in payment. Timely recoveries of loans are an important link in the credit cycle. Poor recoveries or defaults in payments affect recycling of credit, squeeze-up the resources and lead the banks to a state of financial unsustainability. There are several factors responsible for mounting defaults. These include (a) natural calamities; (b) inadequate income generation; (c) high transaction costs; (d) inappropriate financing policies; and (e) poor working of RFIs (Gulati and Bathla, 2002). Waiver of loans announced by the Government from time to time has a considerable influence on the recovery climate. For example, the Government of India in 1989 announced Agricultural and Rural Debt Relief (ARDR) scheme, under which outstanding institutional loans upto Rs. 10000 were waived. Another important factor affecting the recovery climate is writing off the bad debt, although bad debts are a small proportion of overdues. Gulati and Bathla (2002) have shown that the bad debts in total outstanding were 3.6 percent in 1980, 2.7 percent in 1989, 4.2 percent in 1992 and 2.9 percent in 1997.

During the second half of nineties, while the recovery situation in scheduled commercial banks and RRBs improved, that of cooperative banks worsened. However, the overall recovery situation of cooperative banks was better than CBs or RRBs (Appendix 13). Gulati & Bathla (2002) have shown that in the total defaults during 1997, the share of CBs was the highest at 46.2 percent, followed by RRBs 25.1 percent, PACS 20.6 percent and of Land Development Banks was 8.1 percent. Though the share of CBs in total defaults is considerably higher than other RFIs, the non-performing assets (NPAs) as percentage of advances, are relatively large in RRBs (Appendix 14). Overall for RFIs, NPAs were estimated as 16.5 percent of advances during 1998-99 (Sharma et.al., 2001). Sharma and others (2001) have identified external as well as internal factors (RFI related and borrower related) for poor recovery of loans in RFIs (Appendix 15).

There is a considerable difference in the position of overdues across states. During the last 20 years, the states like Andhra Pradesh, Rajasthan, Uttar Pradesh, West Bengal, Punjab and Tamil Nadu have improved their position of overdues. On the contrary, recovery position of Orissa has worsened. In Assam, Bihar, Madhya Pradesh and Maharashtra, overdues as a percentage of outstanding loans continue to be more than 30 percent (Appendix 16).

### 5.9 Demand for Credit and Interest Rate

The demand for rural/agricultural credit with respect to interest rate is negative but inelastic. The elasticity is positively related to the level of interest rate. However, the demand for credit is highly elastic to input and output prices (Singh and Sagar, 2004). The interest rate is nevertheless, of considerable significance to farmers and poorer sections.

As regards the cost of credit to the borrowers, as per the RBI policy, the lending rate is linked to the size of the loan. For commercial banks, the stipulation is that for loans upto Rs. two lakhs, the lending rate should not exceed PLR, which by banks is arrived at by adding cost of funds, transaction costs, risk cost and profit margin. During 2002-03, it varied between 9 and 12.25 percent. The lending rate for loans above Rs. two lakhs is at the discretion of the bank. For RRBs and cooperative banks the concept of PLR is not applicable.

#### 5.10 Service Area Approach

Several initiatives were taken and innovations were introduced during the last 15 years to increase the lending by RFIs. These include Service Area Approach, mandatory lending system, micro-finance, Rural Infrastructure Development Fund Scheme and Kisan Credit Card Scheme. Service Area Approach (SAA) was introduced in late eighties. It has served the purpose well but there is a mismatch between the potential and actual lending. Borrowers are forced to go to the branch of designated RFI, even if they are not satisfied. In some states, the villages in the service area are too many. The private banks are not able to operate due to service area restrictions. The branches of non-service area RFIs have to wait and obtain no-objection certificate from the service area branch. RBI, on 26<sup>th</sup> October 2004, has proposed to dispense with the provision of SAA except for the government sponsored programmes.

#### 5.11 Mandatory Lending Scheme

With a view to increasing the flow of bank credit to the areas of national priority, a scheme of mandatory lending was introduced in 1989. It stipulated that 40 percent of net bank credit (NBC) should go to the defined priority sector including 18 percent to the agricultural sector. The priority sector was defined to include agriculture, small-scale industries and other important sectors. For the foreign banks, the mandate of priority sector lending was fixed at 32 percent. There was not a major problem in fulfilling the mandate of priority sector lending. At the end of March 2003, the priority sector lending was 42.5 percent of NBC for public sector banks, 44.4 percent for private sector banks and 33.9 percent for foreign banks (Government of India, 2004). However, there was considerable and persistent shortfall in meeting the target of 18 percent lending to the agricultural sector. For example, at the end of September 2003, public sector banks could achieve only 15.9 percent and private sector banks only 10.8 percent of total lending to the agricultural sector.

Several new measures were taken during the last two years to bring down defaults/NPAs and help in increasing rural lending. RBI in March 2002 announced a one-time settlement scheme for small and marginal farmers with an outstanding loan of upto Rs.50,000, which were non-performing as on 31-3-98. NABARD has recently introduced some new provisions of lending which include (a) loans for agri-clinics or agri-service centres upto Rs.10 lakhs for individuals and upto Rs.50 lakhs to group of entrepreneurs with an interest of 10 to 12% recoverable in nine years with a moratorium of two years, (b) help to small, marginal and tenant farmers or share croppers for acquiring land of 2.5 to 5.0 acres at an interest of 13-14%, with 20% margin money, recoverable in nine years with a moratorium of one year; and (c) pledge loan to farmers @75% of value of stocks in cooperative godowns subject to a ceiling of Rs. one lakh.

In June 2004, the GOI announced a debt relief package to farmers by asking RFIs to reschedule the debt of farmers affected by drought during last five years for payment during next five years with a moratorium of two years and not to count them in NPA. Such farmers have been made eligible for fresh loans. The banks have been also permitted to advance loans to those under distress due to borrowing from non-formal sources.

The RBI has also revised the norms of NPAs. Under these norms, for short duration crops, the outstanding loans will become NPA only if these are not paid for two crop seasons after these fall due and for long duration crops, after one year of their falling due.

For helping banks to meet their mandatory lending requirements, the RBI in its annual policy statement for 2004-05, has announced some measures viz., (a) waiver of margin money/security requirement for agricultural loans; and (b) coverage of loans for storage structures in rural areas under priority sector.

#### 5.11 RIDF Scheme

Due to persistent shortfall in mandatory lending (18% of NBC) to agriculture, RIDF scheme was launched in 1995-96. Under this scheme, the banks are required to deposit their shortfall in lending to agricultural sector in RIDF managed by NABARD. Total amount accumulated under RIDF till February 2004 was Rs. 34000 crores. Out of this, NABARD has issued sanctions to the states for Rs. 33357 crores but the actual disbursement was only 21742 crores. Keeping in view the shortfall in the disbursement under RIDF, the scope of lending to the states has been extended to cover soil conservation, rural market yards, inland waterways, fish jetties, cold storage, godowns and even rural health centres, primary school buildings, mini-hydel plants and rural information centres.

#### 5.12 SHGs/Micro Finance

Considering the importance of micro-finance services, a programme of linking self-help-groups (SHGs) of the poor with the banking system was launched in 1992. At present, there are three groups of SHGs with different forms of linkages:

- (a) SHGs formed and financed by the banks (20%)
- (b) SHGs formed by other formal agencies but financed by banks (72%)
- (c) SHGs financed by banks using NGOs and other agencies (8%)

The uniqueness of the programme is that there is no subsidy component. By March 2004, 10.8 lakhs SHGs have been linked to the banks and 90% of these are exclusively of women. Upto March 2004, a cumulative assistance of Rs. 3904 crores has been given to SHGs through 30000 branches of 504 banks, with refinance facility available from NABARD. The programme got momentum during the last four years (Appendix 17). NABARD, SIDBI and Rashtriya Mahila Kosh have played an important role in promoting SHGs in the form of grants, loans and revolving fund assistance to NGOs. The RBI has included financing of SHGs under priority sector lending.

The experience of micro-finance scheme in India suggests as follows (Jayaraman, 2001):

- (i) Involvement of NGOs as self-help promoting institutions (SHPIs) is crucial for the success of SHGs;
- (ii) It is the cost effective way of financing the rural poor;
- (iii) The repayment rate of SHGs is more than 95 percent due to peer pressure;
- (iv) It reduces transaction costs of borrowers as well as lenders;
- (v) The critical factors of their success are:
  - Homogeneous and cohesive group
  - Inculcation of habit of thrift among members
  - Providing timely credit
  - Freedom to the group to prioritize borrowers, decide the terms of credit and interest rate;
  - Stress on empowerment of women

Some of the areas of concern related to micro-finance programme in India are:

- (i) There has been only a limited coverage of poor families. Upto March 2004, only 16 million (30.8%) of the 52 million poor families could be covered under the programme.
- (ii) There is uneven geographical spread of the programme. Andhra Pradesh alone accounts for 39 percent of the SHGs linked to the programme. Tamil Nadu, Karnataka and Uttar Pradesh account for 30 percent. These four states together accounts for 69 percent of SHGs linked to the RFIs.
- (iii) The micro-finance programme so far has not explicitly targeted the agricultural sector.

The micro-finance programme has great potential for agricultural sector owing to its advantage of group lending. Extending this programme to farmers will require its internalization with PACS, which is not easy. An essential requirement of success in agricultural sector is that the character of interlocking of credit and input-output markets must be kept intact (Gulati and Bathla, 2002). Several models available should be tried viz., channeling credit through input supplying agencies or output dealers (NBFIs), through NGOs or through a super market model.

### 5.13 Kisan Credit Card Scheme

Kisan Credit Card (KCC) scheme was introduced in 1998-99, under which each farmer is given a passbook and KCC. Upto March 2004, 41.38 million KCCs have been issued. Of these, 58.6 percent were issued by cooperative banks, 32 percent by public sector banks and 9.4 percent by RRBs. The cardholders are being provided an insurance cover of Rs. 50000 for accidental deaths and Rs. 25000 for permanent disability. The performance of KCC scheme is not uniform across states. In July 2004, the NABARD has enlarged the KCC scheme. The KCC cardholders can now avail short term production, consumption as well as term loan. NABARD will refinance term loan to all banks, and short-term and working capital loans to RRBs and cooperatives. Consumption loans will not be refinanced by NABARD.

## 6. ISSUES AND CONCERNS IN RURAL CREDIT

- (i) There is considerable unmet demand for rural credit. Local moneylenders continue to provide credit to the rural families, as the reach of institutional agencies to weaker sections has remained poor. Meeting the credit needs of 25 million non-farm informal sector enterprises continues to be a challenge to the rural financial institutions. The coverage of micro-finance scheme though has expanded, but still around 70 percent of the poor are out of this network. The micro-finance sub-sector of institutional credit has not explicitly targeted the agricultural sector. The tenants and sharecroppers have been by-passed by the RFIs. More than 60 percent of the farm families are yet to receive the Kisan Credit Cards.

The rate of interest charged by RFIs from farmers continues to be considerably higher than those charged by FIs from urban consumers. The owners of small or marginal farms, which are non-viable or viable at the margin, and self-employed in the informal sector, cannot afford to bear the level of interest charged by RFIs. Despite an understanding reached recently between IBA and the government, in the presence of RBI that crop loans will carry an interest of single digit, the banks are reportedly charging 12 to 14 percent interest.

- (ii) On the supply side, the rural financial institutions are under stress, particularly since the financial sector reforms of 1992-93. The commercial banks have now turned shy and feel that rural financing is costly and cumbersome. Their transaction costs are high and estimated as six to seven percent of loans advanced (Gulati and Bathla, 2002). Corporate culture of these banks has led to high transaction costs. They are, therefore, now concentrating on selected clientele of large borrowers to bring down costs. The bank

- staff does not find any motivation to go to rural branches. Rising NPAs and high cost of rural lending have forced commercial banks to close unviable rural branches.
- (iii) In contrast to the commercial banks, RRBs enjoyed the advantage of low cost banker compared to the CBs, upto the middle of 1980s. However, by late 1980s, RRBs lost this advantage. Their transaction costs have also now gone up to six or seven percent of advances, which is quite high. They are too strongly tied to their sponsor banks and have little freedom of operation.
  - (iv) As regards the cooperatives, though the scale of lending and their reach to rural areas is outstanding, they work more as channels of credit rather than banks. Their efforts to mobilize deposits are inadequate. Even otherwise, the depositors in cooperative banks have no safeguards. There are three main problems with cooperative rural financial institutions. First, their overall financial position is precarious. Some time back, the government had sanctioned a sum of Rs. 150 billion for recapitalisation of cooperative banks. But it has not yet been implemented and referred to another committee (A. Vaidyanathan). Second, a three-tier hierarchy and absence of delayering comes in the way of rural lending. And third, excessive bureaucratic control and politicization has compromised their democratic character and efficient functioning.
  - (v) These apart, widening of the scope of priority sector has affected agricultural lending. In many cases, the linkages of RFLs with input supply or output marketing institutions has remained weak. With the introduction of RIDF scheme, commercial banks have tended to park funds under RIDF rather than direct lending for agricultural purposes.
  - (vi) There is also a problem of inter-regional differences in the reach of RFLs. In northeastern states, the network of RFLs is relatively weak. The micro-finance programme is also concentrated in few states.
  - (vii) There is also a problem of considerable delays in processing of loan applications, particularly by commercial banks. It has been reported that during 2003-04, the commercial banks received 746696 loan applications, of which only 451458 were sanctioned and actual disbursement was made to only 419995 applicants. The situation is reported to be even worse during the current year.

## 7. SUGGESTIONS FOR IMPROVING INSTITUTIONAL RURAL CREDIT SYSTEM

Several committees in the recent past have come out with suggestions to improve the flow of institutional credit in rural areas. These include Expert Committee on Rural Credit (V.S.Vyas), Committee on Agricultural Credit through Commercial Banks (R.V.Gupta), Committee on Cooperatives (Vikhe Patil), and Advisory Committee on Flow of Credit to Agriculture (V.S.Vyas). The government has implemented several of the suggestions made by these committees. However, based on the analysis of current status and identification of concerns in the earlier sections of this paper, some areas of policy reforms and priority action are as follows:

### 7.1 Credit Policy

- (i) There should be no attempt for a uniform RFI system throughout the country. The system should be flexible and decentralized suiting to the local socio-economic milieu.
- (ii) Policy emphasis on small borrowers should continue, otherwise they may get systematically further discriminated against in credit allocation.
- (iii) A national consensus among political parties should be evolved for not politicizing the RFLs and resist from announcement of loan or interest waiver schemes and giving calls for not repaying the institutional loans.
- (iv) The state governments should amend land laws to record tenants and share croppers, for making them eligible for institutional credit.
- (v) As recently announced by RBI, the Service Area Approach (SAA) should continue only for the implementation of government-sponsored programmes. It should be dispensed with for other purposes.
- (vi) The state governments should institutionalize warehouse receipts for making it an instrument for borrowing credit from institutional agencies.

- (vii) For encouraging the flow of institutional credit for rural non-farm activities, a Rural Credit Card Scheme (RCCS), on the pattern of KCCS, should be introduced.
- (viii) As poor need help of informal institutions to deal with credit institutions, NGOs, PRIs and voluntary groups should be actively involved in the institutional credit delivery mechanism. The exact model of involvement should be area and context specific. This may also help in reducing transaction costs of RFIs.

## 7.2 For Increasing Credit Flow and Reducing Risks

As the experience shows, group approach to lending is cost effective and rate of recovery is also high. It also reduces the lender's risk. Keeping this in view, the credit flow in rural areas can be increased by adopting one or a combination of the following:

- (i) Promotion of groups of homogeneous borrowers (produce based, service based, caste based, village based, cluster based, vertically integrated or horizontally integrated).
- (ii) Tying up lending with input supply agencies, output marketing firms or processors i.e., inter-locking of credit with input and commodity marketing.
- (iii) Organizing and linking farmers with contractors under contract farming arrangements and in-building credit delivery under the contract.
- (iv) Linking production credit with credit for post-harvest operations like sorting, grading, packaging and marketing in groups.
- (v) Involving NGOs or rural educated youths in organizing farmers or rural families in groups, scrutinizing applications, disbursement of loan and effecting recoveries, which may help RFIs in reducing lending costs.
- (vi) With increasing diversification of agriculture, along with the demand for credit, risks for lenders as well as borrowers are increasing. To cover such risks, apart from group lending, insurance is emerging as an important instrument. The insurance premium (crop insurance, weather insurance or income insurance in some areas) is also subsidized. Mass awareness programme for popularizing insurance schemes should be launched for increasing the coverage of these schemes.
- (vii) Lending for IT kiosks, agro-service centres, agri-clinics, farm nurseries, production of organic manures, cultivation and processing of Jatropha (bio-diesel) and medicinal plants/herbs, organic farming, seed production, food processing, processing of MFPs, custom hire services, grading/packaging equipments, street vending, refrigerators, cool chambers, electronic and electric spare parts/services and such ventures should be liberally done.
- (viii) For encouraging the flow of institutional credit for rural non-farm activities, a Rural Credit Card Scheme (RCCS), on the lines of KCCS, should be introduced.

## 7.3 Lending by Commercial Banks

- (i) With greater autonomy and private sector participation in public sector banks, the institutional structure of branch network should not be diluted.
- (ii) As most new banks do not have the capacity to either appraise or effectively supervise lending, specialized support agencies need to be developed or earmarked on sectoral as well as regional basis to help such banks to route their funds to meet their mandatory lending requirement.
- (iii) The banks should recruit agricultural graduates for rural branches and should take the help of local NGOs, SHGs or village development functionaries in appraisal of loan applications to save time and cost.
- (iv) Banks should tie up with corporate sector, processors, contractors under contract farming arrangements and related firms for funding farmers and thereby linking marketing with credit. Banks should also take initiative in organizing the farmers into homogeneous groups for establishing such linkages.
- (v) The interest rate on RIDF should be related to the degree of shortfall from mandatory lending. If shortfall is higher, the interest on RIDF deposit payable to the bank by NABARD should be lower.

- (vi) The requirement that lending for storage unit is treated under indirect lending only if it is located in rural area should go.
- (vii) The limit of 4.5% on indirect lending (within 18%) should be maintained. However, lending in indirect channels by commercial banks should qualify for 40% mandatory lending for the priority sector.
- (viii) Mandatory target of 18% and 40% should be reviewed after every five years.

#### 7.4 Lending by RRBs

- (i) RRBs should be given more autonomy and flexibility in planning and lending policies, so that their comparative advantage in rural lending is restored.
- (ii) They should take initiative in organizing farmers into homogeneous groups or farmers companies for linking credit with input supply and output marketing.

#### 7.5 Lending by Cooperatives

- (i) The cooperative credit system should be rejuvenated by recapitalization and giving them greater autonomy and infusing more professionalism.
- (ii) States should be allowed to borrow from RIDF for meeting state's share for recapitalisation of cooperative banks.
- (iii) For imparting greater autonomy and accountability to cooperatives, states should adopt the Model Bill suggested by Chaudhary Brahma Prakash Committee and cooperative banks should be brought under the supervisory control of RBI/NABARD.
- (iv) Cooperative Credit System should be delayered i.e., where DCCBs are weak, SCBs should finance directly to PACS and where PACS are weak, DCCBs should finance directly to farmers. Non-viable DCCBs and PCARDBs should be liquidated. Also weak DCCBs should be taken over by SCBs.
- (v) States should be persuaded to take follow-up action on Multi-State Cooperatives Act, passed in 2002.
- (vi) PACS should be asked to mobilize deposits, conduct open forum meetings, take initiatives in nurturing SHGs of their areas and introduce a system of audit by professionals.
- (vii) While the term-lending credit structure and short-term credit structure within cooperatives should be integrated, care should be taken that already weak long- term credit structure does not weaken the short-term credit structure. There are several options available in this regard. One is to permit short-term credit institutions to disburse long term credit. Two, strong long-term institutions be merged with short-term institutions. Three, very weak long-term institutions may be liquidated. And four, to those LT institutions, which are neither too weak nor strong, three to five years package may be given to improve and as and when these become viable, these may be merged with short term institutions.

### 8. CONCLUDING OBSERVATIONS

Attempts to strengthen Indian agriculture must address not only farm production (farmers) but also processing, marketing, trade and distribution. We must link farmers to markets and in this endeavour, marketing and rural credit systems are extremely important. Indian agricultural marketing and rural credit systems have undergone several changes during the last decade. However, in the emerging environment, these need much more changes for making agricultural sector vibrant and responsive to the aspirations of the rural masses. The suggested agenda for reforms includes revision in the state Agricultural Produce Markets Regulation Acts, redefining the role of state marketing boards and market committees, repeal of ECA except under emergencies, putting in place a unified food law, introduction of new instruments like contract farming and warehouse receipt system and assurance to investors that regulations will not be reimposed. The policy of price support needs to be rationalized and decentralized. CACP and support prices should be given statutory status. Complementary public investment in marketing infrastructure should be made. The system of training of farmers by strengthening marketing extension education network needs to be put in place. Instruments for insurance of farmers

against production and price risks should be made an essential component of development strategy. In the field of credit delivery, the financial institutions are under stress, particularly since the financial sector reforms of 1992-93. The credit policy should continue to emphasize small borrowers. The commercial banks have started feeling shy of lending to agricultural sector and rural poor. The provisions of mandatory lending for priority sector and the agricultural activities should continue. The banks should take the help of NGOs and local formal institutions in their lending programmes to reduce the transaction costs. These apart, effective linkages between farmers and processors on the one hand and between processors and credit agencies on the other should be promoted. The inter-locking of credit and product/ input markets are crucial and should be recognized. For meeting the credit needs of the poor, the programmes like linking of SHGs with lending agencies are important but in these linkages, the role of promoting institutions should not be lost sight of. Marketing and institutional credit systems have always remained critical for agricultural development and their role has further increased in the liberalized economic environment. A set of reforms and strategic actions suggested in the paper will help these systems in further strengthening Indian agriculture.

#### Notes:

1. This is a revised version of an earlier draft presented during the first technical workshop of Policy Research Networking Project held on September 16-17, 2004 at NCAP, New Delhi. The comments received from the Project Advisory Committee and ADB are gratefully acknowledged.
2. The details of functions and roles of these institutions are available in Acharya (2004) and Acharya and Agarwal (2004).
3. For a detailed discussion of history of government intervention in agricultural markets in India, see Acharya (1994).
4. For more details of features of Regulated Markets in India, see Acharya and Agarwal (2004) and Acharya (2004).

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Appendix – 1. Geographical Distribution of Regulated Markets in India

States/ Union Territories	Wholesale Assembling Markets	Rural Periodic Markets	Regulated Market Yards/Sub-yards	Area Served Per Market Yard/ Sub-Yard (Sq.Km)
Andhra Pradesh	861	290	861	319
Arunachal Pradesh	--	50	--	--
Assam	172	650	35	2257
Bihar (+ Jharkhand)	443	7000	813	214
Goa	11	8	8	500
Gujarat	396	137	396	495
Haryana	284	157	284	155
Himachal Pradesh	35	30	35	1600
Jammu & Kashmir *	26	47	--	--
Karnataka	473	941	473	406
Kerala *	351	2000	--	--
Madhya Pradesh (+ Chattisgarh)	633	3000	616	719
Maharashtra	857	3500	857	359
Manipur *	20	49	--	--
Meghalaya *	101	82	--	--
Mizoram *	8	35	--	--
Nagaland *	16	80	--	--
Orissa	163	1150	144	1083
Punjab	675	--	675	74
Rajasthan	412	558	412	830
Sikkim *	10	30	--	--
Tamil Nadu	300	677	270	481
Tripura	84	554	21	476
Uttar Pradesh (+ Uttranchal)	645	3322	645	456
West Bengal	279	2925	587	152
Union Territories	38	22	29	--
Total	7293	27294	7161	459

- APMR Act not yet enacted/ implemented., Source: Government of India (2001).

Appendix – 2. Facilities/ Amenities in Regulated Market Yards

Facility/ Amenities	% of Markets with Facility	% of Utilization of Facilities
Common Auction Platform (Covered)	64	84
Common Auction Platform (Open)	67	82
Common Drying Yards	26	87
Loading/ Unloading & Parking	100	100
Traders Modules	63	89
Retail Shops	28	100
Storage Godowns	74	91
Cold Storage	9	100
Weighing Equipment	85	100
Grading Facilities	30	89
Processing Units	7	83
Pledge Financing	17	93
Agricultural Input Shops	29	96
Internal Roads	89	100
Electric Lighting	89	100
Avenue & Shed Trees	57	98
Price Display Boards	61	92
Public Address System	34	91
Bank	42	100
Post Office	28	100
Security Post	42	--
Police Post	15	--
Boundary Wall	84	--
Public Telephone	24	--
Garbage Disposal System	84	--
Drainage System	55	--
Farmers' Rest House	61	89
Common Bath Rooms	57	98
Common Toilets	88	98
Canteen	43	97
Drinking Water Taps	28	100

Source: DMI (1999).

APPENDIX – 3. INFRASTRUCTURE DEVELOPMENT INDEX (ALL INDIA = 100)

State	1980-81	1993-94
Andhra Pradesh	98.1	96.1
Assam	77.7	78.9
Bihar	83.5	81.1
Gujarat	123.5	122.4
Haryana	145.5	141.3
Himachal Pradesh	83.5	98.8
Jammu & Kashmir	88.7	84.0
Karnataka	94.8	96.9
Kerala	158.1	157.1
Madhya Pradesh	62.1	75.3
Orissa	81.5	97.0
Punjab	207.3	191.4
Rajasthan	74.4	83.0
Tamil Nadu	158.6	144.0
Uttar Pradesh	97.7	103.3
West Bengal	110.6	94.2
All India	100.0	100.0

Source: CMIE (1997).

APPENDIX – 4

MAIN RECOMMENDATIONS OF EXPERT COMMITTEE ON STRENGTHENING AND DEVELOPING OF AGRICULTURAL MARKETING (Ministry of Agriculture, Government of India, June 2001)

1. The Government should examine all existing policies, rules and regulations with a view to remove all legal provisions inhibiting free marketing system. Private sector, corporates, and Joint Ventures need to be encouraged to set up markets for free and competitive trade.
2. By an amendment in Agricultural Produce Markets Act, the utilization of funds by the AMPCs and SAMBs for support services like grading, standardization, storage and pledge finance should be made mandatory.
3. Government should strengthen and institutionalize Commodity exchanges and futures markets.
4. Government should remodel the functions of APMCs and SAMBs and these bodies should be headed by professionals.
5. All laws which regulate participation in the market such as licensing, controls on packaging and labeling, commodities under regulation, controls on movement and volumes traded, access to credit and dispute resolution should be comprehensively reviewed.
6. Essential Commodities Act, 1955 should be repealed.
7. Direct marketing by farmers or through SHGs should be promoted by taking it out from the APMC Act. Some common code of conduct and modalities for ownership, and operation should be prescribed.
8. Consumer organizations should be promoted to directly procure from farmers and distribute to consumers.
9. The use of IT in agricultural marketing should be promoted
10. Substantial investment from private sector should be mobilized for creation and expansion of agricultural marketing infrastructure, which will require complementary public investment and creation of conducive legal environment. The investment potential (Rs. in billion) estimated for 10 next years is as follows:

Items	Total Investment	Private Sector	Public Sector		Total
			State	Central	
Rural Roads	740	--	370	370	740
Market Yard Development	60	--	60	--	60
Development of F&V Markets	10	--	5	5	10
Rural Periodic Markets	21	--	--	21	21
Storage Structures	54	27	13	14	54
Cold Storages	270	202	--	68	270
Reefer Vans	6	5	--	1	6
Cleaning & Grading	20	1	9	10	20
EOAZs	6	4	--	2	6
Value Addition & Processing	1500	1125	--	375	1500
TOTAL	2687	1364	457	866	2687

11. A system of certified warehouses and negotiable warehouse receipts should be introduced to improve credit delivery for marketing functions. Similarly, pledge financing should be encouraged.
12. Government should design a full-fledged agricultural marketing credit policy.
13. Alcoholic beverages based on fruits and vegetables should not be clubbed with other alcoholic beverages for the purpose of excise and related laws.

14. Production of fruits, vegetables, medicinal plants, aromatic plants and spices should be brought under the definition of plantation crops.
15. NIAM should become a Centre of Excellence for Asian Region to be headed by a Technocrat, Marketing Practitioner or Academician of national/international repute.
16. A massive programme of marketing extension should be launched. Privatization of extension services with appropriate financial backup from the public sector should be encouraged. An essential requirement for this is a 24-hour TV Kisan Channel on Door Darshan.
17. SAUs and centres of ICAR should be given a mandate for applied research in agricultural marketing. Marketing organizations should be asked to set apart some funds for marketing research.
18. Training facilities in agricultural marketing for all the stakeholders and database for marketing should be strengthened.

#### APPENDIX – 5

#### IMPORTANT MEASURES RECOMMENDED BY INTER-MINISTERIAL TASK FORCE ON AGRICULTURAL MARKETING REFORMS (Ministry of Agriculture, May 2002)

1. All the state governments should amend the State Agricultural Produce Marketing Regulations Act to provide inter alia for (a) enabling the private and cooperative sectors to establish and operate marketing services; (b) allowing direct marketing; (c) permitting contract farming; (d) rationalization of market fee; and (e) attracting agencies to take up marketing infrastructure development projects.
2. A new central scheme be formulated to provide credit linked assistance for development of general and commodity specific agricultural markets and for strengthening existing markets including wholesale and rural periodic markets.
3. On-going central schemes for storage, cold storages and cold chains should be further expanded.
4. Credit for marketing of crops (pledge financing) should be stepped up to reach a level of Rs.7000 crores by the end of 10<sup>th</sup> five-year Plan. RBI and NABARD should take appropriate measures.
5. For introduction of negotiable warehousing receipt system, CWC and SWCs should evolve commercially acceptable quality standards and develop appropriate storage infrastructure. Also, either Negotiable Instrument Act should be amended or a new Central Legislation be enacted.
6. For promotion of Forward and Futures markets in agricultural commodities, (a) negative list of FC(R) Act may be given a fresh look; (b) commodity specific approach be discontinued; (c) contracts should be approved based on feasibility studies; (d) the design and type of contracts should be left to be decided by the Exchanges; (e) the Regulator (FMC) should be strengthened; and (f) the role of commodity market regulator may be redefined to regulate all derived products.
7. The procurement under MSP policy should be decentralized by strengthening state organizations and a pilot scheme of farmer's income insurance should be launched in selected states for oilseeds, pulses, rice and wheat.
8. The purchase centres and FAQ specifications for MSP operations should be widely publicized and FAQ norms should not be relaxed frequently.
9. The MIS should be made more flexible and simple and sharing pattern of losses should be reviewed.
10. The use of IT should be extensively promoted to provide market-led extension services to farmers and other market functionaries. The on-going central scheme of establishing market information network should provide coverage to all wholesale agricultural markets.
11. Marketing research, training and extension services to all stakeholders should be strengthened. NIAM should work as nodal agency and should collaborate with SAUs, SAMBs, and Directorate of Marketing (MOA) and International agencies involved in promoting agricultural marketing.

#### APPENDIX – 6

#### LESSONS FOR LONG TERM POLICY OF AGRICULTURAL MARKETING DEVELOPMENT – DRAWN FROM THE MILLENNIUM STUDY OF INDIAN FARMERS (Union Ministry of Agriculture, 2004).

1. State Agricultural Produce Market Acts should be drastically changed to encourage private sector or cooperatives to establish agricultural markets.
2. Holding of regular elections of APMCs and SAMBs should be made mandatory and their role should be redefined.
3. System of licensing for trading and other activities in regulated markets should be done away with.
4. A comprehensive review of ECA and other legal instruments should be undertaken with a view to simplifying and synchronizing them.
5. All 27294 rural periodic markets including those for livestock should be developed by providing infrastructural facilities.
6. Some minimum facilities of cleaning, grading, storage and packaging should be created in all the villages.
7. Necessary infrastructure in all 7161 regulated market yards/ sub-yards should be created.
8. A country wide market development plan incorporating and linking the hierarchy of market places should be prepared and implemented.
9. Massive private investment in link roads, storage structures, cold storage, refrigerated/ reefer vans, packaging services and value addition/ processing facilities should be attracted by relaxing the regulatory framework and making complementary public investment.
10. Direct and group marketing by the farmers should be encouraged.
11. Institutional mechanism be evolved or simplified to promote contract farming, futures trading and negotiable warehouse receipt system.
12. Provision of institutional credit for marketing activities should be liberalized and credit flow be stepped up.

13. PRIs, SHGs and NGOs should be effectively involved in creation of awareness about Post-harvest handling and creation of infrastructure in rural periodic markets.
14. Popularization of use of IT in agricultural marketing should be encouraged.
15. Efficiency of agro-processing should be increased by allowing competition through dershervation in some cases and encouraging investment in others.
16. Tax structure on agricultural commodities and processed products must be made uniform across states.
17. MSP policy should be continued and should be effectively implemented in all the areas. Policies such as levy on rice millers and sugar mills, monopsony procurement of raw cotton in Maharashtra and state advised prices of sugarcane should be phased out. A market intervention scheme should be put in place for those commodities, which are not covered by MSP policy.
18. Incentive framework for foodgrain producers and food management system built up over the years should be retained as an important instrument of food security policy. However, inefficiencies in the system should be removed.
19. Import tariff for commodities produced by resource poor farmers viz.; edible oils and pulses, should be maintained at reasonable levels for helping in reducing inter-regional disparities in development and for better utilization of available water resources.
20. The input subsidies should be retained as an essential component of policy of development and equity but should be targeted to needy and poor farmers.
21. Facilities for extension education and training of farmers in post-harvest value addition and quality specifications should be strengthened. Training and teaching aids in regional languages should be developed.
22. Quality testing laboratories for inputs as well as products should be established in rural areas.
23. Post-graduate degree and diploma courses in agribusiness management should be introduced in all the SAUs.
24. Public support to research in agricultural marketing should be improved both at the centre and state levels.
25. The gap as well as lag in availability of agricultural marketing information and statistics should be reduced by strengthening statistical cells at the centre as well as state level.

#### Appendix - 7

#### MAIN RECOMMENDATIONS OF THE HIGH LEVEL COMMITTEE ON LONG TERM GRAIN POLICY (Ministry of Consumer Affairs, Food and Public Distribution, July 2002)

The main recommendations of the High Level Committee on Long Term Grain Policy (G01, 2002) are as follows:

1.
  - (i) Food self-sufficiency should continue to be an indispensable component of India's national security.
  - (ii) The objectives of the present food security system cannot be ignored even in the future.
  - (iii) Ensuing reasonable and stable prices through MSP operations will remain an important element of the food security strategy even in future. Therefore, MSP system with open-ended purchases should continue, which is WTO compatible.
2.
  - (i) Focus of food for welfare of unemployed, destitute and children should continue. The stocks for food should be used under employment schemes, Antodaya scheme under mid-day meal scheme.
  - (ii) A universal system of PDS should be introduced.
  - (iii) Additional cash subsidy be given to states for poor consumers or persons in backward regions.
  - (iv) The restrictions on eligibility for running a FPS should be relaxed
  - (v) PRIs and their women members should be actively involved in PDS management.
3.
  - (i) CACP should be made empowered statutory body and statutory status be assigned to MSP.
  - (ii) MSP should be announced before sowing and enforced through out the country.
  - (iii) FCI should continue to be the central nodal agency, but must operate effectively in non-traditional states for preventing distress sales in these areas.
  - (iv) FCI should withdraw from Punjab and Haryana where state agencies are capable to handle procurement.
  - (v) All procurement and disposal of coarse grains under MSP operations should be decentralized to states with full financial support from the centre.
  - (vi) All compulsory levy orders under ECA should be removed. However, mills should be involved in buying paddy under MSP operations and custom milling it for FCI.
  - (vii) FAQ standards should be strictly adhered to.
  - (viii) MSP policy should be supplemented by variable import and export tariff policies for effective price stabilization.
4. For encouraging private trade in foodgrain marketing
  - (i) ECA should only apply to situations of natural disasters. Orders under this Act should be reviewed.
  - (ii) An upper limit on taxes and statutory levies should be set.
  - (iii) APMC Act should be amended to allow bulk buyers to buy outside market yards and to establish new regulated markets.
  - (iv) The system of negotiable warehouse receipt should be simplified and expanded.
  - (v) All investment for bulk handling of grains for exports should be reserved for the private sector.
  - (vi) Investment should be made in rural roads and market infrastructure.

Appendix – 8. Growth Rates of Rural Lending

Agencies	1970s	1980s	1990s
I. Cooperatives			
Short Term	10.6	12.5	11.9
Long Term	13.9	11.0	13.1
II. Regional Rural Banks			
Short Term	334.8	19.8	32.7
Long Term	426.8	18.5	10.6
III. Commercial Banks			
Short Term	28.2	16.3	17.8
Long Term	29.9	18.6	12.1
IV. Total			
Short Term	14.5	13.9	14.6
Long Term	20.2	14.8	11.9

Source: RBI (2004).

Appendix – 9  
Credit Advancement and Deposits of Scheduled Commercial Banks  
in Rural and Urban Areas

Particulars	March 1994		March 2001	
Credit – Deposit Ratio				
Rural	50.0		40.2	
Semi-Urban	39.0		34.2	
Urban/ Metros	59.9		69.9	
Overall	54.3		58.5	
V. Share in Deposits				
	Share	%	Share	%
Rural	49331	15.2	139427	14.7
Semi-Urban	63035	19.5	186733	19.6
Urban/ Metros	211610	65.3	624545	65.7
Overall	323977	100.0	950705	100.0
Share in Credit				
	Share	%	Share	%
Rural	24670	14.0	56017	10.1
Semi-Urban	24554	14.0	63857	11.5
Urban/ Metros	126667	72.0	436562	78.4
Overall	175891	100.0	556436	100.0

Source: RBI, quoted in GOI, (2002), Five Year Plan 2002 – 2007, Volume III, Pp.88-89.

Appendix – 10  
Total Institutional Flow to Agricultural Sector During IX Five Year Plan

(Rs. in Crores)

Year	Targets			Actual Flow		
	Short Term	Long Term	Total	Short Term	Long Term	Total
1997-98	22500	10875	33375	20640	11316	31956
1998-99	25650	12995	38645	23903	12957	36860
1999-00	29250	15530	44780	28862	15750	44612
2000-01	33500	18608	52108	34700	18804	53504
2001-02	38500	22342	60842	42735	24036	66771
Total	149400	80350	229750	150840	82863	233703

Source: NABARD quoted in Planning Commission (2002), Volume I, p.520.

Appendix – 11. State-wise Distribution of Borrower Farmers from Institutional Credit Agencies (1991-92)

State	Borrower Farmers as % of Total Farmers in the State	% Share of the State in Total Borrowers
Andhra Pradesh	20.1	10.4
Bihar	51.4	38.3
Gujarat	22.7	4.7

Haryana	41.3	3.6
Himachal Pradesh	44.1	2.1
Karnataka	15.6	5.2
Kerala	19.6	4.8
Madhya Pradesh	18.7	7.4
Orissa	8.2	1.8
Punjab	97.1	6.3
Rajasthan	2.7	0.8
Uttar Pradesh	7.1	8.2
West Bengal	16.0	5.8
Others	0.6	0.6
All India	17.5	100.0

Source: Government of India (1991-92).

#### Appendix – 12. Access of Institutional Credit Across Farm Size Groups (1991-92)

Farm Size	% Share in Total Borrowers	% Share in Total Credit Borrowers	% of Total Farmers who Borrowed	Term-wise % Distribution of Total Credit			
				Short Term	Medium Term	Long Term	Total
Marginal	51.1	24.6	15.7	63	16	21	100
Small	20.7	20.7	17.9	68	11	21	100
Semi-Medium	16.9	24.2	21.5	64	11	25	100
Medium	9.3	21.5	22.4	60	10	30	100
Large	2.0	9.0	22.5	58	8	34	100
Total/Overall	100.0	100.0	17.5	63	12	25	100

  

Farm Size	% of Farmers Borrowing from					% Distribution of ST Loan			
	PACS	PLDB	CB	RRB	Total *	Fertilizer	Other Inputs	Cash	Total
Marginal	43	9	31	24	107 (7)	16	4	80	100
Small	66	12	26	15	119 (19)	26	7	67	100
Semi-Medium	58	12	24	11	105 (5)	33	6	61	100
Medium	57	11	24	17	109 (9)	33	7	60	100
Large	63	16	26	8	113 (13)	28	6	66	100
Overall	52	10	28	19	109 (9)	27	6	67	100

Source: Government of India (1991-92). Figures in the parenthesis indicate % of farmers borrowing from more than one source.

#### Appendix – 13. Recovery % of Rural Financial Institutions

RFI	1995	1997	1999
Commercial Banks	57	63	67
RRBs	51	57	64
Cooperatives			
State Cooperative Banks	90	86	81
DCCBs	73	70	70
PACS	NA	63	NA
SCARDBs	62	62	62
PCARDBs	67	59	60

Source: Sharma *et al* (2001).

#### Appendix – 14. Non-Performing Assets in RFIs (1998-99)

RFI	NPA as % of Advances	NPA in Rs. Crores	Share in Total NPA (%)
CBs	16.0	45652	78.5
RRBs	27.9	3168	5.5
SCBs	12.6	2748	4.7
DCCBs	17.8	6573	11.3
Total	16.5	58141	100.0

Source: Sharma *et al* (2001).

#### Appendix – 15. Reasons for Poor Recovery of Loans in RFIs

- A. External
- Natural calamities
  - Political influence
  - Loan waiver, write off etc
  - Geographical factors

- Changes in policy environment
- Changes in technology
- Changes in economic conditions
- Target approach under government sponsored programmes
- Legal process

B. Internal

1. RFI related

- Improper identification of borrowers
- Lack of appraisal skills
- Delay in loan sanctioning
- Under or over financing
- Insufficient gestation or repayment period
- Lack of post-disbursement follow-up
- Lack of borrower contact
- No thrust on recovery
- Laxity in internal control system
- Poor management information system
- Failure of adequate rapport with government
- Low motivation and involvement of staff
- Perception of bank as charity institution
- Poor industrial relations climate
- Borrower Related
- Misutilization of loan
- Diversion of funds
- Lack of technical and managerial skills
- Poor maintenance of assets
- Willful default
- Personal accident or death
- Shifting of place of residence or business

Source: Sharma *et al* (2001).

Appendix – 16. Placement of States on the Basis of Overdues as % of Loans Outstanding

Range	1980	1997
Below 20%	Haryana, Kerala	Kerala, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh
20 to 25 %	Orissa, Punjab	Andhra Pradesh, Gujarat, Haryana, Himachal Pradesh, West Bengal
25 to 30%	Andhra Pradesh, Rajasthan, Uttar Pradesh, West Bengal	Karnataka
Above 30%	Assam, Bihar, Gujarat, Himachal Pradesh, Jammu & Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Tamil Nadu, Tripura	Assam, Bihar, Jammu & Kashmir, Madhya Pradesh, Maharashtra, Orissa, Tripura

Source: Gulati and Bathla (2002).

Appendix – 17. Progress of SHG and Micro Finance

Year	No. of SHGs Financed		Bank Loan (Rs. Crores)	
	During the Year	Cumulative	During the Year	Cumulative
1992-99	32995	32995	57.1	57.1
1999-00	81780	114775	135.9	193.0
2000-01	149050	263825	287.9	480.9
2001-02	197653	461478	545.5	1026.4
2002-03	255882	717360	1022.4	2048.8
2003-04	361731	1079091	1855.5	3904.3

Source: Government of India (2004).