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Financing Smallholder Agriculture: Exploring new pathways

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Part 1

THE CONTEXT OF AGRICULTURE IN INDIA

Indian Agriculture: a few upsides

- 800 million people; 140 million households
- Foodgrains: 50m MT (1950) to 260m MT
- Highly diversified; net exporter for 20 years
- Largest producer of milk; second largest producer of fruits & veg, sugar;
- Irrigation coverage from 6% (1950) to 40%
- Stability in the face of adverse NRM factors

Some downsides

- Share in GDP declines from 56.5% to 14.2%
- Share in overall employment only reduced from 76% (1950) to 52%: implications

Avg. growth of agri sector 2.5% in last two Plans

- 3.6% in XI Plan against 4%
- Subsidies 4x investments
- 8%+ GDP growth not possible without 4% growth in agriculture
- \$ 600 vs. \$ 2400 per capital value addition

Opportunities

- Agribusiness growth 15%+ p.a.
- Consumer demand diversifying; agriculture more market integrated than ever before
- 75% of agri GDP made by non-cereals
- Organized retail share doubling every 3 years
- SMF showing higher efficiency of resource use
- Rate of investment up from 13% to 20%

Snapshot of smallholder agriculture

- Fragmented production base; 83 % producers small and marginal (2005-06), cover 42% area, half of it marginal;
- Avg. holding size shrank from 2.28 ha (1971) to 1.21 ha (2006)
- Yet cropping intensity of SMF 133%, against 123% LMF
- Crop Diversification Index of SMF 0.15, against 0.8 for LMF
- SMF 3 times more likely to be engaged in vegetable cultivation than LMF
- 76% of GCA of SMF treated with fertilizer vs. 52% of LMF
- SMF using 152 kg/ha of fertilizer vs. 68 kg/ha by LMF
- 82% SMF engaged in food crop cultivation against 67% LMF
- S&MF produce 42% to marketable surplus vs 34% by LMF

(Source: Farm Size and Productivity: Understanding the Strengths of Smallholders and Improving their Livelihoods.

Ramesh Chand and P.A. Lakshmi Prasanna, Aruna Singh. EPW, June 25, 2011)

So what's the crisis?

1. **Investment deficit:** less than 10% access institutional credit; poor capital formation;
2. **Technology deficit:** Irregular and unreliable technical advice (19% depend on private input dealers for advice; only 9% on govt. extension staff: NSSO study 2005)
3. **Input deficit:** uncertain input supplies; huge dependence on unregulated private markets for water, labour etc.
4. **Market deficit:** Monopoly and monopsony; opaque price discovery; poor marketing infrastructure; lack of bargaining power

Conclusions

- While efficient, smallholder agriculture squeezed at the bottom of agri value chains
- Suffers from “policy suffocation”: patronage vs. profit
- Barely 10% share in institutional credit
- “Competitive subsidies” prevent innovation
- Poor holding capacity: low access to CMS/WHR
- No incentive for aggregation

But a unique opportunity beckons

Drivers

- Consumers
- Retailers/Processors

Facilitators

- Govt.
- Banks
- Civil Society

Providers

- **Farmers**

Part 2

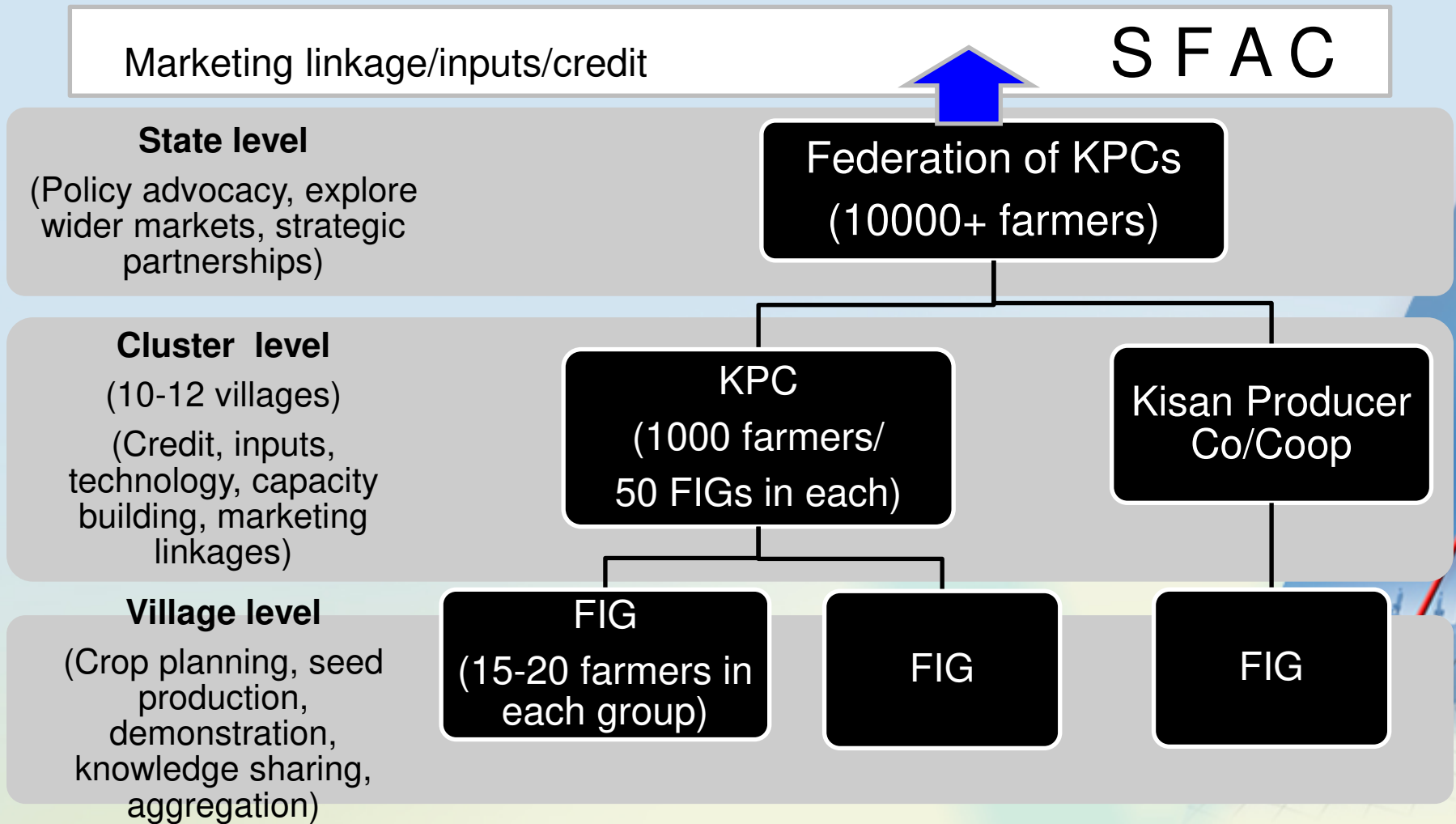
FARMER PRODUCER ORGANISATIONS (FPOs)

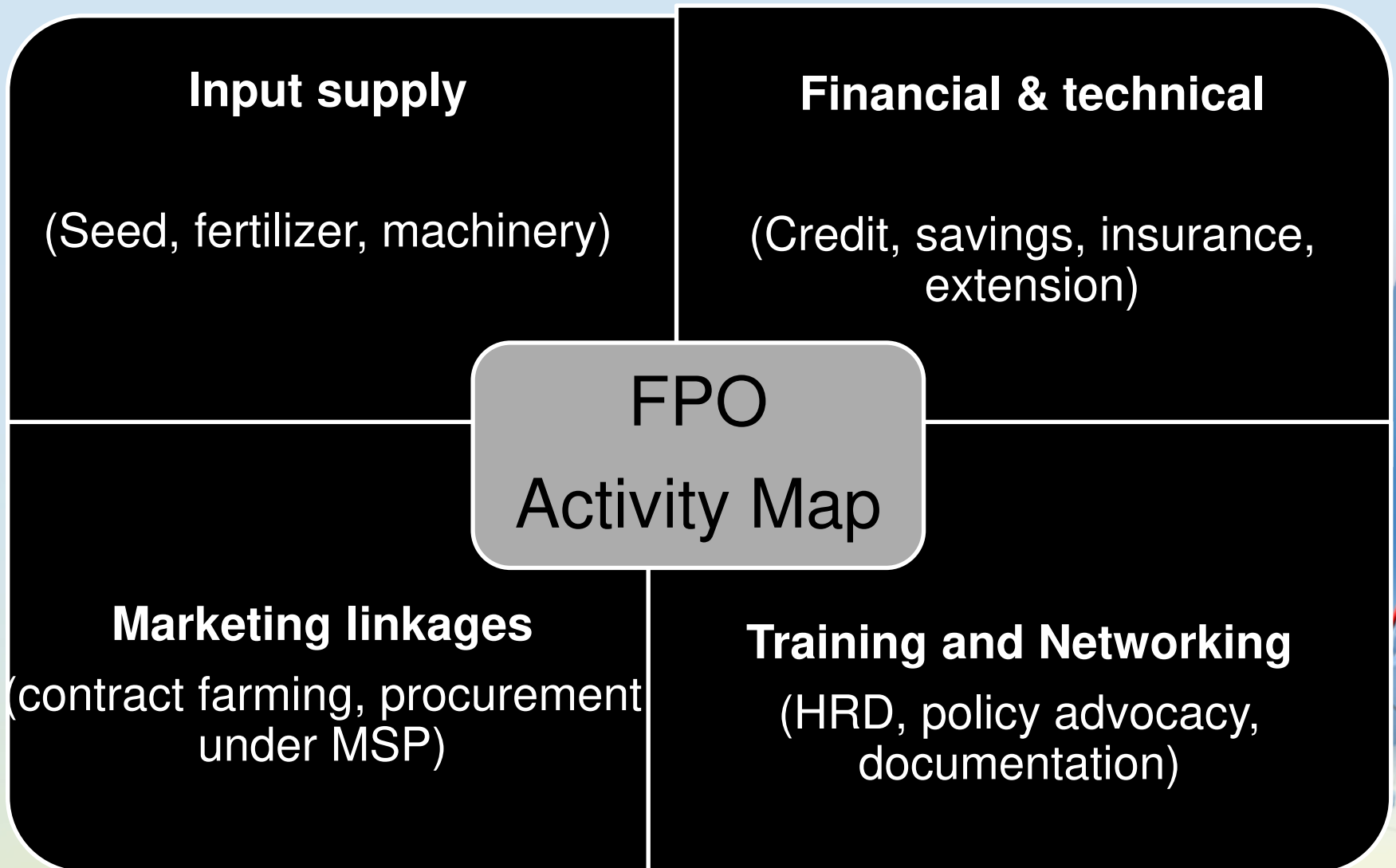
PATHWAY TO LINK SMALLHOLDERS TO THE VALUE CHAIN

How FPOs benefit farmers

1. Aggregating smallholders into FPOs proven pathway to increase investment, improve bargaining power, move up value chains and improve access to technology, markets.
2. Aggregation only way to enable SMF to exploit emerging opportunities domestic and global by integrating with SMEs; retail chains
3. Climate change coping mechanisms and risk mitigation requires aggregated platforms for efficient delivery
4. Aggregation will facilitate effective targeting of subsidies to farmers

SFAC FPO network structure





* Footnote

Source: Source

FPOs in the XII Plan

- XII Plan document endorses FPO mobilization
- Policy framework to promote FPOs
- Equity Grant & Credit Guarantee Fund
- 2014: UN Year of the Family Farm
- 2014: Year of the Farmer Producer Organisations

Status of FPO Promotion

Target		
No. of Farmers to be mobilized	No. of FIGs (15-20 farmers) to be formed	No. of FPOs (@1000/FPO) to be formed
2.85 lakh	14000-19000	227

Achievement			
No. of Farmers mobilized	No. of FIGs (15-20 farmers) formed	No. of FPOs registered	No. of FPOs under process Registration
2.80 lakh	15000	147	80



Direct marketing efforts by FPOs

Andhra Pradesh
Retail selling through
mobile vans



Jharkhand
Collective marketing of produce
including cabbage, cauliflower,
tomato, beet root, gourd and
coriander etc.



Maharashtra
Rs. 7-8 lakh worth of vegetables are being
directly marketed daily to 30 housing
societies in Thane, Mulund and Kalyan,
resulting in saving of 1 to 1.25 lakh per day
(middle man charges)

Bihar

organic cultivation and convergence with Government schemes



Chhattisgarh

Not only promoted women empowerment but also helped attain sustainable livelihood

Delhi

Established linkages with Mother Dairy, Reliance Fresh and Bharti Walmart



Goa

State Horticulture Corporation Ltd. procures the vegetables from the farmers' groups on fixed rate basis.



Gujarat
Collective
Marketing of
vegetables

Haryana
Onion field



Madhya Pradesh
Market Linkage by
grading & packing



Odisha
Aggregation, distribution,
market linkage and retailing
for farmers- ICT led model by
private company

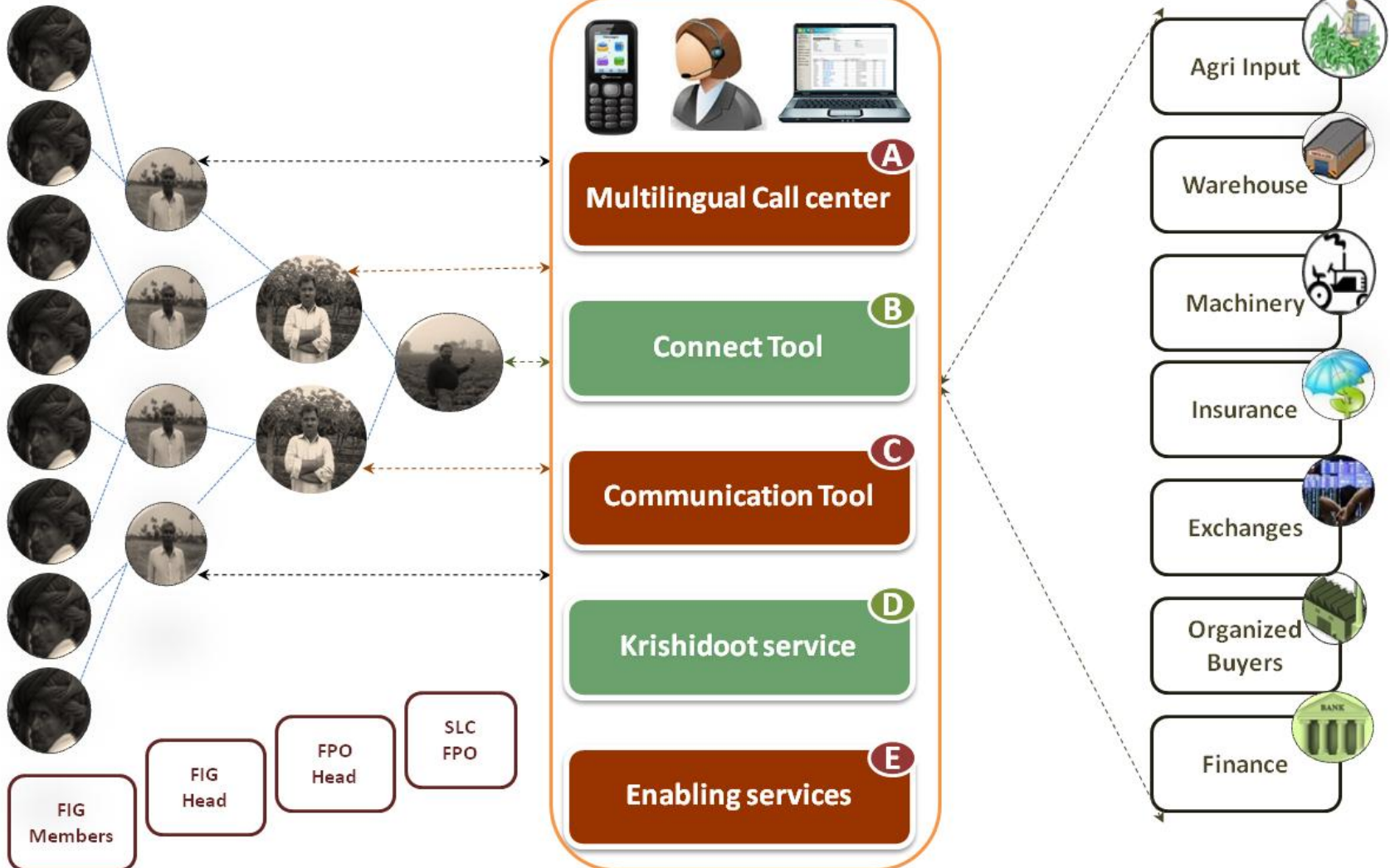
Sikkim
Established a unit for water
harvesting



KRISHIDOOT Project by SFAC & RML

कृषिदूत e-Agri Connect Platform

- Powered by RML



Targeted outcomes of FPO promotion

- Increase the rate of investment in agriculture, especially among smallholders, leading to higher incomes and rural employment generation
- Increase the pace of technology absorption among SMF, impacting productivity and incomes
- Improve targeting of govt. programmes and subsidies among SMF, helping them leverage higher investment
- Improve access to markets and bargaining power

Part 3

Financing Smallholder Agriculture

THE WAY AHEAD



Investment deficit: an overview

- Gross cultivated area: 200 mn ha.
- Avg. investment/ha: Rs. 10,000
- Total investment per annum: Rs. 20.00 lakh crore
- Total agri-credit (2012-13:) Rs. 5.75 lakh crore
(of which crop credit approx. 50%)
- Hence investment gap of at least Rs. 17 lakh crore/annum

Name of RIs	S. No.	Name of FPO	Address of FPO	Name of Bank (incl. Branches)	Amount of loan/Cash credit (in Rs. Lakhs) according to the Nature of Activities for which loan/cash credit extended			Rate of Interest (in %)
					Over-draft against Seed Money FDR provided by MP State Govt. (Amount in INR lac)	Loan against Ware House Receipt (Amount in INR lac)	Loan from any other source viz. FWWB/ Ananya Finance etc. (Amount in INR lac)	
ASA	1	Nimad Producer Company Limited	Near Police Sation, Jug Shakuntla Villa, Ojhar, District Badwani, M.P.	NA	0.00	0.00	15.00	12-14
	2	Dada Darbar Producer Company Limited	Kochar Colony, Maa Banjari Dham, Gadarwara, M.P.	ICICI Bank Ltd. Bhopal	0.00	15.00	30.00	12-14
	3	Bijawar Producer Company Limited	Near Bus Stand Mahal Road Bijawar, Chattarpur, M.P.	ICICI Bank Ltd. Bhopal	0.00	25.00	60.00	12-14
	4	Mandla Tribal Farmer Producer Company ltd.	BK Sadan, Binjhiya, Mandla, M.P	NA	0.00	0.00	12.00	12-14
	5	Petlawad Tribal Farmer Producer Company ltd.	Near Relinace Tower, Damoda Colony, Thandla Road, Petlawad, District Jhabua, M.P.	NA	0.00	0.00	10.00	12-14
	6	Chichali Farmers Producer Company ltd.	Above LIC office, station road, Gadarwada, District Narsinghpur, Mp.P.	ICICI Bank Ltd. Bhopal	0.00	25.00	15.00	12-14

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ASA	7	Nirankaar Crop Producer Company Ltd.	C/o - Mr. Santosh Arjariya, NCPC New Court Colony, Near B.S.N.L. Tower, Jatara - 472118, M.P.	NA	0.00	0.00	45.00	12-14
	8	Ranapur Tribal Mahila Farmer Producer Company Limited	Jawah Chowk, Kalka Mata Mandir Road, Ranapur, M.P	NA	0.00	0.00	10.00	12-14
	9	Ratlam Tribal Farmers Producers Company	F-12 Chandrika Bhawan, Anand Colony , Ratlam, M.P	NA	0.00	0.00	10.00	12-14
	10	Neshkala Crop Producer Company Limited	C - 34, Sisodiya Colony, MPDPIP Office, Guna - M.P.	Central Bank of India, Guna	67.00	13.80	0.00	12-14
	11	Ramraja Crop Producer Company Limited	C/o - Pradeep kumar Agarwal, in front of Collectorate office, M.P.	State Bank of India, Pili Kothi branch, Tikamgarh	60.00	32.00	0.00	12-14

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ASA	12	Khajuraho Producer Company Limited	KPCL Tower, Near Kishore Nayayalay, New Panna naka, Chattarpur, M.P.	Union Bank of India, Chhatarpur	67.00	105.00	0.00	12-14
	13	Narsingh Farmers Producer Company Limited	In front of Mushran Bhawan, Ram ward, Khandeli, Narsinghpur, M.P.- 487001.	State Bank of India, Agriculture Development Branch, Narsinghpur	64.00	25.00	0.00	12-14
	14	Samath Kissan Producer Company Pvt Limited	72, Vivekanad Nagar (Master Colony), Agar (Malwa), Dist Shajapur. M.P.	State Bank of india, Agar, distt. Ujjain	67.00	89.29	0.00	12-14
	15	Hardol Agriculture Marketing and Produce Company Limited	Rajeev Nagar, Maniyaar Toll Tax, Guna Bypass road, Shivpuri, M.P.	Central Bank of India, Shivpuri	96.60	55.00	0.00	12-14

Name of RIs	S. No.	Name of FPO	Address of FPO	Name of Bank (incl. Branches)	Over-draft against Seed Money FDR provided by MP State Govt. (Amount in INR lac)	Loan against Ware House Receipt (Amount in INR lac)	Loan from any other source viz. FWWB/ Ananya Finance etc. (Amount in INR lac)	Rate of Interest (in %)
ASA	16	Karnavati Agri producer Company Limited	Near Rajyavaidh Excellency, Janakpur Road, Panna, M.P.	State Bank of India, Ganesh Market, Panna	45.50	10.00	0.00	12-14
	17	Nowgong Agriculture Producer Company Ltd.	Matra Chaya, Banglow No. 5, In Front of Nagar Palika, Nowgong, Dist . Chattarpur. M.P.	State Bank of India, Nowgong, distt. Chhatarpur	54.00	20.00	0.00	12-14
	18	Rewa crop Producer Company Limited	Opposite to New Bus Stand Rewa, District Rewa, M.P.	Union Bank of India, Raniganj - branch, Rewa	60.00	0.00	0.00	12-14

Pathways to link FPOs to finance

- Lesson from SHG-Bank linkage model: how to move beyond consumption smoothing to productive investments
- CGF offers space for innovating new financial products for FPOs: address risk and leverage opportunities
- Continuous financing stream through CC limit against credit history
- Financing value chains (WHR; contract farming)
- Financing agri infrastructure

What can bankers do

- Support JLG formation among SMF
- Convert 50k+ NABARD Farmer Clubs into FPOs
- Link PACS refinancing to 50% SMF loan portfolio
- Address unmet savings need of FPOs/SMF: BC model with strong technology support
- Innovations for financing tenant famers: JLGs; risk mitigation; tenancy reform ●