

**May
2012**

**Institutional Development for a Value
Chain Approach to Agribusiness in
Bihar and Maharashtra**

Inception Report

Prepared by

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For

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Clusters)**

April 11-25, 2012



Agrifood Consulting International

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1 INTRODUCTION

1. This document provides the Inception Report of the International Agribusiness Policy Expert (henceforth referred to as “the Consultant”) for the purpose of the TAs for a Value Chain Approach to Agribusiness in Bihar (Package 1) and Maharashtra (Package 2). The Inception Report is based on a Mission conducted between 11 April and 25 April 2012 to India. The mission schedule is report in **Appendix 1**.

1.1 ORGANIZATION OF THE REPORT

2. This report is organized into 4 chapters including this introduction and 4 Appendices.

3. Chapter 2 provides a summary of the meetings of the Consultant with stakeholders from the government, private sector, and farmers. Chapter 3 discusses some policy, strategy, and investment issues encountered during the field visit. Chapter 4 discusses the TOR and the proposed workplan of the consultant.

Appendix 1 reports the schedule of the first mission conducted between 11 April and 25 April. Appendix 2 presents the TOR of the Consultant; and Appendix 3 and 4 contain the meeting notes of the missions to Bihar and Maharashtra.

2 SUMMARY OF STAKHOLDERS MEETINGS

4. During the mission to Bihar and Maharashtra, the Consultant had the opportunity of meeting with key stakeholders in the AIDIP and the TA for a Value Chain Approach to Agribusiness (henceforth referred to as “the TA”). The stakeholders included government officials, private agribusiness enterprises, and farmer organizations. Appendix 3 contains the meeting notes. This section summarizes the main insights and messages from the various meetings. For ease of organization, the summaries are organized by state.

2.1 SUMMARY OF STAKEHOLDER MEETINGS IN BIHAR

2.1.1 Government Agencies in Bihar

5. A meeting with the Principal Secretary highlighted a few key points:

- i. The state does not intend to use APMC space for market infrastructure in PPP mode as designed in the detailed project reports (DPRs) for two value chains. The government of the state is concerned that the use of APMC for private sector investment might raise agitation and opposition and therefore considers the overall issue as sensitive.
- ii. Instead the state intends to build warehouses for grains on the APMC places. Complying with recent policy in India that would further enhance the PDS and distribution of subsidized food to below the poverty groups, it is envisaged that massive amount of procurement of grains at Minimum Support Price (MSP) will occur and therefore the need for warehousing will increase. Currently, according to the Principal Secretary the state has only 7 lakh tons of

grain warehouse space available. Estimates of need of warehouse space amount to 55 lakh tons.

- iii. The Government expectations about the TA:
 - a. Need guidance on the type of marketing structure appropriate for different locations and commodities.
 - b. Need guidance on Federations for Fruits and Vegetables following the model of COMFED
 - c. Need analysis of the concept of Producer Company, in particular, under what condition the legal structure is appropriate to meet the needs of farmers, improve agrimarketing, and is better than cooperative structure?
- iv. The State does not require contract farming at this stage.
- v. The State would like to promote cooperative structure for horticultural sector similar to COMFED, a major dairy cooperatives that is strongly supported in the state (in fact there are plans of Rs 2,000 crore investment in the cooperative to “meet the challenge of Amul”).

2.1.2 Private Sector in Bihar

6. The Consultant met with various agroenterprises located in Hajipur industrial park. The enterprises included dairy, biscuits, wheat flour, cold storage and frozen food. Moreover, the Consultant met with a major litchi exporter in Mazaffarpur and traders in APMC markets.

7. Agro-processing enterprises are optimistic about the recent changes of leadership in the state and are encouraged by seeing commitment to the agricultural and agribusiness sector. The incentives (capital subsidies and VAT exemptions) have been sufficient to attract investment from other states.

8. These enterprises see the repeal of the APMC act as positive, in so far as it opened the possibility of procuring agricultural products from different sources and breaking the monopoly of the APMC.

9. The state however is in need of major improvements in infrastructure, and of facilitating mechanisms for enhanced postharvest systems, quality and food safety assurance, research and extension that is market driven.

2.1.3 Farmer Organizations in Bihar

10. PACS have been recently charged with procurement of rice at MSP and provided credit and incentives to carry out these operations. They would also welcome their involvement in the horticultural sector even though currently do not seem to have the capacity in the sector.

11. Farmer groups are attempting to get federated. In Muzaffarpur, under the umbrella of NGOs federation of farmer groups are attempting to transform themselves into producer companies, however they are still hesitant as the capacity for managing these companies is still largely beyond their current means.

2.2 SUMMARY OF STAKEHOLDER MEETINGS IN MAHARASHTRA

2.2.1 Government Agencies in Maharashtra

12. A meeting with the Principal Secretary highlighted the following points:

- i. The Principal Secretary is well informed and has a good understanding of the sector. He is promoting three projects funded by IFAD (CIAM), World Bank (MACP), and ADB (AIDIP) and is the main champion beyond the recently approved AIDIP loan.
- ii. He sees the current strategy for improving agrimarketing as consisting of an expansion of alternative mechanisms to the APMC and enhancement of competition. A combination of modalities are currently allowed in the state and different options for marketing are available to producers and consumers including APMC, direct marketing, contract farming, Terminal Markets, hub and spoke system, private markets, and an emerging organized retails sector.
- iii. The underlying strategy for agrimarketing requires a formalization that would help clarify the policy, institutions, and regulatory issues involved in the implementation.
- iv. The new constellation of marketing structures that are emerging in the state will require considerable investment in capacity building of relevant stakeholders, among whom primarily the PMU staff. In particular PPP related aspects, and economic analysis techniques are considered priority areas for capacity analysis.
- v. It was noted that while the DPRs were being prepared, the PMU staff had little knowledge on how the financial and economic values were being determined and also on the PPP transaction the PMU's knowledge remains limited.

2.2.2 Private Sector in Maharashtra

13. There is a thriving private agribusiness sector in the state, particularly related to the horticultural sector. The case of grape export is perhaps the most successful agrifood value chain in India that has gained a reputation even outside of India. With the emergence of the Model Act a number of different marketing arrangement are currently possible and the private sector is steadily getting involved in a number of new ventures such as private markets, terminal markets, direct marketing, PPP hub and spoke market infrastructure, and organized retail.

14. The private sector is very interested in strengthening the regulatory system for contract farming. Moreover, they are interested in PPP marketing infrastructure investment on APMC markets. Yet there are concerns related to the duration of the concession periods.

2.2.3 Farmer Organizations in Maharashtra

15. There are some active farmer organizations in the state. They are interested in the PPP proposal for hub and spoke system of marketing of agricultural products. Their concern is about the location of the markets: sometimes the location is not appropriate to the procurement and distribution of supplies.

3 ISSUES

3.1 POLICY ISSUES

3.1.1 Land concession

16. The model of PPP in agribusiness seems to be dominated by the idea of schemes operating under BOT (build operate transfer) that were implemented in India and other countries for building infrastructure. The underlying model is one in which the land belongs to the state, the private sector makes the investment in infrastructure, operates and raises revenue for a number of years so as to

realize the cash flow that compensates for the initial investment and then transfers the infrastructure to the government sector.

17. Under the AIDIP DPRs, similar schemes of PPP investments in market infrastructure have been devised. The period of concession is established at about 20 years and a viability gap has been identified to ensure that sufficient private investment is leveraged.

18. Different modalities of PPP could be envisaged other than the APMC land use. For example, private land could be part of the PPP scheme, an option that is not yet considered in the current policy.

19. The period of concession could be for much longer periods than 20 years.

20. The viability gap is a rationale for leveraging private investment at the time when risk or uncertainty concerning the investment would be prohibitive. If the investment is successful, there is not clear argument why the investor should transfer the infrastructure to the state. Perhaps a call option for the investor to renew the period of the concession for another 70 years (for a total of 90 years as in other concessions in India) could be established at the moment of giving the license to the private sector.

3.1.2 Contract farming

21. Even though the Model APMC Act or the repealing of the APMC Act do in theory allow contract farming, in practice, without a clear regulatory system and enforceability, contract farming will remain limited to a very few ventures such as seed, sugar, and Bt cotton cultivation. In the case of horticultural products, contract farming is rare. Enforceability of the contract ensures that either party in a contract will have very little incentive to renege on the contract terms.

22. This can be achieved through various design features of the contract (for example by specifying a price band for the contract rather than a single price). But in the case of renegeing of the contract term appeal to a dispute resolution authority should be guaranteed.

23. The regulatory context of contract farming is the Contract Act; however more specific regulations to take into account the specificities of agriculture might be needed.

3.2 STRATEGY ISSUES

24. Repeal of APMC Act and Model Act imply that a constellation of different marketing structures are possible including:

- APMC markets
- Private markets
- Direct procurement from farmers
- Direct selling by farmers
- Contract farming
- Modern retail (supermarket chains)
- Traditional markets
- Rural market (weekly haats)
- Terminal market

25. It seems that the underlying motivation of introducing these alternative marketing structures is to enhance competition with APMC markets and traditional markets with the dual purposes of
- i. modernizing the marketing system;
 - ii. improving farmer's benefit.
26. The experience of alternative marketing structures however so far has been characterized by a mixed combination of successes and failures. The main lesson seems to be that abrupt changes should be avoided in order to maintain stability and ensure that an evolutionary change can occur.
27. The elements of this evolutionary approach include the following:
- i. introduce alternative structures gradually;
 - ii. increase awareness and competition;
 - iii. expand alternative structure
28. It is then envisaged that for at least some time both APMC markets and alternative structures will coexist. Alternative structures have to prove themselves as viable and real options that permit farmers, traders, enterprises, and consumers to realize higher efficiencies and benefits.
29. While this strategy is broadly understood, it needs to be articulated and disseminated in a more systematic manner.
30. Furthermore, the strategy needs to be supported by appropriate policies and investments.

3.3 INVESTMENT ISSUES

31. The proposed PPP investments in market infrastructure following a hub/spoke model according to the DPRs has been discussed with some stakeholders who have pointed out a series of investment issues that might be considered during implementation:
- i. Location issues. It has been pointed out that in some cases the APMC location might not be the most appropriate one to establish a hub or spoke. Alternative locations should be considered. For example, the spoke in Paithan was considered less appropriate than a similar spoke location in Arangabad.
 - ii. Period of concession. It was considered that a 20 year period of concession is perhaps too short. In line with other GOI scheme, a concession of 90 years might be more appropriate.
 - iii. Availability of alternative structures. In case other structures are available in the same area (for example private markets, contract farming, direct procurement), it is not clear how the APMC hub and spoke system will be attractive to users or investors.
 - iv. Coordination with other projects. In the state of Maharashtra, two projects, one funded by World Bank (MACP) and one funded by ADB (AIDIP) have interventions sometimes in the same APMC markets. The objectives are however different. The World Bank project promotes strengthening of APMC market infrastructure and the AIDIP promotes PPP investment in market infrastructure. Unless carefully coordinated, the two projects might come to conflict with each other. Both projects

have their PMUs co-located in the same office building, so coordination should be much easier.

- v. Need of early success. As often in innovative projects, early success will be critical to attract further potential investment. This calls for a careful preparation stage and very selective screening of potential investors.
- vi. Adjustments in the project design. The project design as presented in the PDR will need to be revisited during implementation. The details will be worked out again by investors and adjusted to update information and better reflect the needs and suggestions of the investors.

3.4 CAPACITY BUILDING

32. The Principal Secretaries of both states have stressed that capacity building is the main outcome expected of the TA Team. The workplan of the TA already reflects a well conceived plan of stakeholder identification; capacity needs assessment; identification of capacity gaps and prioritization of gaps; organization of training and capacity building activities.

33. The content of capacity building is likely to include:

- Legal and regulatory aspects related to PPP arrangements
- Feasibility of agribusiness projects
- Monitoring of agribusiness projects
- Contract farming
- Producer companies
- Value chain development

34. An innovative idea for capacity building is to use learning by doing. Within the context of the TOR of the Consultant, one major activity is the formulation of a strategy and policy for agrimarketing. As already mentioned in section 3.2 above, the broad outline of the strategy are relatively clear. However, the details of the strategy remain to be filled. Rather than the Consultant alone filling the gap, a more productive approach would be to have **the Consultant to facilitate the formulation of the strategy by the key stakeholders**. The outcome will be twofold: (i) the generation of a strategy that is owned and understood by stakeholders; and (ii) the building of capacity of the PMU and other stakeholders in policy and strategy formulation for agribusiness and value chain development.

4 COMMENTS ON THE CONSULTANT'S TOR AND WORKPLAN

The TORs of the Consultation are reported in APPENDIX 2. The main outputs consist in

- i. A review of current agribusiness and agrimarketing policy settings
- ii. A policy workshop report and resource materials
- iii. A draft policy statement for consultative purposes

35. It is recommended that prior to the policy workshop a **policy roundtable** with a limited number of key stakeholders is organized in order to elicit more in-depth insights into the policies and strategic issues for agribusiness and agrimarketing in each state.

36. Each of the envisaged policy roundtables will include about 15 participants, will be conducted using a more simplified structure than a workshop and will also be shorter in duration.

4.1 THE CONSULTANT’S TIME ALLOCATION

37. The current time allocation (in person months) of the consultant for the two assignments in Maharashtra and Bihar is summarized below:

Current Allocation of Time (person months)				Current Allocation of Time (% of total)			
State	Home Office	Field	Total	State	Home Office	Field	Total
Maharashtra	0.46	0.46	0.92	Maharashtra	50%	50%	100%
Bihar	1.15	0.92	2.07	Bihar	56%	44%	100%
	1.61	1.38	2.99				

38. It is proposed to reduce the amount of home-based time and instead increase the time of field based. This is to ensure that the consultant will have sufficient time to interact with stakeholders and participate in capacity building activities.

Proposed Allocation of Time (person months)				Proposed Allocation of Time (% of total)			
State	Home Office	Field	Total	State	Home Office	Field	Total
Maharashtra	0.3	0.62	0.92	Maharashtra	33%	67%	100%
Bihar	0.6	1.47	2.07	Bihar	29%	71%	100%
	0.9	2.09	2.99				

4.2 THE CONSULTANT’S SCHEDULE

39. In order to have a more continuous presence in the states, it is proposed that the consultant conducts 5 missions and provide inputs according to the following schedule. The outputs for the consultant are also reported below.

Assignment		April	May	June	July	August	September	October	November	December	January	Person month		
												Field	Home	Total
Bihar	Field	0.27			0.27	0.27	0.33		0.33			1.47		2.07
	Home		0.07		0.13	0.03	0.17		0.20			0.60		
Maharashtra	Field	0.23			0.13		0.13		0.13			0.63		0.92
	Home		0.03		0.07		0.08		0.10			0.28		

Missions and Outputs

	April	May	June	July	August	September	October	November	December	January
Mission No.	1			2	3	4		5		
Output		Inception Report		Interim Report		Draft Final Report		Final Report		

APPENDIX 1. SCHEDULE MISSION 11 APRIL – 25 APRIL 2012

Date	Location	Activities
11-Apr	Delhi	Arrival Delhi from Kathmandu Briefing at ILFS
12-Apr	Delhi	Briefing at ILFS Reading Background Documents Planning of Field Visit
13-Apr	Delhi	Reading Background Documents Planning of Field Visit
14-Apr	Delhi	Reading Background Documents Planning of Field Visit
15-Apr	Patna	Arrival Patna Briefing from ILFS Team
16-Apr	Patna	APMC market APMC market Paweri Mall – PACS ILFS – Strategy Meeting staff Legal expert ILFS Team
17-Apr	Patna-Hajipur	Principal Secretary, Secretary, Director Horticulture, DD Horticulture Anuj Dairy Sonabisco River Valley Litchiwi, Frozen Foods
18-Apr	Muzaffarpur	Farmer Group Litchi Export – Radha Krishna
19-Apr	Mumbai	Principal Secretary
20-Apr	Nasik	Premium private market Pimpalgaon – New APMC market Freshtop, grape exporter
21-Apr	Pune	PMU of AIDIP CIAM (IFAD), and MACP (World Bank) MSAMB Chairman Postharvest Institute
22-Apr	Mumbai	
23-Apr	Arangabad	Nath Group Paithan – APMC – focus with Farmers, Traders, Officers Paithan – Mango and Orchid Farm Arangabad – Focus Group with Mango Farmers
24-Apr	Delhi	Briefing ILFS Report Writing
25-Apr	Delhi	Departure to Kathmandu

APPENDIX 2. TOR OF THE CONSULTANT

Objective /purpose of assignment:

To support the development of a State Agribusiness and Marketing Policy that will guide the development of horticulture sector. The candidate shall conduct a policy strategic planning process and draft a policy statement to be submitted to the State Government.

Scope of Work:

The scope of work will guide the **development of a State agrimarketing strategy** that seeks to utilize value chains to develop and grow the horticulture sector. The work program will:

- i. **Review** current policy guidance for the development of agribusiness and agrimarketing in Bihar.
- ii. Coordinate with other consultants in the implementation of a **needs assessment** and survey of high value horticulture value chain stakeholders and their institutional needs and capacity.
- iii. Define a **policy development process** and initiate the strategic needs assessment part of this process.
- iv. Provide a **draft** for further consultation to be undertaken by the team leader.

Detailed Tasks:

- i. Outline a policy development process with the IA of the TA and the TL for the completion of an Agribusiness policy statement relating to high value horticulture being implemented using a value chain approach.
- ii. Prepare an update of current agribusiness and marketing policy.
- iii. Develop a policy needs assessment checklist and question to be included in the State capacity and institutional strengthening needs assessment survey.
- iv. Organize a policy awareness and development workshop that complete a strategic policy assessment based on finding from the needs assessment.
- v. Prepare a draft Agribusiness/Agrimarketing policy statement for wider consultation to be undertaken by the team leader with supporting awareness materials.

Outputs and Reporting:

The position will report directly to the TL and will prepare the following outputs:

- iv. A review of current agribusiness and agrimarketing policy settings
- v. A policy workshop report and resource materials
- vi. A draft policy statement for consultative purposes

APPENDIX 3. MEETING NOTES – MISSION TO BIHAR (APRIL 15-18)

A3.1. APRIL 16, 2012

A3.1.1. Visit to APMC Markets in Patna

Muzallampur – Vegetable APMC market – about 700-800 traders including wholesalers and small traders. Very congested market in the middle of the city
Bazaar Samity – Fruit, Onion, Potatoes, Fish APMC market

Conditions of both markets

Infrastructure: poor and decaying. Storage hardly available. Cold storage available outside of the market, from private sector.

Hygiene and sanitation conditions: appalling. Dirty everywhere; flies everywhere; during rainy season things become worse.

Access to markets: in Muzallampur very crowded and difficult because in the center of city. Bazaar. Samity has more space and could even accommodate the entire space of Muzallampur.

Little storage place in the market

Quality of products

Generally poor

Not much grading

Price information not available publicly (eg price tags are not available in the stands, so each transaction needs to be negotiated)

Effect of APMC Act Repeal

Difficult to say, but overall negligible. Some trader claims things are worse now, but this is not sure. This type of market was poor even before the repeal of the act.

Traders pay very little rent for the shop, but hardly anything for the shed use.

In the vegetable market, there does not seem to have been much change between before and after repeal of APMC.

In the Bazaar Samity, apparently the situation has deteriorated in terms of maintenance of infrastructure.

Traders

Some seem to be aware that in other states (eg Maharashtra and UP) market conditions are much better, but do not see the link between private sector development and efficiency. Their attitude is not dissimilar from farmers: the government should do all the investment.

Traders sit on a piece of real estate that generates profit to them, without the need of paying much to the government.

Traders are strongly opposed to any other market or change that could even slightly disturb their position.

They are apprehensive about attempt by organized private sector (eg corporate such as Reliance Fruit) to come up and make any investment.

Traders want the government to preserve their status quo. They would like the government to improve their situation, but they do not intend to do any investment themselves. At most they could be willing to increase a little their dues to the market (up to 2%) to contribute to improvement in market infrastructure.

Traders seem they will be the single most vocal opponents to change.

There is a private cold storage just opposite the market which is used by several traders (most notably potato traders).

Conduct of Trade

- Handling very messy
- No mechanical system to handle produce
- No price information listed
- Rudimentary grading: just throw away the worst sample

Note

The Bazaar Market has a large area, could accommodate even the vegetable market in Muzallampur. Why is not done?

A3.1.2. PACS Federation President in Paweri Mall (about 28 km from Patna)

The interview took place on the premises of the small office of IFFCO and Airtel. They told us that IFFCO and Airtel have a joint program where SIM cards of Airtel are distributed and then used for free dissemination of information from IFFCO to farmers.

The President, Mr. Kumar, heads a federation of 20 PACS, each consisting of about 1,000 farmers. Their main activity consists in saving and loan activity; however since last year they have been engaged in a program of procurement of paddy on behalf of PDS. They are given advance by Cooperative Bank of Rs 5 lakh/PACS (later increase to 8 lakh) to procure paddy. Average benefit of these operations is Rs 4,000-5,000/PACS. The paddy is procured at the MSP.

Perhaps the government might extend this system to wheat procurement as well.

According to the respondent in the district there is the higher productivity of paddy, equivalent to 20Q/acre (not sure if the numbers are correct here: do they actually give numbers per acre or per ha?). Water is available only through pumping using tube well. These are at a depth of about 60-70 feet. The government provides 30% subsidy on pump, pipe is from govt, and boring cost is borne by the farmer. The power is by diesel, since electricity is not available in the field.

To replicate PACS experience with rice to other commodities such as wheat is possible, but for fruit and vegetables that would not be possible. In fact horticultural products do not have an assured market, price, storage, and even technology is more complex.

Problems with S/L society: the profit is not reinvested in agriculture.
PACS are not involved in technology.
ATMA involvement is quite limited.

Recently, the PACS have noticed that are getting better seed. Fertilizer quality is good, but availability is a problem. For fertilizer the problems are: unstable prices, often requiring to go to black market; need to pay higher prices.

Apart from rice and wheat, in this area, there is little other agricultural activities such as poultry, aquaculture,

According to the respondent, this area is relatively well off (relatively to other areas in the state). The agricultural wages here are Rs. 100/day. However in other states the rural wages are even higher: eg in Punjab is Rs. 300/day.

A3.1.3. Strategic Session with ILFS/Patna

Where are we now?

Where do we want to be?

Stakeholders

Obstacles

Options

What are the success stories?

A discussion with Amitab and Rakesh to share ideas about three items:

1. Objective of the TA
2. Comments on the Inception Report
3. Strategy of the TA

Objective. To help formulating a policy and strategy for agribusiness marketing consistent with the institutionalization of the concept of integrated value chain.

This will require a process of awareness and capacity building informed by a well thought communication strategy.

Comments on the Draft Inception Report for Bihar. Francesco shared the following comments on the draft:

1. The report seems to be focused almost exclusively on farmers and their organizations. There are other key stakeholders, particularly the private sector that need to be given adequate importance. An integrated value chain cannot be developed only with farmers and their organizations, but it requires the ingenuity, capital, and innovation of the private sector.
2. When talking of private sector, we should be careful to not only consider the large corporate sector, but also small, and medium enterprises.
3. What exactly is a “producer company”? is it some special structure under the Company Act? The draft talks about producer companies as something into which a Federation of Farmer Organizations could evolve. However, it is really not clear what the producer company is, whether there is a legislation, what the advantages and disadvantages are relatively to cooperatives?, etc.
4. In the scheduling, there is indication that the first draft strategy will be elaborated in June. Since this will be one of the main tasks of the International consultant, Francesco pointed out that June is premature and not feasible.

TA Strategy

Steps:

- Stakeholder identifications
- Needs Assessment
- Gap identification

- Capacity building
- Consensus building
- Policy/Strategy formulation process

Question: what is capacity building here? Is it mainly awareness? Probably this will become clearer during needs assessment

Suggestion: it would be good to determine who is supposed to do what in the work plan

A3.1.4. Dinner with Legal Experts

The two legal experts, Amitab, Rakesh, and Francesco were at the dinner.

Discussed about Producer Company
Contract Farming
Other regulations needed formulation

The lawyers insisted that we need the government to lead the process of strategy formulation.

They also suggested that a management consultant would be needed.

The change of using APMC land to promote PPP in market infrastructure is very difficult, mainly because opposition to that initiative is likely to be strong by traders and political parties, so the Government will be unlikely to support it.

A3.2. APRIL 17, 2012

A3.2.1. Meeting with Government

Present: Agricultural Production Commissioner, Secretary Agriculture, DG xx, yy, Amitab, Rakesh, Francesco

Agricultural Production Commissioner gave a briefing:

In 2006 the APMC was repealed. Recently the Agricultural Road Map was formulated. All sectors are allowed in Agricultural Marketing and all players are allowed. So the framework for agricultural marketing is multi-agency and multi-level.

Private markets are allowed, PPP markets are allowed, and contract farming is allowed.

Two questions could be address by this TA:

- (i) What type of marketing structure is appropriate for different commodities and different areas?
- (ii) How to develop Federation of Farmer Organizations for Fruit and Vegetables similarly to dairy AMUL?

A contract farming legislations is not needed at the moment since no demand has arisen for this. However it could be enacted in the future.

On the question of clarifying what a “producer company” is, the persons present were not clear. For example not clear why a producer company is preferable to being a cooperative.

The Secretary thought that there might be some advantages based on article 254-264 of the Contract Act (need to check).

The government would appreciate an analysis from the consultant regarding the following items:

- Analysis of Federation of FV
- Analysis of Producer Company

There could be federation along commodity groups (eg litchi and mango), but for each commodity the interest groups are a little different.

Models of interest to the government are cooperative models, like MahaGrapes in grape trading.

There is strong support to promote Comfed (the federation of dairy cooperative with brand name Sudha), and 2000 crore will be invested over the next 5 years to meet the challenge of overcoming Amul.

Regarding the APMC, the Agricultural Production Commission clarified the following:

1. Before 2006, the APMC was not working (not benefitting the farmers) so it was abolished
2. After 2006, not clear what policy to use to replace the APMCs
3. The policy to use PPP for private sector was not approved
4. Instead the current policy is oriented towards using the APMC space to set up warehouses by Govt

Note: not clear if this policy has been formulated/approved already

The APC noted the current orientation of GOI towards providing food to the BPL (below poverty level) groups. That will imply a massive amount of procurement of wheat and maize. According to the Principal Secretary, in the case of Bihar, there is a huge lack of warehouse space, estimated by the APC to be from the current 7 lakh tons to 55 lakh tons. So the government will embark upon a huge program of construction of warehouses.

Present government does not want to use APMC space for cooperatives or private sector.

The private sector still has incentives in the form of 35% capital subsidies for private markets, food processing.

A3.2.2. Visit to Hajipur Industrial Zones

This is about 30 km from Patna, after crossing the Ganges river. The Zone includes agroprocessors. The mission visited four such processors who were recently involved in the subsidy scheme that the Government is using to promote agribusiness.

A3.2.3. Milk processor – Anuj Dairy

Capacity 150,000 l/day

Production 30,000 l/day

Currently production lower than 50-60,000 l/day due to wedding season (villagers use milk for the marriage ceremony).

Production below capacity because new lines of business (for SKP, ghee, butter, ice cream have still to be setup).

Collection from farmers occur twice/day
Payments are made weekly
Currently the plant is only a chilling plant and processing is made in the plant in Patna

Reason for expanding:

1. Closer to production areas, and avoiding crossing the Ganga bridge
2. Demand for products such as ice-cream is expanding
3. Subsidies

The small factory in Patna has installed capacity of only 40,000 l/day

Procurement from farmers

Organized groups of about 20 farmers, and each 5 groups assigns a supervisor to facilitate transfer of technology, cattle feed sales, and animal health advice.

Payments are made weekly to the leader of the farmer group, but the company follows with each individual farmer to ensure that he is paid

Some problems:

Electricity (22 hours/day)

Still need generator

Competitive advantage relative to Comfed

Payment method (faster)

More flexibility in standards

The respondent was an operation manager and did not have much idea of strategy, policy, and business development.

A3.2.4. Sona Biscuits – SONABISCO

Company originally in West Bengal

Attracted to Bihar by:

1. Subsidies
2. Increasing demand (more than 25% per year)
3. Availability of raw material (wheat flour and sugar)

The area is 4.8 acres acquired from an another company and bought the 80 years lease

The prospects are very good provided the current stability of the government and promotion policies continue.

The government policies consist of support to infrastructure and subsidies to companies

The power is a a problem, with 25% supplied by diesel

Even on the generator, they can get 50% subsidy (up to 60A% if it is non conventional energy such as solar)

Need in the future of forming a Biscuit Producers Association, like in West Bengal in order to lobby the government.

A3.2.5. Wheat Flour Mill – River Valley

The particular flour mill is owned by a group of three investors who have similar wheat flour mills in the state. The mill use both stone grinding and rollers technology.

The mill is conveniently located next to the main road and the production area. It procures wheat almost exclusively from commission agents and traders. It procures throughout the years and keeps only working stock of about 15 days (3000 mt), processing on average 200 mt/day.

Electricity is available most of the day (22 h/day)

Demand is growing both for general use and for biscuit.

The quality of flour produced is quite high due to excellent machinery, some of which imported Apart Bihar, other markets are West Bengal and Jharkhand.

The abolishment of APMC Act was good for the business as it freed up the possibility of purchasing in the open market from anybody.

A3.2.6. Frozen Foods – Lichiwi

The company is located in Hajipur Industrial Zone since 2000 and has been conducting its cold storage business in apples, grapes, oranges, and potato.

Recently it has take advantage of the subsidy scheme to start a deep freezing unit and the production of frozen foods and IQF.

The promoter sees growing demand for frozen food, both in urban centers of India and a possibility of a market in Middle East.

They consider marketing the main problem. They do not seem to be much concerned in getting the necessary quality and technology systems (eg HACCP, GAP).

They estimate the market for IQF in Patna alone at 2 Crore/month. Also they will be the first frozen food company in Bihar.

They are aware that for increasing quality of vegetables, more effort has to be done on crop variety. Also need to reduce price fluctuations.

In their view the government should promote brands from Bihar, for example Malda mango or pointed gourd.

The look at PPP as vehicles to improve quality of products.

A3.3. APRIL 18, 2012

A3.3.1. Meeting with Farmer Federation – Muzaffarpur Distric, Block Mural, Village Lotan

This is a federation of 10 farmer clubs, started with the help of GDS (an NGO) as part of a project of rehabilitation of flood-affected districts about 5 years ago. Some of the funding was from Tata philanthropic activities.

The farmers in the federation have been quite active in using technology from the nearby agricultural university. They have engaged successfully in vermin-compost and in production and distribution of mung seed.

They have also purchased various equipment (potato planter, thresher, zero tiller). After 2 years of working as individual farmer clubs they decided to form a federation. Decisions are taken by committee and the structure of governance is similar to a cooperative.

They are currently thinking whether they should become a cooperative or a Producer Company. They are debating about it. The idea is that they would like to enhance their strength, be able to sell to a broader market, and engage in marketing.

So far, they seem to have transparent and well organized system of accounts as well as production and crop calendars.

They produce major cereal (wheat rice maize) but their strength are in vegetables (eg pointed gourd, potatoes, onions), and spices (eg turmeric , garlic, chili)

They have also embrace the movement towards organic. They use vermin compost.

They are open to contract farming.

A3.3.2. Fruit Exporter and Processor – Radha Krishna Impex Pvt Ltd

This is a group owned by the Kedia family, originally from Rajasthan but established in Bihar for 3 generations.

According to them, they are the largest exporter and processor of litchi in the world. Their story started in 1994 when they first exported fresh fruit (litchi) to EU. They had received postharvest technology assistance from CIRAD in France.

In 1994 they shipped over containers and also got some cold storage. Only the top quality was bought from farmers.

In 1997, they reoriented their strategy and started strengthening their backward integration. They wanted to integrate not only with the best and largest farmers but also with the small and marginal farmers. Even a farmer with 10 trees could be part of the supply chain.

They created a team that could provide advice to the farmers related to technical issues such as spraying chemicals properly. Farmers put the land and labor; the company the expertise, the technology and the purchasing. The products would be bought at the farm gate using the crates of the company itself. A logistics system allowed to take the produce from the farmers to the packhouse for grading, and cleaning packaging storing.

Currently they produce grade A, B, and C and distribute over India and export abroad. They have started processing into pulp and are the approved supplier of litchi pulp in India and export to Europe and US. They even have operations in Madagascar to make their operation last around the year.

Frozen litchi pulp is 3,000 tons.

World demand estimated to grow at 30% per year.

They have several bottlenecks including power. The main bottleneck though is the development of sustainable agriculture at the level of farmers which necessitates varieties, IPM, saplings, and appropriate extension.

Many of the government schemes have poor focus and are poorly implemented. Often they fall into the trap of having to spend the allocated the money and that is done without careful consideration. Even the research is done for the benefit of the researchers not of the users. Different from the experience of South Africa, for example, where the research agenda is set by farmers.

The idea of cluster for litchi can be developed and that would represent a PPP. The private investment can invest all along the value chain except at the level of production. That is where farmers require effective extension and research. Example some research station dedicated to the problems of litchi should be established in the area.

One could have a similar idea for banana which could be used to meet the food demand of a large population.

What is needed is:

- Proper input
- Proper production planning

The latter to avoid price volatility.

One issue in forming farmer groups is politicization.

Another issue is to avoid subsidies that are not open ended. Anybody should have access to the public good financed by the government (eg of railway)

Subsidies should be limited to infrastructure.

Currently 5,000 ton with an average of 5 tons/farmer implies 1,000 farmers.

Potential of commercializing 200,000 tons corresponding to more than 40,000 farmers in the area.

Muzaffarpur is the main production area of litchi in India and in the world.

APPENDIX 4. MEETING NOTES - MISSION TO MAHARASHTRA (APRIL 19-23)

After completing the Bihar mission on April 18, on April 19th, I left from Patna and flew to Mumbai. The mission in Maharashtra included visit to the Principal Secretary, Nasik, Pune, and Arangabad.

A4.1. APRIL 19, 2012

A4.1.1. Meeting with Dr. Goell, Principal Secretary

The purpose of the project (AIDIP) is to promote investment in Integrated Value Chains (IVC). There are two difficulties:

1. Currently there is a long chain of intermediaries between farmers and consumers. Farmers only get 10% of final price. At the farm level there is no consolidation of produce
2. Investment in agribusiness is not coming forward; a viability gap indicates the need of subsidies of 30-40% (as suggested by the ILFS feasibility of two value chains)

Initially, it was thought that land could be provided by the private sector; later it was thought that a PPP mode using public land (in the APMC market area) could favor private investment for a concession period, after which the infrastructure (investment by the private sector with a subsidy by the government) could be reverted to the public sector. The proposed concession period would be 15 to 20 years.

In the case of Terminal Market (the idea is a little different from IVC) not much response was elicited by the private sector.

In the case of IVC, 200 locations for 20 IVC were identified consisting of 180 spokes and 20 hubs.

The concern is: how could the concept of IVC and PPP be marketed?

Another concern is the extent to which investors are really interested in developing IVC infrastructure rather than simply getting access to prime real estate that could be used for other more profitable purposes (in the scheme for PPP, 30% of land could be used for other purposes).

The idea of IVC is to integrate a large number of farmers. The JFPR helps in the formation of farmer groups (about 20,000 farmers, organized into 200 groups each of 100 farmers).

The Government of Maharashtra has appointed Transaction Advisors (from De Loitte) to help appointing concessions, as per the Detailed Project Reports (DPR) and establish value chains.

The main expectation of the Government from the TA is to contribute to Capacity Building, primarily of the staff of the PMU in learning how to implement a PPP. Other stakeholders in need of capacity building will be farmer communities, private sector, spoke and hub managers.

The PMU should learn how to formulate documents such as leasing agreement and legal concessions, supervision concessionaries to avoid to replace one exploiter in the value chain with another exploiter. The key questions that the PMU should continuously monitor are:

- i. Are the farmers better off?
- ii. Are the consumers better off?
- iii. Are losses along the value chain reduced?

Within one year of project implementation, awareness of the project should have improved.

Regarding policies and strategies.

Most policies are in place. For example, in the amended APMC regulation there is a separate chapter that encourages contract farming and buys back arrangements.

There are national programs such as the National Horticultural Program and the National Microirrigation Program that provide the basis for the idea of convergence of different programs.

The strategy of the government is clear; the main issue is whether agribusiness enterprises think the same.

The APMC cannot be abolished yet. Too abrupt changes might cause agitation like in UP where intermediaries forced the government to repeal a previous attempt to abolish perishables in APMC.

The main idea would be to slowly open up for competition, develop intermediaries into enterprises, expand a parallel system to the APMC and eventually, replace the APMC with more efficient systems.

There are three projects in the state funded by development partners (IFAD, World Bank, and ADB) that complement each other. The IFAD project is looking at farmer organizations and how to link them to markets. The World Bank project strengthens rural market and APMC market infrastructure. The ADB project is more focused on the front end infrastructure development to connect markets to final destinations.

The current skepticism of the private sector should be removed; early success is needed and independent players should say that the Government means business.

A4.2. APRIL 20, 2012

A4.2.1. Premium Private Market – Nasik

This was a market established on private land by group xxx (originally hotel group). They focus on grapes, pomegranates and soon will expand to onions. They have 40 acres of land and started in 2009.

Now their market is handling about 50,000 tonnes produce and they are expanding. At this stage, their strategy is to establish a reputation and increase volumes. Their fee structure is not much different from the APMC market and also their facilities are not much better. They allow the intermediaries to charge the same fees as in the APMC market. In their view, they offer two benefits to the stakeholders:

1. More space for loading and unloading
2. More prompt payments to farmers

Eventually their strategy is to invest in improved infrastructure that allow some value added (eg. improved storage facilities, including cold storage).

As of now the market is aiming at increasing volume and provides an alternative outlet for marketing agricultural products.

A4.2.2. Pimpalgaon – Baswant – Nasik

This is a market renowned for its large volumes of onion (about 380,000 tons) and tomato (about 300,000 tons).

This APMC is interested in making land available for PPP under the hub/spoke scheme. They have identified 100 acres of which 10 acres will be developed in PPP mode under the hub/spoke scheme. The reason for the new project in their view is that more is needed to increase marketing of produce and also additional market facilities should be offered to farmers.

The management wants to expand volume of the market and develop facilities to address perishability of products, so that farmer can directly come to the market.

The management of the APMC does not think that the near private market (Premium, see previous interview) is successful, since there are no trader and even those traders who had gone to that market had experienced losses and come back to the APMC.

One issue for the private market is that most traders for tomato are from outside of the state: so who will guarantee for them? The private market cannot be successful if cannot address this issue. The key player is the commission agent who is a local figure well established and provides guarantees and payments within 24 hours of trading. In the APMC market no payment has been defaulted.

On the other hand, in a produce like grapes, which is not traded within the APMC, several defaults were experienced by farmers in the past.

In the view of the manager of the APMC market, traders are not interested in investing in market infrastructure in APMC space. Private traders think it is too risky to do that.

The manager clarified that for products that do not come through the APMC market (eg grapes), still a fee of 1% is levied on transactions that are directly with farmers. This fee is collected by a team that goes to the field.

One key issue is: if APMC is eliminated who will guarantee for the farmers? If the market is opened, there will be many defaults.

The Model APMC act was a positive improvement. Direct marketing was allowed but a license is required. Fees are still collected, even though implementation of the model APMC is not complete.

The revenue of this market in 2010/11 was Rs 6 crore and this year about Rs 6.5 crore. Expenses only 3 crore.

The three most important things needed to improve agricultural marketing are:

- i. Better services
- ii. Fast services (everything processed within 1 hour)

- iii. Resting services

A4.2.3. Freshtop- Mayank Tandon

This is a major grape exporter company. It started as mango exporter but then focused on grapes. In 1996 it became a public company and in 2001 finally got black in the balance sheet.

Grapes are the only fruit where India has established itself as a consistent exporter (mango is more variable and quantities are not large).

Currently only 3-4% of production is exported.

The company started working in the early 1990s in the wave of liberalization, and found the great difficulty of farmers to adapt to the requirements of the market.

At that time roads and refrigeration were in a pathetic state. Postharvest systems were just starting to be understood.

At the initial stage the physical characteristics had to be explained. For example the size of the berry had to be a specific one to meet global standards. Then, an additional challenge was to embark on the steep food safety learning curve.

Today, grapes are tightly controlled and both government and stakeholders got on board.

The situation is quite different for other fruit and vegetables. One needs to organize the cold/controlled temperature chain and to expand the window that seasonal production provides. In the case of mango, for example, could not replicate the success of grapes partly because the variety did not travel well and so transportation could only be done by air which is prohibitive. On the other hand, grapes could be exports in large quantities (35,000 to 40,000 tons) by sea.

The next major challenge and opportunity would be to develop the postharvest chain for the domestic market. The company has already started to do so, basically selling international quality grapes to domestic market as a branded products.

Food safety is possible only if traceability is introduced, which is the case for grapes but not for other products. The company is selling to organic retail stores.

Mahagrapes (the state cooperative) is a failure, mostly because of social political interference.

The company is interested in the IVC proposal and will explore in the future, since wants to develop the domestic chain.

A4.3. APRIL 21, 2012 - PUNE

A4.3.1. PMU

1 project director and 4 deputy directors (agriculture, infrastructure, finance, JFPR). The project is \$85 million from ADB and \$21 million from Government. The ADD part is 40% grant and 60% concessionary.

The investment by investors is expected to consist of 10% equity, 50% financial institutions and the rest to be subsidy. The period of the concession is expected to be 20 years. There are two sets of value chain, one in Nasik district and 1 in Aurangabad. All lands have been acquired and DPR are ready. Concessionaries have to be selected yet. De Loitte has been appointed to identify these investors. The value chains include horticultural products and vegetables. Loan was effective on 18 April . A M&E unit has to be established.

One of the objectives will be to create farmer producer companies. The companies will facilitate aggregation of produce and they might evolve from federation of farmer's groups. The main advantage of producer companies relative to cooperative is to be less politically controlled (not clear how this will be achieved).

First tranche will be \$30 million and the amount is linked to the contribution of the private sector. MSAMB will help obtain licenses.

In a recent PPP Conference several companies have expressed interest in the scheme and 15 proposals have already been presented.

One issue of concern is that the location of land might not be the appropriate one for investors.

The PMU expects capacity building from the TA particularly with respect to:

- Legal complications related to PPP
- Financial aspect
- Sanctioning concessionaries
- Monitoring

A4.3.2. MACP PCU

The objective of the project is increase farmer competitiveness through improved market access and increased returns to their production. The total of the project is \$140 million and includes three components. Component A (30%) is about strengthening agricultural extension system. Component B (65%) is to improve market infrastructure including existing APMC and Alternative structures (rural haat, warehouse, e-marketing, SMS market information system, market information display). The project started in 2010 (December) and includes 3 Departmentns (DOA, DOM, DAH). Chief Minister is the head.

The project introduces market-led extension for the first, using facilities such as ATMA (based in each district) and common service center (CSC).

Farmer groups federations (15 groups) are expected to form producer companies or a CSC.

Maharashtra has accepted thw Warehouse Receipt Act.

Service centers are on private land. An Agribusiness Promotion Facility helps various organizations.

The three ongoing projects (IFAD, MACP, and AIDIP) are supposed to coordinate closely to establish synergies.

A4.3.3. MSAMB

One of the main focuses of the Board was on the export of perishables since 1984, the most important case being grapes. According to the Managing Director MAHAGRAPES works very well. Similar cooperatives for pomegranate and oranges and mango have been established with various

results. There are now new opportunities of exports of mango to the US and Japan (recently 10 tons were exported to Japan).

Perishable fruit and vegetables require high technology and postharvest systems. New places with appropriate facilities start to operate in the state for horticultural products, flowers, and fruit like orange, mango, pomegranate, and banana.

The strategy for the horticultural products is to stabilize prices and promote the establishment of producer companies with supporting postharvest technology.

The state is leader in agromarketing, since it includes private markets, direct marketing licenses, and contract farming (eg sugarcane). Recently even in banana new technology and contract farming has been established.

CIAM (IFAD) is facilitating convergence of various government schemes. AIDIP is working on integrated value chains (IVC), and MACP is promoting rural weekly markets.

There are already 9-10 private markets in the state, mostly in the cotton belt. Most cotton is grown under rainfed condition and is currently mostly bt cotton.

Different agromarketing practices are emerging. The aim is to standardize practices.

The MACP and AIDIP might introduce some competition in the APCM markets.

A4.4. APRIL 23, 2012 - AURANGABAD

A4.4.1. Nath Group

The Chairman of the group expressed some ideas about the PPP proposed investment (hub and spoke on APMC land).

From the point of view of the investor in the APMC market under the hub/spoke scheme, the period of the concession (20 years) might be too short. The scheme might only attract investors who have a short term perspective. Different rules for divestment could be conceived; for example a call option that gives the opportunity of repaying back the viability gap initially received by the government.

The idea of the project is that initially is not viable, that is why needs a viability gap subsidy. But once it becomes viable, then the investor should continue to operate and return the viability gap to the government.

Other incentives could involve exemptions from VAT, similar to what is done in the industrial sector.

The current policy is moving in the right direction of providing multiple channels such as APM, private markets, retail, direct marketing, hub/spoke structure, contract farming, terminal markets.

In contract farm, some regulatory system is needed to ensure enforceability. For example the district can enforce the contract and resolve issues within 30 days of dispute. To work well, the contract requires a tripartite agreement between farmers, companies, and banks. Different system could be devised to minimize the problem of renegeing on the contract and ensure deterrent to either party.

A4.4.2. APMC Paithan

A meeting organized by APMC of Paithan attended by representatives of farmers and traders. An introduction to the project was given by the TA team and feedback was requested.

Farmers perceive that the project can make an important contribution to improving market facilities and thus facilitate trade; as such it can be very useful.

The proposed spoke in Paithan would be over 2 acres; so far no interest from investors.

Farmers and APMC official clarified that in the district there is direct purchase from farmers in the case of sweet lime. For fruit in general there is a system of pay in advance and traders do not pay market fees. Contract farming is not practiced.

In order to improve agricultural marketing, farmers would like to have minimum support price regulation (MSP) on all fruit. Also they would like to have a system of warehouse receipts. On the other hand, they would not like government to intervene in the export business.

Farmers are aware that their knowledge of handling is very limited; also there is not sufficient market infrastructure. Credit access is big constraint; cost of credit is 5%/month from the Bank. Fertilizer subsidy hardly reaches farmers; it goes mostly to manufacturers. In drip irrigation equipment, the government forces farmers to procure equipment from selected companies which charge higher prices than in the market.

Farmers also found that in spite of them forming farmer groups, they cannot market the produce at the negotiated price.

According to the Chairman of APMC, the private sector wants their own shop and do not want to invest in this type of infrastructure.

A4.4.3. Mango Grower Association

The farmers informed the TA team that this year there has been a drop in production due to drought. Expected production will be only 30% of normal.

The association started in 1998 and there are 80 active members each with an average size of 5 ha. About half of the farmers in the association have GLOBALGAP certification which has been subsidized 50% by the Marketing Board.

The association has established a brand (Mangow) they retail directly in boxes between 3kg and 35 kg. Most of the production is marketed locally where there is a preference for the taste of the variety produced (Keshar).

Total production was about 4 lakh boxes.

In order to improve marketing, they would like bigger aggregation and a big retail store to expand retail to the city.

They also need space for multiple uses, and a center of excellence where they can find new varieties.

About 25-30 years ago, many mango trees were cut and only Alphonso was available. It was at that time that Keshar was developed. The advantage relative to Alphonso is that production can be annual (rather than on alternative years like in Alphonso)

For collective marketing, they need support of NGO for extension and professional staff. They are thinking to become a producer company, but they need support for capacity building.

Farmers commented about the proposed scheme (hub and spoke) presented by the TA. They observed that the location of the proposal spoke is not convenient to them. Instead the scheme should be located closer to their production area. They are ready to provide land for the scheme (about 2 acres) at the same rate that the Marketing Board is currently paying.