1. Introduction

This briefing focuses on government, private sector and third sector / development assistance interventions to promote equitable access to responsible finance for small cotton farmers in India.

What follows is an overview of the main actors which are most pertinent to BCI's interest in promoting access to finance for smallholder cotton producing communities.

It should be noted at the outset that issues relating to access to finance and indebtedness, and associated agrarian distress concerns, are of the utmost importance to cotton producer communities in India. As such, BCI should consider access to finance a *priority item* in its approach to cotton sector sustainability in India.

What are the financial needs of cotton-producing communities in India?

The first BCI India Regional Working Group (RWG) suggested that access to finance was very much relevant to Indian cotton cultivation. Given the downward economic pressures – and potential conflicts of interest – constituted by informal lending from dealers, the aspect of institutional or formal lending on transparent and agreed terms was deemed particularly important by the RWG.

The most pressing financial needs of cotton farmers were identified by the RWG discussion group as:

- Working capital – from land preparation through to harvesting
- Tools and implements
- Risk -crop/health- insurance (for all those involved in cotton farming – both farmers and labourers)
- Warehousing receipt financing: whereby receipt are issued for commodity assets stored, which can act as collateral for subsequent lending. This should enable farmers to avoid distress selling in order to meet their obligations to repay loans, and assist in tiding over, given that most farm households have little or no source of alternative income in cotton season, and currently very few have proprietary storage facilities
- Investment in improvements to water and land resources (both individual and collective)
- Investing in improvements in infrastructure facilities (such as storage / stock facilities) - for collectives

The working group highlighted that the highest financial / credit risks for cotton farmers to be found during the cotton cycle are at the following points:

- Sales – in terms of timeliness and level of payment
- Weather – pending rainfall in rain-fed areas
- Procurement of quality inputs

Issues: agrarian crisis and the debt waiver

Indian cotton farmers are faced with a series of challenges: weather-related uncertainties, market unpredictability, spurious inputs, technology and credit-related vulnerabilities among others. Moreover, the high-profile issue of agrarian distress, most powerfully underscored by high numbers of farmer suicides, is closely related to questions of indebtedness, access to financial services and financial inclusion.

The Government of India (GoI) has appointed several committees to look into the issue of agrarian distress in India, notably:

- Committee on Financial Inclusion chaired by Dr C. Rangarajan
- Expert Group on Agricultural Indebtedness, chaired by Dr Radhakrishna
- Expert Group on Agricultural Distress chaired by Dr S. S. Johl
- National Farmers Commission headed by Dr M. S. Swaminathan
- Expert Group on Credit Deposit Ratio, Chaired by Dr Y. S. P. Thorat
- Sub-Group on Institutional Credit for the 11 Five-year Plan

As a result of these committees' recommendations, the Government of India announced a debt waiver scheme in the national budget for 2008-2009. In essence, the federal government cancelled debts accrued by farmers taking out loans – including crop loans and term loans for equipment – with the total waiver amount capped at Rs 60,000 crore ($15 billion). (This is possible only because the majority of large lenders to agriculture are majority government-owned – see below).

However, it should be noted that the response to the waiver was not uniformly positive, for instance:

"Let us consider a hypothetical situation: A big grape farmer in Nasik who had a bumper crop but was politically aware, and therefore did not repay his loan, will get a waiver of Rupees 100,000 ($2,500 @ $1 = Rs 40). But a poor rain-dependant farmer in Vidarbha who has sold his less-than-normal yield of cotton to the state monopoly cotton federation, at a lower than market price, will be deemed to have repaid his Rs 15,000 loan ($375) from the proceeds that he has yet to receive, and will not get the waiver."

'Farmers' Loan Waiver Endangers Financial Inclusion', Vijay Mahajan, BASIX

An Expert Panel was also recently constituted by the National Bank for Agricultural and Rural Development (NABARD) to develop a plan of action based on the various recommendations of the committees listed above[1]. The NABARD panel classified the means to address agrarian distress into four themes:

- Finance management, indebtedness, and terms of credit
- Risk and risk mitigation
- Support systems and social networks
- Farm practices that lead to distress, and changes to these practices

The uptake of the recommendations of the NABARD panel by the GoI will likely be of the utmost relevance to BCI – in terms of promoting access to responsible forms of finance, and also in supporting the realisation of more sustainable models of cotton cultivation. In particular, the NABARD panel recommended significant resource allocation to the promotion of sustainable agriculture consistent with BCI aims and intended methods[2].

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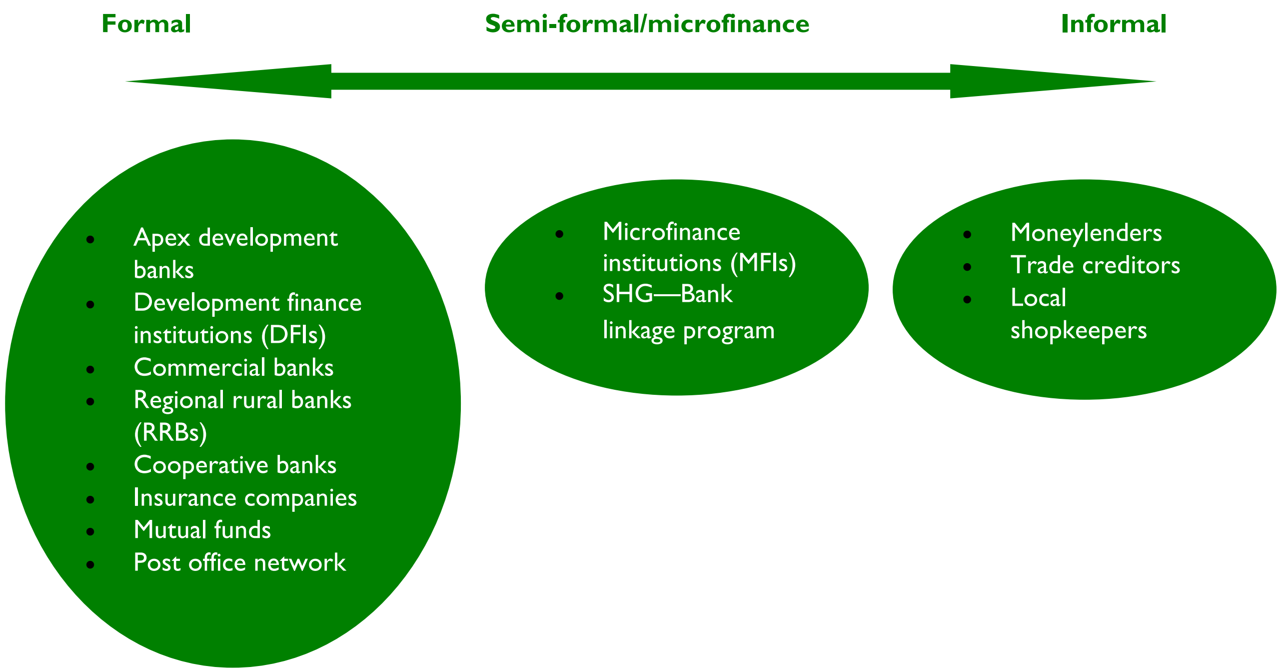
[1] See www.nabard.org/pdf/final_report_website.pdf

[2] See pp.26-27 of above document, which envisages – and costs – the conversion of 10m cotton farmers in AP to non-pesticide approach. NABARD should also be engaged on status of proposed "Fund for Promotion of Sustainable Agriculture".

II. Main institutions involved in agricultural finance in India

The rural finance landscape in India

As illustrated below, India has a range of rural financial service providers, including formal sector financial institutions at one end of the spectrum, informal providers (mostly moneylenders) at the other end, and between these two extremes a number of semi-formal/microfinance providers.



Formal finance providers

In terms of the scale and coverage of their operations, the following formal sector financial institutions dominate the rural finance landscape in India:

- Commercial banks, mostly publicly-held and regional rural banks (RRBs)
- Rural cooperative banks
- The post office system – with more than 154,000 post office branches
- Mutual funds and insurance companies

These formal rural finance institutions account for almost all institutional loans to rural areas; the loan exposure of commercial banks is Rs 533,000 m; the rural deposit base is Rs 1,400,000 m.

Government role

Reserve Bank of India (RBI)

RBI is India's central bank. As such, RBI retains the responsibility for the overall national rural credit policy and for issuing directives on rural credit. As part of its central banking functions, RBI is also responsible for prudential supervision of commercial banks, including their rural credit operations. Over time the *direct* role of the RBI in rural finance has declined. Formal financial institutions are regulated by the Reserve Bank of India (RBI), although it has delegated the task of supervising rural cooperative banks and RRBs to the National Bank for Agriculture and Rural Development (NABARD).

National Bank for Agriculture and Rural Development (NABARD)

NABARD is owned by the RBI and the Government of India and was established by an act of Parliament in 1982 as the apex bank for rural finance. NABARD also undertakes support work to develop the capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel. NABARD co-ordinates the rural financing activities of all institutions engaged in developmental work at the field level and maintains liaison with Government of India, State Governments, Reserve Bank of India (RBI) and other national level institutions concerned with policy formulation.

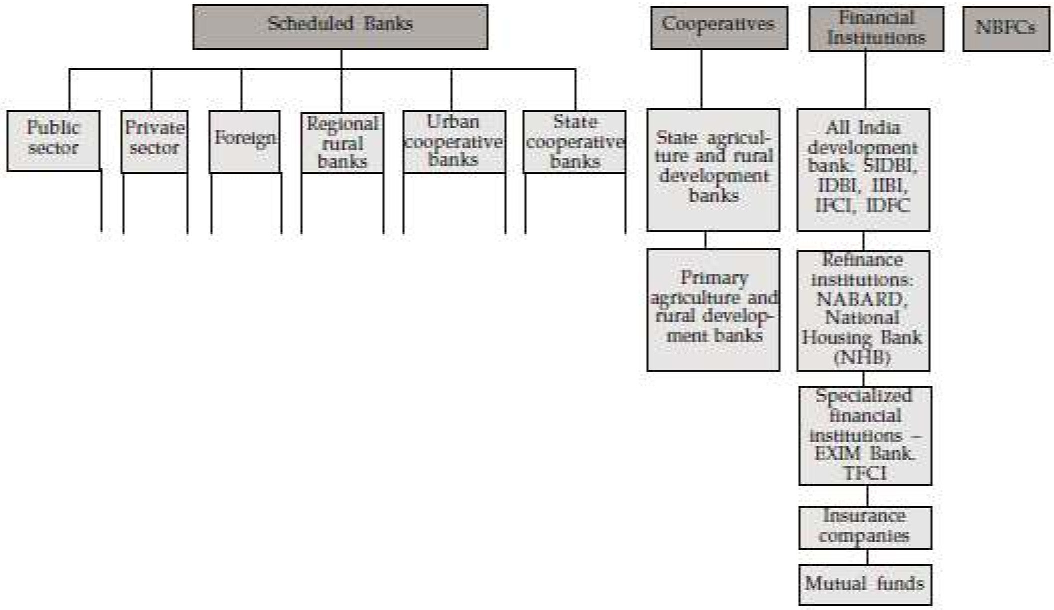
NABARD re-finance is available to State Co-operative Agriculture and Rural Development Banks (SCARDBs), State Co-operative Banks (SCBs), Regional Rural Banks (RRBs), Commercial Banks (CBs) and other financial institutions approved by RBI. NABARD is also known for its 'SHG-Bank Linkage Programme' (see below) which encourages India's banks to lend to self-help groups (SHGs).

Small Industries Development Bank (SIDBI)

Another state financial institution of relevance to the rural sector is the Small Industries Development Bank (SIDBI), which was established by an act of Parliament in 1989 to function as the principal financial institution for the promotion, financing and development of industry in the small-scale sector, and to coordinate the functions of institutions engaged in similar activities. SIDBI's role in rural finance is most prominent in terms of the micro-finance sector, where the agency has taken a leading role in supporting the scaling up of MFIs through lending and capacity-building efforts.

Development banks such as NABARD and the Small Industries Development Bank of India (SIDBI) provide support to both formal and semi-formal segments through funding or re-financing arrangements. NABARD provides re-financing to banks lending in rural areas; SIDBI funds and supports micro-finance institutions (MFIs).

Structure of India's Financial Sector



Source: Improving Access to Finance for India's Rural Poor, Priya Basu, World Bank, 2006

Commercial banks

In 1969, and again in 1980, the Government of India acted to nationalise the largest banks, ostensibly to give government greater control of credit delivery. While the financial sector has begun to be liberalised since the 1990s, the majority of the larger banks remain majority government-owned. Public sector banks account for about 73% of commercial bank assets in India, and some 95% of commercial bank branches in rural areas are of public sector banks.

Currently, India has 88 Scheduled Commercial Banks (SCBs): 27 public sector banks (that is with the Government of India holding a stake), 29 private banks (with no government stake; and 31 foreign banks. The State Bank of India (SBI), with its six associate banks, commands the largest banking resources in India.

Nationalisation of banks has been major step for channelling credit toward agriculture is a major sector. Under the system of 'directed lending', scheduled commercial banks must direct a target of 18% of net bank credit for lending to agriculture. Since 2004-5, the government has directed the banks to double their flow of credit to agriculture sector.

Kisan Credit Card (KCC)

A recent approach to providing credit to the agriculture sector, including small farmers, is the Kisan Credit Card (KCC), offered by commercial banks, RRBs, and cooperative banks. KCCs are most commonly used by farmers to take out crop loans.

KCCs facilitate access to credit and renewal of loans on a yearly basis: following initial screening, fewer visits are required to branches. KCCs have also substantially reduced the paperwork and delays associated with renewal of crop loans.

Summary overview of commercial bank offerings in agricultural sector

Allahabad Bank (www.allahabadbank.com)
- Kisan Shakti Yojana Scheme
- 50% of the loan amount may be used for personal/domestic purposes including repayment of debt to money lenders

Andhra Bank (www.andhrabank-india.com)
- Andhra Bank Kisan Green card
- Coverage under Personal Accident Insurance Scheme (PAIS)

Bank Of Baroda (www.bankofbaroda.com)
- Purchase of second-hand tractors scheme for dry-land farming
- Working capital needs to dealers/distributors/traders of agri inputs and for hiring machinery
- Financing Scheduled Caste/Scheduled Tribes for purchase of farm implements, tools, creation of irrigation facilities

Bank of India (www.bankofindia.com)
- Crop loans : Up to Rs. 3 lakhs at rate of 7% per annum
- Star Bumiheen Kisan Card – for share croppers, tenant farmers and oral lessees
- Kisan Samadhan card – Kisan credit card for crop production and other related investments
- Funding for contract farming in cotton
- Special schemes for SHGs and to empower women folk
- Star Swarojkar Prashikshan Sansthan (SSPS) initiative to provide business training to farmers
- Collateral security: no collateral required for loans up to Rs. 50, 000

Dena Bank (www.denabank.com)
- Dena bank is most active in Gujarat, Maharashtra, Chhattisgarh
- Maximum credit limit up to Rs. 10 lakh
- Provision of 10% towards domestic expenses including education of children
- Longer repayment period up to 9 years
- Short term crop loan up to Rs. 3 lakhs at 7% per annum
- Disposal of loans within 15 days of application
- No collateral up to Rs. 50, 000 for farm loans

Indian Bank (www.indianbank.in)
- Production Credit : Crop loans, Crop loans to tenant farmers, share croppers and oral lessees
- Agricultural Investment Credit : Land development, minor irrigation, micro irrigation, farm mechanization, plantation and horticulture
- Agricultural Structured Loans : Kisan Bike, Agri- Vendors Bike, Agri. Clinics and Agri Business Centres
- Group Lending for Agricultural Development: Loan to joint liability groups / Self Help Groups
- New Agricultural Avenues: Contract farming, Organic farming

Oriental Bank of Commerce (www.obcindia.com)
- Oriental green Card (OGC) Scheme
- Composite Credit Scheme for Agricultural lending
- Financing commission agents

Punjab National Bank (www.pnbkrishi.com)
- PNB Kisan Sampuranrin Yojana
- PNB Kisan Icha Purti Yojana

State Bank of Hyderabad (www.sbhyd.com)
- Crop loans and Agri Gold loans

- Loans for: marketing of agricultural produce; purchase of tractor, power tiller and implements; drip irrigation and sprinklers
- Self Help Group bank linkage
- Agri Clinics and Agri Business Centres

State Bank of India (www.statebankofindia.com)

- Crop loan Scheme (ACC)
- Loan for crop storage on own premises and renewal of loans for next season
- Kisan Credit Card Scheme
- Minor Irrigation Schemes
- Krishi Plus Scheme – for customised hiring of tractor to rural youth

Syndicate Bank (www.syndicatebank.com)

- Syndicate Kisan Credit card (SKCC)
- Agri-clinics and Agri-business centres

Vijaya Bank (www.vijayabank.com)

- Loans to Self Help groups
- Vijaya Kisan Card
- Vijaya Planters Card
- KVIC Margin Money Scheme for Artisans and Village Industries

Regional Rural Banks (RRBs)

RRBs are majority government-owned. The GoI owns 50% of the capital of an RRB, the 'sponsoring' public-sector commercial bank owns 35%, and the state government accounts for the remaining 15% of the capital. Four of nine board members are government appointees; in addition RBI and NABARD have one nominee each and the sponsor banks (which are mostly public sector banks) have three representatives.

Rural Cooperative Banks

Rural cooperatives operate through a three-tiered structure at the State, District, and Village levels; there are some 14,000 branches of rural cooperative banks and more that 98,000 grassroots retail outlets of Primary Agricultural Credit Societies (PACS), which are used by the cooperative system as channels for fund flows.

For state-level cooperative banks (StCBs) government ownership is around 10 %, while it is around 15 % for the district central cooperative banks (DCCBs). Through the powers assigned to the Registrar of Cooperatives, control of the state government tends to be pervasive.

Semi-formal/microfinance sector

While India is home to many microfinance innovations, in terms of people reached and the scale of financing, microfinance in India is still a drop in the ocean. World Bank estimates that microfinance reaches 5-6 % of the country's poor rural households, or about 30 % of the rural poor, either directly or indirectly.

- Dominant among the microfinance models is the so-called Self-Help Group (SHG)–Bank linkage, whereby women's SHGs are linked to the rural branches of commercial banks, RRBs, or cooperative banks, which often benefit from refinancing by NABARD.
- The other model is that of specialised Microfinance institutions (MFIs), which reach around 1 million clients. The total branches of MFIs are estimated to be in the range of a few thousand, compared to the vast numbers of bank branches.
- Recent developments have led to other connections being made between the formal and semi-formal sectors, particularly in the context of SHG–Bank linkage, as well as through lending by SIDBI and commercial banks to MFIs. Moreover, a few private-sector commercial banks, such as ICICI Bank have made inroads through using microfinance methodologies to deliver rural financial services.

Self-Help Group (SHG) – Bank Linkage Programme

Over the last ten years, Self-Help Group (SHG) – Bank linkage programme has become the dominant mode of microfinance in India, and has been successful in encouraging significant savings and high repayment rates.

The approach was pioneered by a few NGOs such as MYRADA in Karnataka, and Professional Assistance for Development Action (PRADAN) in Rajasthan, with strong support from NABARD, which has been instrumental in promoting this growth. The SHG model involves three partners:

1. SHGs
2. Banks – as wholesale suppliers of credit
3. NGOs, government agencies and individuals – as agencies to organise the poor, build capacities, and facilitate empowerment

SHG–Bank linkage involves NGOs organising borrowers, usually 15 to 20 women, into self-help groups or SHGs, and inculcating in the group the habit of saving. The group is linked to a bank (usually the rural branch of a commercial bank, but also RRBs, cooperative banks), and the saved and borrowed funds are rotated through lending within the group. The SHGs thus save, borrow, and repay collectively. The lenders (banks) are often refinanced by NABARD at slightly subsidised rates, although, in recent years, high reimbursement rates have encouraged some banks to lend to SHGs without NABARD refinancing. The SHGs are not formally registered.

As reported under the NABARD-GTZ Rural Finance Programme, at around 98%, on-time repayment to the SHGs is reported to be very high. Furthermore, the SHGs are also reported to have very positive impacts in a number of areas such as education, empowerment of women, child mortality and decreased dependency on moneylenders[3].

Micro-Finance Institutions (MFIs)

A second approach to microfinance involves delivery of finance to the poor through the creation of specialised microfinance institutions (MFIs). This effort has been led by the SIDBI Foundation for Micro-Credit (SFMC) and other apex lending institutions, including the RMK (Rashtriya Mahila Kosh) and FWWB (Friends of Women's World Banking).

Some of these MFIs are based on the Grameen model[4]. Others promote and establish financial links with SHGs. The MFIs offer some of the features of the informal sector, such as flexible products and customer-friendly practices – but at a higher interest rate than the formal sector – while bringing in some features of formal institutions – such as documented loan contracts, detailed books of accounts, MIS, staff, and some degree of supervision by a regulatory authority.

The Rangarajan Committee on Financial Inclusion (2008) described three main forms of MFIs in India:

- NGO MFIs which number about one-thousand
- Cooperative MFIs (Mutually Aided Cooperatives) which number around thirty-thousand
- Company MFIs – these number fewer than twenty but account for over 80% of the MFI portfolio.

The total number of MFI clients was estimated to be around half a million in 2002 and only about 12 MFIs have an individual outreach in the order of 100,000 clients. Thus, the large majority of MFIs operate on a small scale and have client numbers ranging from just 500 to 1,500.

Mainstream financial institutions involved in extending micro finance include: NABARD, SIDBI, Housing Development Finance Corporation (HDFC), scheduled commercial Banks, and Regional Rural Banks (RRBs).

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[3] Thorat, Y.S.P. (2006), "Microfinance in India; Sectoral issues and challenges", in Towards a Sustainable Microfinance Outreach in India. New Delhi: NABARD, GTZ and SDC, pp. 27-42.

[4] The Grameen model, as established originally in Bangladesh, relies on a centrally managed, dedicated microfinance institution, lending to groups of five members, with a highly disciplined organisational structure. The focus is primarily on lending, but every group member must save a certain amount. By way of contrast, SHGs are groups of between 15-20 people. Scheduled banks provide the loans and manage the savings for the group. Unlike the Grameen model, in SHG-bank linkage, banks do *not* directly interact with the SHGs. Instead, non-governmental organizations (NGOs) get involved, help in forming groups, but then empower the groups to manage their own affairs. The focus is primarily on saving. Lending to group members is first sought from within the group savings, and then from the bank.

Since changes in banking regulation in 2000, a number of commercial banks have started to lend to MFIs (mainly NGO-led MFIs). Encouraged by early results, the new private-sector banks, most notably ICICI Bank, but also UTI (now Axis)[5] Bank and HDFC Bank, are actively seeking exposure in the microfinance sector.

The various approaches to microfinance launched in recent years by ICICI Bank to reach rural borrowers are noteworthy. One approach involves linking ICICI Bank's network of about 100 rural branches to SHGs. Through this approach, ICICI funds about 6,000 groups. In the absence lack of a rural branch network, ICICI uses local 'promoters' to help organise groups. The interest rate on loans is c.18 % and promoters are paid a salary that depends on recovery rates, size of loans, and so on.

Another approach piloted in areas where ICICI Bank does not have a physical presence involves the use of NGOs or MFIs, traders, or local brokers (who are close to the farmer by the nature of their business), as intermediaries ('service providers') for loans to small and marginal farmers. In general, ICICI Bank charges the group 12 %, plus the service provider charges 6 %, equalling to 18 %.

Informal providers

Informal financiers include a range of actors – such as landlords, local shopkeepers, traders, professional moneylenders. While there are no definite estimates of the number of informal-sector providers, these are spread very widely across the country. Survey data indicate that poor rural households rely heavily on informal finance to meet a range of financing needs: from consumption and emergency financing to investment loans. Around 44 % of the households surveyed by RFAS 2003 report[6] having borrowed informally at least once in the preceding twelve months; the interest charged on informal loans averaged ***48 % per annum***. Not surprisingly, informal borrowing is very important for the poorest (marginal and commercial categories), which are most deprived of formal finance. Cotton-specific NABARD research from 2006 suggests that, while 76% sample cotton farmers had access to formal credit, 25% depended on informal sources only and 60% had to tap both.

With a few exceptions, village moneylenders and other types of informal financiers have been around for as long as villages have existed. Informal financiers have the advantage of knowing their client better than most formal institutions, such as banks. They are better able to enforce contracts and provide flexible products. Moreover, the circuit of informal lending remains difficult for central policy – such as the loan waiver – to address:

[5] UTI (now Axis) has worked with DFID – as part of its Financial Deepening programme – to provide access to finance for sugar farmers: www.financialdeepening.org/default.asp?id=683&ver=1
[6] World Bank/NCAER Rural Finance Access Survey (2003)

Last month, India's government announced a $15-billion loan waiver for small farmers borrowing from banks, but experts say the efficacy of the scheme is badly diluted because it leaves out those borrowing from moneylenders. "Moneylenders are now an inextricable part of the rural economy," said S. Parasuraman of the Tata Institute of Social Sciences. "So much so the bank has become secondary, or even redundant, for a small farmer." Moneylenders have been around for generations, but their business has boomed ever since India's economic priorities shifted, with globalisation, from agriculture to industry. The arrival of high-cost seeds and pesticides has added to the debts.

Moneylenders only hope for India's poor farmers, Krittivas Mukherjee, Reuters, March 20 2008
www.reuters.com/article/latestCrisis/idUSSP41674 (worth reading whole article)

The role of multilateral agencies and development assistance

Links to projects of the principal multilateral and bilateral donors are provided at Annex 2. What follows is a brief overview of the most pertinent development assistance activities relating to access to finance for cotton producer communities.

Asian Development Bank (ADB)

ADB has provided funding for research on pension reform schemes in India. ADB recently administered policy reform project funded by DFID (USD1m), addressing access to credit for rural households[7].

IFAD

There are currently eight major IFAD projects in India, of which two are directly relevant to access to finance.

- *National Micro-finance Support Programme*[8]: This project is in partnership with SIDBI and UK DFID. Total project cost is USD 132 million. The objective of the programme is to expand the horizontal and vertical reach of microfinance institutions (MFIs) and to mainstream them in terms of their access to resources in the financial sector so as to enhance the access of the poor to microfinance services
- *Maharashtra Rural Credit*: Project Cost USD 48.35 million. The project aimed at streamlining micro credit and poverty alleviation and rural development through: improvement in the provision of financial services to the rural poor by commercial banks; facilitating the bankability of the rural poor as clients; and promoting savings mobilization as the basis for lending to rural poor.

[7] www.adb.org/Documents/Profiles/PPTA/36343022.ASP
[8] www.wfp.org.in/ifadindia/Projects/National_Micro_Finance_Projects.htm

UK DFID

India represents the UK's largest bilateral programme and has received over £1 billion in bilateral aid from the UK since 2003. The UK is providing significant support for projects on microfinance as well as social protection.

In particular, DFID's Financial Deepening Challenge Fund (FDCF) is funding four projects in India, leveraging technology to bring financial services such as affordable insurance and crop financing to rural communities:

- *AMP Sanmar - Akshaya Jyothi*: the scheme is designed to provide affordable, tailored Life Insurance and Pension products to a target group of 16m poor in four districts of Andhra Pradesh
- *Megatop – Micro-Insurance Programme for Farmers in Andhra Pradesh and Madhya Pradesh*: Megatop are offering a range of insurance products to farmers in 9,000 villages in Andhra and Madhya Pradesh using the ITC e-Choupal network of village internet portals to market and distribute the programme
- *TATA/AIG - Micro-Insurance for Landless, Daily Waged, Rural Poor in Andhra Pradesh*: Tata AIG, a well known Indian insurance firm, received FDCF funding to provide life insurance products for the landless poor in Andhra Pradesh
- *UTI Bank - Crop Finance for Small and Marginal Farmers*: the project offers long-term crop loans to marginal and small farmers organised as co-operatives in the Bhadrachalam district of Andhra Pradesh

DFID plans to spend £825m in India over the period 2008/9 to 2010/11, but anticipates that development spending will fall as India moves towards from lower-middle to middle-income status. India-UK cooperation on development issues continues to develop at a dialogue level, with the Indian and UK governments signing an agreement in January 2008 to work together in developing countries where they both have a development interest.

GTZ

India is a priority partner country for Germany. The GTZ Rural Financial System Development Programme (RFP) is a key project in the finance sector for GTZ. Working with NABARD as lead executing agency, with project funding from 2005 to 2012, the project is seeking to establish an inclusive financial system enabling more and more rural households to access sustainable financial services.

Accordingly, GTZ works with NABARD at the macro level to achieve impacts at the micro level. GTZ promotes the strengthening of the cooperative credit structure in rural areas by contributing to the overall planning of reform measures, design of common accounting, internal control and audit mechanism as well as management information systems. Important aspects such as corporate governance and professionalism of the staff are equally addressed.

Collaboration with KfW Entwicklungsbank and multilateral development organisations like Asian Development Bank (ADB) are also playing an important role in supporting the reform of the cooperative credit structure. By March 2007, more than 2.9 million self-help Groups (SHG) had been linked to banks with a cumulative credit disbursement of € 3 billion reaching out to more than 40 million rural households.

ILO

ILO has deployed micro-finance interventions in order to support and realise several of its key projects in India – including those relating to bonded and child labour.
For instance, in the ILO PEBLISA Project on Prevention and Elimination Bonded Labour in South Asia (India, Pakistan, Nepal and Bangladesh), the ILO partnered with local MFIs to test a range of financial services tailored to the needs of households at heightened risk of falling into debt bondage. Such families need financial services and previously used employer credit.

The ILO Social Finance Programme (SFP) is the focal point in the ILO for microfinance. SFP has recently launched an 'Action Research Programme on Microfinance for Decent Work' – in partnership with MFIs interested in promoting Decent Work. Partner MFIs in India include BASIX and ESAF Micro Enterprise Development (MED). The research will seek to answer the following questions:

- How can microfinance institutions (MFIs) help improve working conditions?
- How can they contribute to job creation?
- And how can MFIs help reduce child labour?
- Should MFIs have an interest in addressing these and other decent work deficits?
- Could this even be done cost effectively and to the benefit of the institution as well as its clients?

ILO-SFP will bring the participating MFIs together in February 2009 for a practitioner exchange on what can be concretely done by a MFI to address any of these deficits. After the baseline survey (March 2009) SFP will undertake a six-monthly impact assessment. By 2011, the researchers aim to be able to draw some stable conclusions as to what works in orienting microfinance towards Decent Work outcomes for their clients.

UNIFEM

One of UNIFEM's focus areas in India is to reduce feminised poverty and exclusion, which has encompassed work on the value of women's work, their access to markets and financial services, organisation within the informal economy, and business development.

IFC

IFC's agribusiness projects in India include Blarampur Chini, United Riceland, and Mahindra Farm Services (see Annex 1: case study). IFC has also provided financing to Samrudhi, a microfinance institution in Andhra Pradesh, and to the Self Employed Women's Association (SEWA), based in Gujarat.[9]

IFC also invests in and provides technical assistance to private financial institutions that expand services to underserved markets. IFC recently made a $2m equity investment in Lok Investments, a fund set up to invest in MFIs around India. This should result in microfinance loans to 1.5m borrowers, primarily low-income people in rural areas.

IFC has recently invested in the India Agribusiness Fund (IAF) – a $100 million sector-specific fund that will invest equity in small and medium-sized companies in the Indian food and agribusiness sector. Its target industries will span the agricultural value chain, including contract farming at the primary end and key elements of the agricultural supply chain, with expected deal sizes of $3-10 million per transaction.

World Bank

World Bank supports a significant volume of activities in India relevant to access to finance for cotton-producer communities[10].

A project of particular note is the Strengthening Rural Credit Cooperatives Project of India[11]. This will assist in providing members of the Credit Cooperative Bank (CCBs), including small and marginal farmers, with significantly enhanced access to formal finance, by ensuring that the potentially viable CCBs in the Participating States are transformed into efficient and commercially sustainable institutions. The Project has 4 components:

1) Capacity building Technical Assistance
2) Information technology (IT)
3) Credit Cooperative System Financial Restructuring Support
4) Implementation

[9] Full list of IFC projects: www.ifc.org/ifcext/southasia.nsf/Content/ProjectInformationIndia
[10] Full list of WB projects: www.worldbank.org.in/external/default/main?menuPK=295615&pagePK=141155&piPK=141124&theSitePK=295584
[11] www.worldbank.org.in/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=295584&menuPK=295615&Projectid=P102768

11. Access to finance for cotton smallholders in India

Financing needs of farmers through the cotton cultivation cycle		
Operation	**Investment needs**	**Working capital needs**
Land preparation & Sowing	Tractors/equipment	Seed and other inputs, labour
Interculture & irrigation	Tools for interculture, irrigation equipment	Herbicides, O&M of irrigation equip., labour
Nutrient management	Vermi-composts	Manures & fertilisers, micronutrients, labour
Pest management	Application equipment	Pesticides, labour
Harvesting		Labour
Marketing	Transport vehicles	Transport charges if hired, storage charges, labour

Source: NABARD (2008)

As noted above, formal loans for crop finance are made mostly through Kisan Credit Cards (KSS). Formal (institutional) sources of credit for cotton farmers include commercial banks (public/private/foreign), cooperatives, regional rural banks (RRB), State Finance Corporations and NBFCs (non-bank lenders, such as micro-financiers). The first three of these institutions are particularly important for meeting crop cultivation and family needs; smallholder groups (SHGs) and federations also play an important role.

The continuing importance of informal sources of finance

NABARD research suggests that, while 76% sample cotton farmers had access to formal credit, 25% depended on informal sources only and 60% had to tap both. Moreover, subsequent studies have shown that in most farmer suicide cases about 75% of the indebtedness of the family was to informal rather than formal sources. (The All India Debt and Investment Survey reports also show that the relative share of informal sources in overall indebtedness increased over the last decade.)

Dealer (ie input dealer) finance is the predominant source of finance for farmers. Middlemen (‘traders’) commonly serve as technical advisors for cotton production. They provide seeds, chemical fertilisers, and insecticides on credit while guaranteeing purchase of the crop. The traders provide essential services, but they have a vested interest in selling their products, and ensuring their (over)use. Their knowledge for giving technical advice may be limited to information provided by pesticide companies and other suppliers of their products. The farmers are thence dependent on traders for advice, credit, and marketing because no alternatives are available. Moreover, because cotton production requires heavy investment and borrowed capital, smallholders are often highly indebted and are therefore very risk-averse and likely to apply excessive amounts of pesticides to protect their investment.

Farmers need more money during the sowing period to purchase seed, fertilizer and for agricultural equipments. Very few farmers get crop loans from banks. The majority of large farmers enjoy this loan facility.

There has been sharp increase in the dependence on loans to enable cotton cultivation. The tendency to take loans increased in the 1990s. Farmers took a first loan from banks (banks only lending once, with a further loan possible only after repayment of the outstanding loan). Subsequent loans were from private parties in order to repay the bank loan (default on which would result in repossession of land or house under mortgage). Even for those able to get a loan from the formal sector, access to informal sector loans was indispensable. Thus, the majority of the cotton farmers developed loan commitments to non- formal sources. Those farmers who faced repeated crop failures accumulated loans beyond their capacity to repay.

Note on price-setting in Indian cotton

In India, seed cotton price is commonly the subject of negotiation between farmer and trader/ginner. However, the Cotton Corporation of India (CCI), a government agency, is responsible for providing price support in all states except in Maharashtra, where there is state monopoly procurement (although it should be noted that Maharashtra state government has recently started to incentivise farmers to grow sugar cane instead of cotton as cotton production has become unprofitable). The CCI is a profit-making public sector undertaking under the Ministry of Textiles engaged in commercial trading of cotton. To protect the interests of the cotton growing farmers, the Government announces a Minimum Support Price (MSP) for seed cotton whenever the market price falls below / touches the MSP. In such situations, the CCI undertakes support price operations and purchases seed cotton at MSP without any quantitative limit. The loss, if any, incurred on account of support price operations is reimbursed to the CCI by the Government.

This points to a serious crisis as reflected in the absence of the support system to bail the farmers out, in the form of relatives, neighbours, banks and even the moneylenders who have stopped lending. Many farmers tried to diversify their employment opportunities with new loans. Some have purchased tractors in order to create rental income. Medium- and large-sized landholders followed these strategies, but many did not succeed in their efforts, resulting in higher debt burdens.

The States' and Central government's response since 2003, to increase credit flows to the agricultural sector and reduce interest rates on farm loans, has had minimal impact, it is contended. Most small farmers are ineligible for fresh bank loans as they are treated as defaulters due to their inability to repay the earlier loans. Frequently, these farmers have no option but to borrow from local moneylenders and traders at higher rates. Considering this dependence on precarious inputs, credit facilities, insurance and marketing, the GoI has also recognised the need to promote 'integrated cotton cultivation' through linkages amongst all concerned, primarily by means of introducing contract production systems. Integrated cotton cultivation involve corporate sector participation, not only in extension services, but also in making available quality inputs like seed, fertiliser to farmers to improve the productivity and quality of Indian cotton.

Contract Farming

Contract farming between farmers and mills is being explored as a means of securing the availability of certified seed, quality fertilisers and pesticides. This has been tested on an experimental basis in Gujarat, Madhya Pradesh, Andhra Pradesh and Orissa. As of 2007-8, the Cotton Corporation of India (CCI) cotton contract farming scheme covers about 40,000 hectare. CCI has now signed memoranda of understanding (MoU) with the Farmers' Association in all the important cotton growing States.

The CCI has continued its efforts to promote and popularise the concept of integrated cotton cultivation during 2007-08 and has extended the programme in all cotton growing States through its branches as well as leading textile mills as its associates.

The public website of the Technology Mission on Cotton www.kapasindia.com[12] lists the following benefits for farmers from 'integrated cotton cultivation' (contract farming):

- *Buying seed will no more be a nightmare for the farmer. Quality seeds of the appropriate variety will be supplied by CA.*
- *Inputs purchase will be hassle-free. Good quality fertilizers and pesticides will be supplied through involvement of CA at reasonable rates.*
- ***Low interest loan will be available to them for purchase of inputs.***
- *The farmer will get the benefits of modern technologies in crop management to reduce expenditure and maximize productivity.*
- *Marketing of cotton will be easy for the farmer. He will get better price for the produce.*
- *The Government may come out with concessions in future to benefit farmers in Integrated Cotton Cultivation.*

Source: www.kapasindia.com/TMCOnline/root/common/IntegratedCotton.asp#Lable5

RISK MANAGEMENT

Micro- and Weather Insurance

Micro Life and Accident Insurance

The rural poor in India most often cannot afford traditional insurance products linked to earnings. Some MFIs and banks are considering new, micro-insurance products designed specifically for rural and poor borrowers that they could cross-sell to small borrowers.

SEWA Ahmedabad is the national leader in developing and offering insurance products to its customers. Vimo SEWA is perhaps the nation's largest MFI insurer, covering over 100,000 women for life as well as risks related to houses and assets used in earning their livelihoods. It also offers health-insurance covering maternity. ICICI Bank has also facilitated a life-insurance trust self-funded by SHGs and pays out in the case of death of the participant or her spouse.

[12] 'Kapas' = seed-cotton in Hindi

Weather Insurance

The most important climatic event that adversely affects Indian cotton cultivation is monsoon. The indirect effects of rainfall distribution and changing temperature are related to advent of diseases and emergence of pests. The incidence of crop failure as a result of nature-induced uncertainties has substantially increased in the last decade. Since holdings are small (>80 percent holdings have <2 hectare land), any decline in crop yields adversely affects the food and economic security of the farming community. Recurrence of crop failure due to any event often devastates farmers financially and leads to distress.

In India crop insurance is in its infancy. The National Agricultural Insurance Scheme (NAIS) introduced in 1999-2000 by the Agriculture Insurance Company of India (AICI) provides insurance coverage and financial support to the farmers in the event of failure of the notified crops as a result of natural calamities, pests and diseases.

There has been some innovation in the area of weather insurance. In 2003, ICICI Lombard started offering drought cover policies via BASIX and excess-rain covers through ICICI Bank. Such contracts offer the distinct advantage of solving the delayed payment problem that is common with the government area yield- based crop insurance programme. BASIX launched its first weather-insurance program in July 2003 through its KBS LAB in Mahbubnagar.

Price-Insurance and Risk-Management Products for Farmers

Commodity Price Insurance

Fluctuations in commodity prices are a major source of risk for cotton farmers in India. Market-based tools to insure against commodity-price volatility (e.g. futures and options) can help reduce the risk of default by marginal and small farmers, and hence improve the terms on which they can access finance. In developing countries like India, small farmers and market intermediaries tend to lack knowledge of such market-based price insurance. Also, the sellers of such instruments, generally international trading firms, are often unwilling to engage with a new and unfamiliar customer base of small-scale farmers, characterised by high transaction costs, credit issues, and performance risk.

Establishing Warehouse Receipt Systems

Another means of reducing the default risk in rural finance may be through establishing 'warehouse receipting'. This involves farmers using their crops as collateral for post-harvest financing. The basic idea is as follows: the warehouses store the produce for a fee and deliver a receipt to the farmer, and the receipt becomes immediately enforceable (similar to cheques). For the warehouse receipt system to work effectively, receipts would need to be recognized as legal instruments. Also, the grades and quality standards of the commodities would need to be defined centrally, warehouse operation standards would need to be developed, and effective supervision established.

The GoI has been examining this issue; a recent taskforce set up by the Ministry of Finance highlighted the following measures required to develop a warehouse receipt system:

1. creation of a central warehouse registry and a central regulatory authority
2. making warehouse receipts a negotiable instrument
3. allowing for the full transferability of warehouse receipts; and
4. the introduction of nationally recognised grades and qualities for commodities.

E-choupal

e-choupal (www.echoupal.com) – 'choupal' means village square or meeting place in Hindi – is an online platform, backed up with farmer support services, developed by ITC, a major Indian private sector company, including agri-commodity exports.

The *e-choupal* is operated as a commercial venture by a local farmer who earns a commission from the sales that take place through the *e-choupal* site. Farmers use the *e-choupal* to check prices for agricultural produce at the nearest *mandi* (market), or in international commodity markets, as well as trade commodities.

The principle behind the initiative is that better market information enables farmers to obtain better prices. The *e-choupal* is also used by farmers to seek technical advice, obtain weather forecasts, and order agricultural inputs—or indeed a range of other commodities. *e-choupals* also provide potential avenues for lenders, agricultural commodity traders, and farmers to interact in a relatively seamless manner, with low transaction costs and improved (credit and market) information.

The strategic use of information and communication technology is critical to addressing the transaction-cost problem in rural finance. However, it should be noted that the *e-choupal* system does not (currently) include cotton farmers.

III. Rural Finance Promotion Practices

The first India RWG meeting suggested that access to finance (and terms of finance) have an important role to play in the profitability – or viability – of Indian cotton-farming, highlighting that the availability of timely credit was key. The working group proposed the following characteristics of "equitable finance", with reference to rates of interest:

- The interest rate for short- & medium-term credit should be lower than consumer credit at accessible rate
- The interest rate for institutional credit / long-term credit should be lower than the rate for individual credit

The group identified the most important financial institutions lending to cotton producing communities as: Regional Rural Banks; Cooperative banks; Commercial banks; Cooperative societies; NBFCs; and micro finance institutions. In the group's experience, the most appropriate steps that can be taken to respond to the financial and credit needs of Indian cotton farmers and farming communities are:

- Farmer-centric approach / village-level approach
- Make the credit / finance benefits available to all farmers, improving accessibility by improving awareness
- Institution-building

In this light, the most important advances that have been made in providing credit to farmers in recent years in India were summarised as follows:

- The government's adoption of the micro-finance bill, which has improved credit choice for farmers
- The loan waiver, enabling (larger) farmers to take out fresh loans
- The development of the SHG (self-help group) movement

For the RWG, the barriers to 'ready' rural access to finance are:

- Transactions costs are very high
- Transaction sizes are small
- The frequency of transactions is high
- Geographical spread is high
- There is little standardisation of services, and a wide heterogeniety of users
- Credit information asymmetry
- High uncertainty or "risk": a combination of (a) lack of transparency of prices, and (b) agriculture has a very high systemic risk exposure

The RWG also pointed to the need for forms of (crop and health) insurance, as well as market support. Moreover, it was noted that farm families need support for financial and other needs which are commonly not met by the available arrangements. To this end, SHGs and their federations have been extending loans which can be used for consumption needs, contingency working capital needs on farm, education, etc. Commodity interest groups are also being formed in AP – and other states – that may organise producers of a given crop to reap from the power of association.

Challenges and questions

A further series of questions are stimulated by this review of current practices in place to promote equitable access to responsible financial services for cotton-growing communities:

- Who are the priority beneficiaries of BCI activities on access to finance – farmers, workers or both?
- Given that the immediate poverty-reduction impact of credit provision is self-employment, how does this fit with the needs of non-landowners / tenants who are not in a position to undertake self-employment?
- The experience of many micro-finance activities in India – such as BASIX, cited in the annex below - has been that productive loans (eg crop finance) alone do not work; according to need, access to finance should start with savings and insurance, before progressing to credit provision – including consumer credit – when beneficiaries are in a position to manage their risks
- Several of the advances made in deepening and widening access to finance depend on the integration of the supply chain (eg contract farming) – but there are also many criticisms to be made of the contract farming model[13]?

Producer organisation in the context of access to finance: another aspect to the gender perspective?

Self-Help Groups in India are largely women-oriented. Farmers are mostly male. The recent NABARD Panel on Agrarian Distress identified and recommended the wider extension of community and social support for male farmers. Following are two case study examples:

- Pragati Bandhu Groups, as promoted by Shri Kshetra Dharmasthala Rural Development Programme (SKDRDP) in Karnataka
- Raithu Mitra Groups, as promoted by Society for Elimination of Rural Poverty (SERP) in Andhra Pradesh

Overview of (male) farmer-focused SHGs

Pragati Bandhu Groups (PB groups)

Small and marginal farmers are organised as small groups comprising 5 neighbourhood families. These groups are promoted by the Shri Kshetra Dharmasthala Rural Development Programme (SKDRDP) in Karnataka. Till now 22,500 groups of five men each have been formed reaching about 110,000 members. The unique feature of PB groups is labour-sharing by small and marginal farmers. The members spend one day a week on one member‘s farm, in rotation, contributing their collective labour. They also buy inputs and market produce collectively. Each prepares an annual farm plan, and monitor and assist each other in the implementing these plans. They are advised and assisted to go for mixed farming in order to reduce

[13] See in particular: www.macroscan.org/cur/may07/cur150507Indian_Agriculture.htm

the risks of mono-cropping. There is an economic and emotional bond created in the farming fraternity as a result of the PB.

The groups also mobilise savings and take loans. The repayment experience has been as good as with women SHGs. The PB approach is noteworthy because agrarian distress, in its most severe manifestation, affects men even more than women, but many men lack effective social support systems. The groups are suitable for helping to relieve agrarian distress as they are designed to help farmers with all aspects of their livelihoods, and are not focused only on credit.

Raithu Mitra Groups

Raithu Mitra groups are the closest male equivalent of women-SHGs. They are promoted by the Department of Agriculture in Andhra Pradesh. Other agencies and Banks are not involved in this programme, unlike in the case of women's SHGs. The programme started in 2003, and there are over two lakh groups, with an average membership of fifteen per group. It is estimated however, that only 20% of these groups are operating effectively.

The groups are intended to liaise for extension services and advice, to facilitate improved market linkages and financial services. They work on the principles of SHGs, with regular meetings (usually monthly), member savings (usually at fifty rupees a month), internal lending, and bank credit once they have demonstrated their sustainability. The groups can borrow short term crop loans, based on scale of finance. They can also borrow for long term investments such as pump sets.

The groups are supported by the AP State Department of Agriculture, but the department reportedly has insufficient resources for the task. The success of the programme is mixed.

Annex: Case Studies

I. 'Integrated Agricultural Service Provider' model of microfinance piloted by private banks

ICICI bank[14] has innovated lending by effectively delegating a large part of the lending and collection process to de facto agents such as traders or agricultural service providers or local brokers that are close to the farmer by the nature of their business. This is termed the 'integrated agricultural service provider' (IASP) approach and is closely linked to the development of integrated – 'contract' – farming.

One version of this approach that could perhaps be replicated on a wider basis is the ICICI Bank Farmer Service Centre operating model (Mahindra Shubhlabh model). Under this model, ICICI identified an IASP (Mahindra Shubhlabh) with a good relationship with farmers, and which provides sound and timely information through extension services. Mahindra Shubhlabh is part of the Mahindra empire (the world's third largest tractor maker) and runs commercial agriculture support centres all over India; Mahindra is also an IFC investee. Mahindra centres and smaller franchises at the village level serve as one-stop shops where (mostly paddy) farmers can receive loans and technical assistance, rent specialized equipment (harvesters, tillers and the like) and buy seed and other inputs. Loans range from Rs.15,000 – Rs.100,000 per season.

In this model, ICICI Bank enters into a tripartite agreement with both the IASP and the output buyer. ICICI Bank provides credit to the farmers on the recommendation of the IASP, the farmer pledges his produce to the output buyer at a market-based price, the IASP provides inputs to the farmer.

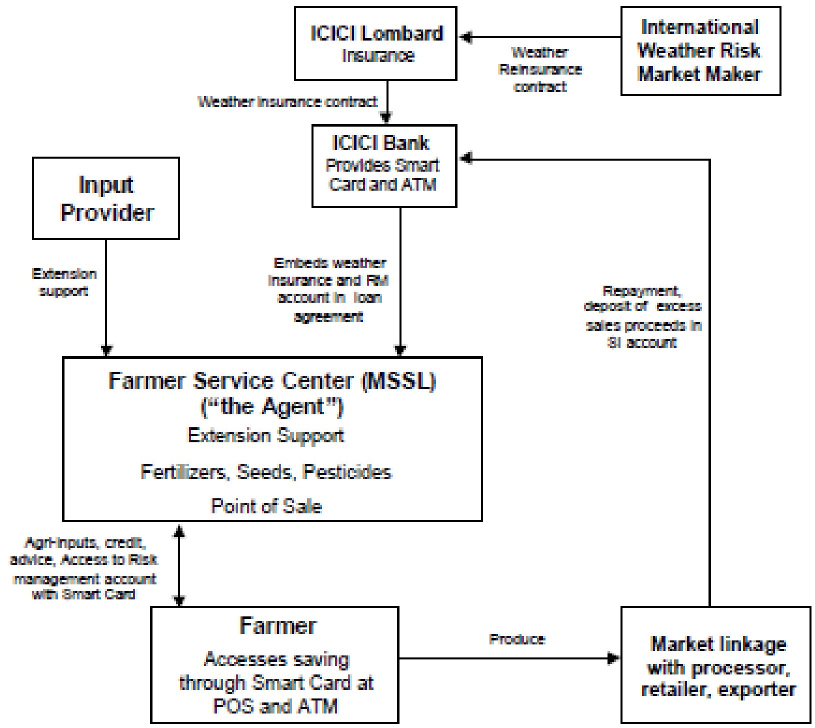
Loan processing, disbursement, and collection are effectively done by the IASP, while the credit decision remains nominally with ICICI Bank. At the end of the season, the farmer supplies the crop to the output buyer and the output buyer deducts the loan amount from the sale proceeds and remits the loan to ICICI Bank in full settlement of the loan amount. The IASP receives a service fee for the loan processing and supervision services (1.5 % on recovered loans). The model creates a symbiotic relationship between the input supplier, financier, and trader. As such, this model bears a striking similarity to the 'interlocking' input credit system in operation in West African cotton.

Roles and relationships in this scheme are illustrated in the chart below. Part of the contract farming package deal that Mahindra Shubhlabh (MSSL) has with its farmers is a crop loan with ICICI Bank. MSSL effectively acts as an agent of ICICI Bank. Thanks to the close relationship between MSSL and farmers that includes backward linkages to

[14] ICICI is India's largest bank in the private sector with total consolidated assets of approximately US$ 88 billion and is the second largest company in India including all public and private enterprises.

output buyers, the default risk is limited. Loan default rates are lower than those of comparable banks that lack these strong agency arrangements.

Agricultural agency lending model – the example of Mahindra Shubhlabh



Source: Innovative Financial Services for Rural India, Ulrich Hess, World Bank, 2003

This model reduces transaction costs and the risk exposure of all parties and, therefore, presents a relatively low-cost way of serving farmers. It helps improve information collection, reduces credit risk, and increases access to rural financing. However, deepening these relationships to the marginal farmers, scaling up the pilots, and replicating them remain major challenges.

ICICI's farmer financing is also being coupled with an insurance model, as has been piloted in Tamil Nadu's cotton-growing area (Appachi), offering tailor-made insurance packages and bulk storage capacity to farmers in order to avoid crop contamination.

Whenever possible, lenders prefer to avoid paying the farmer directly. A model being used by ICICI Bank is to pay the input supplier directly and pre-arrange with the trader to pre-pay the lender before paying the borrower. The borrower contracts to sell his crops at a market-based price—since, if a contract price was used and the market price was higher, the farmer would not deliver and default (and sell at the higher rate).

II. BASIX – Financing Cotton Value Chain: Adilabad district of Andhra Pradesh

BASIX is a 'livelihoods promotion institute': essentially this means that BASIX is an MFI which also undertakes business/agriculture support and capacity building work. BASIX refers to its work in terms of a 'Livelihoods Triad', on the following basis.

Source: BASIX

For BASIX, micro-credit by itself is helpful for the more enterprising poor people in economically dynamic areas. Less enterprising poor households need to start with savings and insurance before they can benefit from micro-credit, because they need to cope with risk. However, in backward regions, poor people, in addition to microfinance, need a whole range of Agricultural/ Business Development Services (productivity enhancement, risk mitigation, local value addition, and market linkages) to be provided. To offer these services in a cost-effective manner, it is not possible to work with poor households individually and they need to be organized into groups, informal associations and sometimes cooperatives or producer companies. The formation of such groups and making them function effectively, requires institutional development services.

BASIX commenced by undertaking detailed studies of the cotton value-chain to determine whether an intervention by BASIX would lead to sustainable livelihood promotion – the mission of BASIX.

During the initial analysis of the cotton sub-sector in the Raichur area, where BASIX first started its operations, it was observed that cotton cultivation was fairly labour-intensive (it presently requires around 120 man-days of labour, inclusive of the farmer's own labour, per season for a non-irrigated farm).

Subsequently, BASIX undertook a detailed analysis of the cotton sub-sector in the Nirmal area. Following the cotton subsector assessment, BASIX realised that an intervention in cotton might be particularly desirable. An extraordinarily high usage of pesticides resulted in the destitution of farmers in several ways. Pesticide use is costly, accounting for around Rs 4,500 per acre for a non-irrigated farm (ie 40% of input costs in a situation when credit at reasonable rates is unavailable), and also leads to considerable damage to the ecology and the overall health of people in the region (farmers and wage labourers in particular are badly affected).

Financing along the Cotton Value Chain

BASIX began by talking to farmers and extending them crop loans by organizing them into joint liability groups of 5 to 7 farmers. BASIX staff would arrange for several such groups in a village Koutla-B to meet and discuss their problems together.

Productivity enhancement through IPM- Intervention

The cotton subsector assessment had shown that pesticide dealers were offering credit to farmers on pesticide sales. However, this credit came with the attached condition that the farmers would necessarily have to sell the crop back to the dealers after the harvest (i.e. commission agents doubled up as pesticide dealers for the rest of the year). These unscrupulous dealers were thus profiting doubly at the cost of farmers. They charged the farmers extortionate rates on the pesticides sold (their rates included a hefty markup for interest), and also bought the cotton crop back at prices below market prices.

BASIX consulted AP Agricultural University to arrive at some technical solutions for reducing pesticide use without reducing yields. This required persuading the farmers to implement IPM, which included the 'stem application' technique, under which, farmers use this technique to apply the minimum quantity of pesticide to the stem in the early stages - the effect of which lasts for 30 days. This technique costs the farmer cRs.75/- per acre in comparison with earlier practice of multiple sprays which cost cRs.750-1000/- per acre.

According to BASIX, the IPM intervention '*hurt these pesticide dealers very badly. On the one hand, these farmers bought far smaller quantities of pesticides, while on the other hand BASIX was providing them with credit.*' During the pilot project, the BASIX team encouraged the participating farmers to sell their kapas (raw cotton) directly in the market. However, commission agents who had provided some credit to some of these farmers refused to allow the farmers to sell the raw cotton directly. While this was a loss for the farmers, they also learned the lesson that they had unwittingly fallen into the clutches of the commission agents when they took some credit from them.

Input Market Linkages

As part of IPM package of practices, biological pest control methods were also introduced. BASIX collaborated with the PCI (Pest Control India) to ensure the timely supply of quality inputs such as pheromone traps (Insect traps), Nuclear Polyhedrosis Virus (NPV).

Institutional Development Services

Having won the confidence of farmers, BASIX encouraged them to establish a mutually aided cooperative, which they use to buy inputs like seeds, fertiliser and pesticides in bulk. Today the Koutla-B Coop has a turnover of over Rs 120 million. The farmers save about 5-10% on the input costs, both due to getting wholesale price and saving on individual transportation costs. Now, in the area, over 20 cotton farmers' cooperatives have come up and they are now planning o establish a federation which will lease or own a ginning factory.

Overview of Koutla-B Coop

Financial Year	No of Farmer Members	Loan from BASIX (Rs In Mns)	Turnover (Rs In Mns)	Net profit (Rs In Mns)
2003-04	51	0.75	5.5	0.18
2004-05	81	3	8.1	0.73
2005-06	82	3	6.8	0.61
2006-07	83	5	8.1	0.88

Output Market Linkages- increasing the price share to producer

In the next step, BASIX concentrated on the problem of market linkages and price. The first step was to attract outside buyers. BASIX invited the large Super Spinning Mills from Coimbatore to purchase cotton from the area. This led to price stabilization and around 5% increase in prices paid.

Market Intelligence – access to market information

On the price realization front, BASIX has also worked with the National Commodity Derivatives Exchange (NCDEX) to install a price display terminal in the village which gives on line information on cotton prices in both spot and futures markets.

Value addition

Super Spinning Mills prefer to buy lint bales rather than raw cotton. So, next year, BASIX motivated the farmers to get their cotton ginned from a nearby ginning factory in Bhainsa and sell lint rather than raw cotton. With the accumulated Profits, Koutla–B MACTS has entered into the value chain by taking up ginning activity converting raw cotton into tradable Bales and also owned up a fixed asset (Building) worth Rs 1.1 millions and inaugurated in the month of July 2007.

Learnings from BASIX

BASIX observes that a multi-faceted intervention of this sort can help marginal farmers to increase their productivity significantly, and in an environmentally responsible manner. However, BASIX also notes that the cotton IPM intervention is probably not enough, in and of itself, to lead to a large number of sustainable livelihoods, especially in the context of periodic droughts that lead to the absolute destitution of the rural poor; more work would probably need to be done to help farmers diversify their income streams. It is also still unclear whether the practice of IPM has resulted in a reduction in wage labour opportunities for the rural poor, as pesticide spraying has reduced drastically. However, this may be counterbalanced to some extent by the resulting health benefits, as well as the additional labour required by the IPM technique; in the IPM techniques each individual plant has to be treated/ monitored, unlike the blanket-spraying approach.

Most importantly, however, is the fact that the new concept has now caught the attention of other farmers in the region and is already gathering momentum and spreading of its own accord (i.e. with lesser involvement from BASIX); specialised inputs that BASIX earlier used to help source, from outside the region, for the farmers in IPM intervention are now being stocked by dealers in the area, and bought by other cotton farmers. This is a sign of a multiplier effect in action, and probably the most desirable outcome that BASIX could have expected.

Annex 2: International and bilateral assistance programmes relating to access to finance in India: links

Multilaterals	
Asian Development Bank (ADB)	• Projects
European Commission	• On-going EC co-financed NGO projects in India • On-going EC funded projects in India
Food And Agriculture Organization (FAO)	• Projects
International Finance Corporation (IFC)	• Projects
United Nations Development Programme (UNDP)	• Projects
World Bank (WB)	• Approved ongoing projects • Upcoming projects
Bilaterals	
Australian Development Agency (AUSAID)	• List of projects
Canadian International Development Agency (CIDA)	• Projects • Programme
German Agency For Technical Cooperation (GTZ)	• Projects
Japan Bank For International Cooperation (JBIC)	• Project database
UK Department For International Development (DFID)	• Projects: Rural livelihoods • Projects: Microfinance
Non-governmental organizations (NGOs)	
Care USA	• List of projects
Research institutes	
Australian Centre for International Agricultural Research (ACIAR)	• Concluded projects • Current projects
Foundations	
Clinton Foundation - Clinton Global Initiative	• Country program • Integrated, sustainable village development in India • Comprehensive measures for eradicating poverty in India
AIDA database	
Bilateral projects by topic (AIDA)	• Agriculture projects • Banking and financial services • Environment • Rural development • Water and sanitation

Glossary

AICI	Agriculture Insurance Company of India
AP	Andhra Pradesh
BASIX	Bhartiya Samruddhi Finance Limited
BoI	Bank of India
CMC	Cashpor Micro-Credit Company Limited
CMFL	Commercial Microfinance Limited
CSA	Centre for Sustainable Agriculture
DICGC	Deposit Insurance and Credit Guarantee Corporation
FARM	Fund for Agricultural Risk Mitigation
FCIC	Federal Crop Insurance Corporation
FI	Financial Institution
FWWB	Friends of Women's World Banking
GoI	Government of India
HYV	High Yielding Variety
IASC	Indian Association for Savings and Credit
IASP	Integrated Agricultural Service Provider
ICICI	ICICI Bank (India's second-largest bank)
IDBI	Industrial Development Bank of India
IFAD	International Fund for Agricultural Development
IFCI	Institutional Finance Corporation of India
IKP	Indira Kranti Patham
IRDA	Insurance Regulatory and Developmental Authority
IRDP	Integrated Rural Development Programme
MACS	Mutually Aided Cooperative Society
M-CRIL	Micro-Credit Ratings International Limited
MFI	Micro-Finance Institution
MIS	Management Information System
MOFF	Maharashtra Organic Farming Federation
MSCA	Multi State Cooperative Act
MSSL	Mahindra Shubhlabh
NABARD	National Bank for Agriculture and Rural Development
NAIF	National Agricultural Insurance Fund
NAIS	National Agricultural Insurance Scheme
NBFC	Non-Banking Finance Company
NCAP	National Centre for Agricultural Economics and Policy Research
NPA	Non-Pesticide Agriculture
NREG	National Rural Employment Guarantee
PB	Pragati Bandhu
PGS	Participatory Guarantee System
RBI	Reserve Bank of India
RMK	Rashtriya Mahila Kosh
RRB	Regional Rural Bank
RUDSETI	Rural Development Self-Employment Training Institute
S/M	Small and marginal (farmers)
SCARDB	State Co-operative Agriculture and Rural Development Bank
SEBI	Securities Exchange Board of India
SERP	Society for Elimination of Rural Poverty
SEWA	Self-Employed Women's Association
SFMC	SIDBI Foundation for Micro- Credit
SHGs	Self-Help Groups
SIDBI	Small Industries Development Bank of India
SKDRDP	Shri Kshetra Dharmasthala Rural Development Programme
SKS	Swayam Krishi Sangam
SLBC	State Level Bankers' Committee
SRFS	Sanghmitra Rural Financial Services
VKC	Village Knowledge Centre