

*Draft*

# **Karnataka Agri - Business Development Policy 2010**

***Combined Version***



**Government of Karnataka**

*Department of Agriculture*

*Food Karnataka Limited*

*Department of Food Processing*

*Centre for Public Policy, IIM, Bangalore*

# Karnataka Agri- Business Development Policy 2010

## **1. Introduction:**

The Government of Karnataka considers high growth of agriculture and allied sector and ensuring food security as foremost focus areas of its policies. In Karnataka, the performance of agriculture and allied sector has been a major concern as the growth rates of agricultural sector are highly varying and are often negative. For example, during 2008-09 the State GDP grew by 5.5 per cent where as agricultural growth rate has been – 5.7 per cent. Poor performance of agriculture sector in the state as compared to the national average of 2.6% growth rate contributed to lower GDP growth rate as compared to the 7.1% at national level. Agriculture still supports nearly 65% of the population in the state and as its share in the state GDP declining fast (currently around 17%) there is serious concern about equity, rural-urban divide as well as resulting social unrest. Food security is another key concern for both the state and central governments. Near stagnant food production, declining productivity, uncomfortable stock position and impending climate change consequences are threatening food security situation. This is also being reflected in the recent high food prices throughout the country. Agriculture being a ‘State Subject’ the State has to take this into account in its planning and policy formulations.

Progressive commercialization of agriculture and allied sector coupled with trade liberalization requires that the policies have to focus on agribusiness with focus on processing and value addition to create and harness opportunities and augment incentives for agriculture sector. This necessitates substantial increase in the investments particularly aimed at streamlining agricultural value chain which will help in reducing total transaction cost and improve realization for farmers. Farmers should also be able to vertically integrate their business and take advantage of value addition opportunities.

With the enormous rural migration to urban area witnessed in the recent years and NREGA, labour shortage in agriculture has become acute and costs have increased significantly. Mechanization has been increasingly seen as the sole alternative to continue agriculture for many crops. However, the small size of holding and fragmentation has been major challenges to go for mechanization and addressing these issues is becoming critical to the survival of many farms. It is in this context, agri- business policies are being framed in Karnataka to address the key concerns, agricultural growth, and processing and food security.

## **2. Vision and mission**

The Government of Karnataka would like to create a vibrant and high growth agricultural and allied sectors that is inclusive and sustainable technologically, environmentally and economically and ensures food security in the state.

At the country level, it has been recognized that the growth rate of agriculture should be at the least 4 per cent in order to create a harmonious rural and urban development, achieve higher economic growth and reduce poverty. The State agriculture policy would take into account the aims of National Agriculture Policy which are as follows:

- A growth rate in excess of 4 per cent per annum in the agriculture and allied sector
- Growth that is based on efficient use of resources and conserves soil, water and bio-diversity;
- Growth that is demand driven and caters to domestic markets and maximizes benefits from exports of agricultural products in the face of the challenges arising from economic liberalization and globalization
- Growth with equity that is sustainable technologically, environmentally and economically.

The above aims define the boundaries of the State's agricultural policies and achieving them would mainly center around four key issues:

- Improving productivity
- Enhancing Post harvest processing and value addition
- Enhancing value realization through better marketing channels
- Sustainable practices in production, processing, branding, marketing etc

Addressing these issues would require substantial changes in the agriculture sector environment in terms of technology, markets, institutions and policy support. New and appropriate technology will directly help in improving productivity both at cultivation and post harvest stages. Technology will also help in better value addition. Competitive and efficient marketing arrangements would help in higher value realization. Appropriate institutional arrangements would enable improving productivity, better value realization as well as better value addition possibilities. However, all these would require creating enabling environment for effective private as well as collective participation, particularly farmers, local entrepreneurs as well as large investors.

### 3. Strategy:

In this context the Karnataka Agri - Business Development Policy uses the following strategy.

- Create an enabling environment for robust agriculture and agro-processing sector growth.
- Develop good institutional model to support both agriculture production and agro processing sector to address entire value-chain.
- To develop good business models and to address value chain through PPP mode- a Synergic and End-to-End model to attract more private investments in “Technology Support for Production”, “Market Development” and “Agro Process Sector”.
- To develop a mechanism to reallocate agriculture workforce who are involved in primary production into Agri-Service sector through entrepreneurship mode.

Creating enabling environment essentially means removing hurdles in their participation and directing investments through careful creation of public goods. In order to achieve this, a Special Purpose Vehicle “**Agri-Business Development Corporation**” will be created to act as single window and monitoring institution for the entire sector. The Corporation will carry out the policies initiated to enhance growth in agriculture and allied sector.

### 4. Karnataka Agri-Business Development Corporation (KABDC)

The Karnataka Agricultural Produce Promotion Export Corporation (KAPPEC) be entrusted the activities of Karnataka Agri-Business Development Corporation (KABDC). The capacity of the organization has to be strengthened through enhancement of technical as well as managerial man power to cater to the needs of KABDC.

#### 4.1. Key functions of the Agri-Business Development Corporation

- Identification of investment opportunities in the areas given below. According to NABARD estimate each year investment of around Rs 8000 crores need to be made of which Rs 6000 crores to come from private sector and Rs 2000 crores public investment.
- Prepare Detailed Project Report (DPR) on each investment
- Ensure government support extended for each investment
- Invite investors to invest in the listed projects
- Assist in land acquisition
- Acts as single window for all the clearances - Act as intermediaries to all the government related processes
- Support the investors providing water, electricity and road infrastructure
- Approve projects and ensures all incentives due to investors are received in time

- Collect annual facilitation charges (to be decided each year) from private investors. Private sector will pay these charges if quality service is provided.
- Record the progress of investments
- Prepares a quarterly report on the progress and puts it in the public domain
- Special assistance to Farmer Companies in their agri-business investments without any annual charges.

#### **4.2 Key Areas of Investment**

Key areas of investment will be identified in the following areas.

- Input Supply sector such as Seed and Plant material, Plant Protection chemicals, Bio-pesticides, Botanicals etc
- Value addition possibilities for the selected commodity at the production centers creating employment opportunities in the rural areas and higher price realization for farmers.
- R & D institutions, HRD activities
- Potential for processing of bulky low value by-product.
- Potential for technology flow
- Improvement in agri- waste management
- Food processing, value addition, cold storage, branding, packing, marketing network
- Potential for creating large market for processed products and shorten the marketing and export channel
- Potential for improving overall quality of the products.
- Create Integrated Agriculture Value Chain Park (IAVCP) for major commodities covering all the districts
- Any other related activities

#### **4.3 Identification of the Projects will be made as follows:**

- Identify areas where 2-3 major commodities are grown. The mix of commodities and area will take into account the area available under these crops, sustainable yields for these crops in the long run, cropping pattern changes envisaged, and the government support available.
- Preference will be given to food products that help to cater to state food needs and also exportable products.
- Identify all the product and by-products that can be processed from these commodities in that area. Some examples of these parks are

#### 4.3.1 Commodity specific IAVCP's identified are as follows:

<i>Rice Park – Karatagi (Koppal)</i>	<i>Areca nut Development Park – Shimoga</i>
<i>Pulses Park – Gulbarga</i>	<i>Cashew Park – Karkala</i>
<i>Potato Park – Hassan</i>	<i>Red Chilly Park – Byadagi</i>
<i>Onion Park – Rampura, Chitradurga</i>	<i>Mango Park – Srinivaspura</i>
<i>Oilseeds Park – Challakere</i>	<i>Grapes Park – Bijapur</i>
<i>Jowar and Other Millets - Bagalkot</i>	<i>Pomegranate Park – Kustagi</i>
<i>Cotton Park – Raichur</i>	<i>Flower Park – Bangalore rural, Sirsi, Chikkamagalur</i>
<i>Organic Park – Uttara Kannada</i>	<i>Jaggery Park – Mandya and Belgaum</i>

- 5. Setting up a major Seed Production and Processing Center** in Haveri, Dharwad, Ranibennur, Chikkaballapur, Mysore: Investment in seed processing, cold storages, Seed research facilities. Karnataka has an excellent agro-climatic condition for seed production of various crops throughout the year. This advantage needs to be harnessed and create a major seed production center internationally
- 6. Setting up Organic Farming Centres** in hilly regions and dry regions such as Uttara Kannada dist, Shimoga, Chikkamagalur, Bidar and Gulbarga district. Investment in bio-pesticides, bio-fertilizers, mechanical control of pests, organic product processing and packaging. The commodities to be considered are rice, jowar, maize, ragi, minor millets, jaggery, cotton, chillies, tur, areca nut, coffee, groundnut, sunflower, potatoes, tomatoes, banana, turmeric, horticultural crops, etc. This will help in improving productivity, value addition at the production centers, shortening the value chain and therefore, higher price realization for farmers. Western Ghat taluks should be declared as organic parks: This will help in development of input and output markets for organic products and also value addition facilities. They will be given similar facilities as that of integrated food parks.
- Agricultural areas of approximately (5 km) surrounding all forests may be declared as organic areas. This will help in preserving biodiversity and encouraging organic farming.
  - Special incentives to set up value addition facilities in these declared areas.
  - Encouraging producer companies, cooperatives and private sector to set up marketing firms.
  - Encourage contract production. Market fee for contract production is 0.25%
  - Ensure quality products through certification
  - Develop strong channels for both domestic and export markets
  - Developing Eco-tourism

**7. Agro-processing and Export Zone** (as per the Central Government Scheme) Specifically for Mangoes, grapes, pomegranates, cashew, spices fig, medicinal and aromatic plants.

## **8. Establishment of Terminal Markets**

- Establishment of large terminal markets or mega-markets in private sector would help to bring in state of the art technology and processes to offer world-class markets to agricultural sector. Such markets would act as a major destination for large processors, traders, exporters and importers. Such markets over a period of time evolve as reference market where price discovery takes place. These markets may be established on a hub-and-spoke concept or may have procurement centers spread across the production centers. They will have world-class grading, warehousing facilities and electronic trading platforms. They would also have facilities of banks and companies providing all other logistics.

### **8.1. Establishment of electronic trading in all APMC in a public private partnership mode**

- APMCs and Electronic Trading platforms available at the national level will form partnership to streamline marketing and increase opportunities for farmers to sell their produce at distant places.
- Private investors are invited to join this partnership to provide grading and warehousing facilities.
- The partnership should aim at modernizing marketing process and facilities. The partnership encourages value addition of the commodities and helps to transact value added products.
- Allow purchase of farm produce by traders outside APMC.

### **8.2. Market Intelligence Cell:**

- Establish the Central Agriculture Production and Market Intelligence Cell on PPP mode at the University of Agricultural Sciences, Bangalore (as in Tamilnadu Agriculture University's AgriTech Portal- <http://agritech.tnau.ac.in/> in collaboration with ICAR ). The cell aims at providing market intelligence on all the agricultural produce relating to global and domestic production, area, supply forecasting, price forecasting, storage and marketing aspects, commodity profiles, crop budgeting, global bench marking, brand development, promotion, contract farming, organized retailing, supply chain providers etc. The Cell may be jointly managed by the UAS, Bangalore and a private partner.

**9. Brand Building:** Various product which have Geographical Indicators such as Byadagi chilli, coorg honey, rose onion, Nanjanagudu rasabale etc

- Demarcation of areas for each of these commodities

- Establishing quality certification in each of these areas
- Encouraging producer companies, cooperatives and private sector to set up value addition units and branding
- Setting up of research centers or utilize existing Centers to conduct research on both the production and marketing of these commodities

#### **10. Encouraging other Special Products:**

Their utilization such as Jave wheat, minor millets, sesamum, safflower, brinjal, rice for diabetics, carotene rich wheat, crops/commodities identified under Geographical Indicators

- Special schemes to support seed production of these commodities
- Entrusting research and extension on these crops to 2-3 KVKs
- Encouraging value addition on these crops
- Setting up of quality certification

#### **11. Development of Agri -input sector:**

- PPP for seed production in agri- schools. Especially seeds of minor millets of that locality
- Neem coated urea plant and other neem based products
- Support for custom hire services – land development, machineries, pest control
- Conversion of oil meal into animal feed.
- Generating power through microhydel, agricultural waste to feed agribusiness requirements in rural areas.

#### **12. Incentives**

##### **12.1. Investment Promotion**

The recently concluded Global Investors Meet (GIM) has attracted over Rs.4.5 lakh crores investment in Karnataka. The incentives and other facilities provided under GIM will be extended to the investors under Agri-Business Development Policy through a special purpose vehicle (KABDC). Any change in GIM incentives will also be made applicable to agribusiness sector. Uniform incentives and concessions will be provided to all areas of the State.

#### **13. Exemption from Stamp Duty MSME, Large and Mega Projects :**

Stamp duty to be paid in respect of (i) loan agreements, credit deeds, mortgage and hypothecation deeds executed for availing term loans from State Govt. and / or State Financial Corporation, Industrial Investment Development Corporation, National Level Financial Institutions, Commercial Banks, RRBs, Co-operative Banks, KVIB / KVIC, Karnataka State SC/ST Development Corporation, Karnataka State Minority

Development Corporation and other institutions which may be notified by the Government from time to time for the initial period of five years only and (ii) for lease deeds, lease-cum-sale and absolute sale deeds executed by industrial Enterprises in respect of industrial plots, sheds, industrial tenements, by KIADB, KSSIDC, industrial estates shall be exempted to an extent of 50%.

**13.1. Concessional Registration Charges MSME, Large and Mega Projects:**

- For all loan documents and sale deeds as specified in 2 above, the registration charges shall be at a concessional rate of Re.1 per Rs. 1000.
- The exemption of stamp duty and concessional registration charges are also applicable to lands purchased under Section 109 of the KLR Act and also for direct purchase of industrially converted lands for the projects approved by SHLCC / SLSWCC / DLSWCC. This incentive will also be applicable for the land transferred by KIADB to land owners as compensation for the acquired land.
- The exemption of stamp duty and concessional registration charges are also available for registration of final sale deed in respect of lands, sheds, plots, industrial tenements after the expiry of lease period at the rate as specified in the Industrial Policy which was in vogue at the time of execution of lease-cum-sale deed.

**13.2. Exemption from Entry Tax**

**MSME, Large and Mega Projects:**

100% exemption from payment of ET on 'Plant and Machinery and Capital Goods' for an initial period of 5 years from the date of commencement of project implementation. For this purpose, the term 'Plant & Machinery and Capital Goods' also includes Plant and Machinery, equipment etc. including machineries for captive generation of Electricity, Processing. Raw materials, inputs, component parts & consumables (excluding petroleum products) [wherever applicable] for a period of 5 years from the date of commencement of commercial production.

**13.3 Incentives for Exported Oriented Enterprises Incentives for Export Oriented Enterprises MSME, Large and Mega Projects:**

- Exemption from payment of ET for 100% EOUs, 100% exemption from payment of ET on 'Plant & Machinery and Capital Goods' for an initial period of 3 years from the date of commencement of project implementation.
- For other EOUs, (Minimum Export obligation of 25% of their total turnover) 100% exemption from payment of ET on raw materials, inputs, component parts & consumables (excluding petroleum products) for an initial period of 3 years from the date of commencement of commercial production.
- Refund of Certification Charges: Refund of expenses incurred for compulsory marking and Compulsory Certificate (CCC), etc., to the extent of 50% of expenses subject to a maximum of Rs. 2.00 lakhs per unit for both 100% and other EOUs in all zones

**13.4 Exemption of APMC Cess / fees MSME, Large and Mega Projects:**

- APMC Cess/ fees in respect of procurement of agriculture produce as specified in the Schedule (inserted by Act No.17 of 1980 and effective from 30.06.1979) Sl.No. II, III, IV, VI, VII, IX and X to the Karnataka APM (Regulation & Development) Act, 1966, directly from farmers for processing by new and existing industries shall be reduced to 0.25% for a period of five years.

**13.5 Subsidy for setting up ETPs MSME, Large and Mega Projects:**

One time capital subsidy upto 50% of the cost of Effluent Treatment Plants (ETPs), subject to a ceiling of Rs.100 lakhs per manufacturing enterprise

**13.6 Interest Free Loan on VAT Large and Mega Projects :**

All new large and mega manufacturing Enterprises established shall be offered interest free loan on VAT as specified below:

**13.7 Subsidy for setting up ETPs MSME, Large and Mega Projects:**

One time capital subsidy upto 50% of the cost of Effluent Treatment Plants (ETPs), subject to a ceiling of Rs.100 lakhs per manufacturing enterprise

**13.8 Interest Free Loan on VAT Large and Mega Projects:**

All new large and mega manufacturing Enterprises established shall be offered interest free loan on VAT as specified below:

<b>Investment range on fixed assets (Rs. cr.)</b>	<b>Min. Direct Emp. (Nos.)</b>	<b>Quantum of interest free loan</b>
10 (value of plant & machinery) – 50	Minimum 100 employ-ment and additional 20 employment for every Rs. 10 cr. investment.	50% of assessed gross VAT for initial 5 yrs. subject to the max. of 100% of total value of fixed assets. Repayment of the loan shall be in 3 annual installments after 5 yrs.
51 – 250	Minimum 200 employ-ment and additional 20 employment for every Rs. 50 cr. investment.	50% of assessed gross VAT for initial 6 yrs. subject to the max. of 75% of total value of fixed assets. Repayment of the loan shall be in 3 annual installments after 6 yrs.
251 - 1000	Minimum 400 up to Rs.300 Crs and 50 additional employment for every Rs.100 Crs additional investment	25% of assessed gross VAT for initial 7 yrs. subject to the max. of 50% of total value of fixed assets. Repayment of the loan shall be in 4 annual installments after 7 yrs.

<b>Investment range on fixed assets (Rs. cr.)</b>	<b>Min. Direct Emp. (Nos.)</b>	<b>Quantum of interest free loan</b>
1001-3000	Minimum 750 for Rs 1000 Crs and additional 25 for every Rs. 100 Crs additional investment	25% of assessed gross VAT for initial 10 yrs. subject to the max. of 50% of total value of fixed assets. Repayment of the loan shall be in 4 annual installments after 10 yrs.
More than 3000	1250	25% of assessed gross VAT for initial 15 yrs. subject to the max. of 50% of total value of fixed assets. Repayment of the loan shall be in 5 annual installments after 12 yrs.

### **13.8 Interest Subsidy Micro processing enterprises:**

Interest subsidy @ 4% on term loans. The interest subsidy is payable only on the interest actually paid to financial institutions and not defaulted in payment of principle or interest installments. The amount of interest subsidy will be effective rate of interest (after deducting interest subsidy) receivable by any institutions / under any Govt. of India scheme or 5% per annum whichever is less). The period of interest subsidy is 4 years.

### **13.9 Exemption from Electricity Duty Micro & Small Mfg. Enterprises**

100% exemption of electricity duty / tax for the initial period of four years.

### **13.10 Technology Upgradation, Quality Certification and Patent Registration Micro & Small Mfg. Enterprises**

- Interest Subsidy on TU Loan : 5 % on loans availed from KSFC, KSIIDC & Scheduled commercial banks, which are not covered under CLCSS of GOI.
- ISO series certification: 75% of cost (max. Rs.75,000).
- BIS Certification: 50% of fees payable to BIS. (max. Rs.20,000) and 25% of cost (max.Rs.50,000) for purchase of testing equipments as approved by BIS.

### **13.11 KABDC will work towards**

- Convergence of government programmes/projects to meet the needs of the IAP: Various programmes with respect to seed, extension, irrigation will be brought in to help in the farmers in the area.
- Identify Institutions of State Agricultural Universities in each Agri Park area will be supported to help extension activities in the area.
- Single window creation to facilitate investors to invest in various activities of the agri park.

- Special facilitation to Farmer Companies to carry out agribusiness activities.

### **13.14 Specific to Terminal Markets**

#### **Terminal Markets/Megamarkets**

- No APMC fee for the goods transacted, but information regarding transaction should be supplied to department of agricultural marketing.
- Hub and spoke format of the market can be considered as Yards and sub-yards so that export can directly take place from the spoke. Reduces number of license to be taken.
- Deposits needed for direct purchase will be reduced from Rs 50 lakhs to Rs 5 lakhs.
- Private markets are free to set up anywhere (removing restriction on 25 km radius) based on viability.
- Exemption of market fee for processing and exports.
- Classification of agricultural produce market land as agricultural services sector.
- Private markets will also be considered as procurement centers for MSP Provision of e-trading in all markets

### **13.15 Special Incentives to be provided to farmers**

- Farmers who loose land for agri based industry will be waived of registration fee to purchase land for agri related activities
- Farmers can convert their land freely to agribusiness purpose without any charge through self declaration. However, the purpose stated has to be implemented within a year otherwise the conversion will be reverted. This will facilitate setting up of agri related enterprises themselves and partner with an investor to set up an enterprise. Agribusiness enterprises would include agroprocessing units, storages, quality certification units, nursery, seed production, high tech agriculture/horticulture, production of bio-fertilizers, bio-pesticides, vermicompost, other biotechnology, organic agriculture inputs. This will also help improve supply critical inputs such as seeds and vermi compost needed for improving productivity and ensuring sustainability. Also this will facilitate small agri-prenuers, and those interested in agriculture to invest in rural areas.
- Facilitation for Consolidation of holding to enable farmers' especially small farmers to go for mechanization.

**13.16 Land Acquisition:**

- Removal of restriction on land purchase for agribusiness purpose for people of Karnataka.
- Companies would be allowed initially to purchase land to set up agriculture related industries. Allowing 10 times the land ceiling limits use of land for such purpose. Further relaxation of ceiling limit is allowed if a company's activities are helping farmers in the area.

**13.16 Special Incentives for Food Processing Sector:** In addition to the above incentives and concessions, the food processing sector to be provided with the following:

- Single Window clearances for permitting production of agriculture raw material for captive consumption
- Provide for long term contractual agreement between industry and farmers for supply of right variety of raw material
- Declare Agro-Food Processing industry as a seasonal industry to make them eligible for relief from payment of minimum charges of electricity and water during closure period.
- Strengthen and promote establishment of cold storages in appropriate locations
- Agricultural and Horticultural farms located within 100 km of the proposed agro food technology parks shall be earmarked as dedicated/captive farms to these parks
- Agro Food Processing Industries will be permitted to utilize upto a maximum of 25% of their land for captive cultivation of the required raw material
- Agro Food Processing Industries will be encouraged to utilize the latest technologies through bio informatics and bio technology
- Conduct of Agri-Food Exposition will be made a permanent feature similar to the IT.com Exhibition and Seminar.
- Eligible agro processing industries are those which are related to Milk and Milk products, Oils and Fats, Cereals and Cereal Products, Beverages, Sugar and Sugar Products and Confectionery Products, Meat and Meat Products, Fish and Fish products, Additives and Wineries.

comments and suggestions are invited from Agri Business Investors and other interested persons/Companies/ Institutions/entrepreneurs, may be sent to e-mail id: [agricommr.kar@nic.in](mailto:agricommr.kar@nic.in) and [p\\_setty@rediffmail.com](mailto:p_setty@rediffmail.com) before 15th September 2010.