CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

1.1. Introduction

Agriculture constitutes the core of the economy in most of the developing countries in the world. Constructive progress in their agricultural sector is an indispensable prerequisite for the rapid economic growth and rural development of these countries. So as to achieve this, developing countries now aim at restructuring their agricultural sector along a successful line. India, being a developing country, is no exception to this phenomenon. Agriculture being the primary sector is the mainstay of the Indian economy and is central to all strategies of its planned economic development. India is predominantly an agricultural country with 82 per cent of its population living in villages and 70 per cent of the population mainly dependent on agriculture and allied activities. From time immemorial agriculture continues to hold the pride of place in Indian economy. In spite of immense achievements in industrialization in the post-independence era, the country’s economy is still mainly agrarian in character.\(^1\) India is a country of peasants, and agriculture provides sustenance to more than two-third of the

Indian population. This sector assumes special importance in the context of population explosion and it is required that agricultural planning should be so devised that agricultural productivity should keep pace with the growing population. Efficient agricultural management to ensure better and still better productivity may make valuable contribution to the balanced growth of Indian economy. Indian agriculture contributes about 27 per cent of the nation’s gross domestic product, but engages almost 67 per cent of the labour force. With the development of means of transport and storage facilities, agriculture has become commercial in character; the farmer grows those crops that fetch a better price. Marketing of agricultural produce is considered integral part of agriculture, since an agriculturist is encouraged to make more investment and to increase production.

In recent years subsistence agriculture has been gradually tending towards commercial agriculture, and as such there has been a substantial increase in the level of productivity to certain crops leading to marketable surplus. The use of scientific technology by the farmers has created a great demand for better and improved inputs. In India both technology and market regulation encourage the farmers to take up new plans of agricultural production and improvement of soil. The density of the

---

regulated market centre also plays an important role in determining productivity. The success of any scheme of agricultural improvement will depend largely on the facility the agricultural community possesses for disposing of its surplus produce in the most advantageous manner. But, Indian agriculture is characterized by poor yields, stagnant diversification, imperfect market conditions, and traditional production practices. Therefore in India, strengthening of agriculture is critical for facing the challenges of rural poverty, food insecurity, unemployment and sustainability of natural resources.

1.2. Concept of Agricultural Marketing

Agricultural marketing plays a significant role in the movement of commodity from the farmer to the consumer and in stabilizing the prices. The planned increase in agricultural output must be coordinated with changes in the demand and supply for agricultural commodities and marketing. This can be fruitful only when the producer’s share in the consumer’s rupee increases considerably irrespective of the volume of the marketable surplus produced by the farmers. Therefore, marketing is

---

considered an essential input in addition to improved seed and fertilizer in modern agriculture. The National Commission on Agriculture defined agricultural marketing as “a process which starts with a decision to produce a saleable farm commodity and it involves all aspects of market structure of the system, both functional and institutional, based on technical and economic considerations and includes pre- and post-harvest operations, assembling, grading, storage, transportation and distribution”. Agricultural marketing includes all services tangible and intangible rendered between the farmers and the consumers. Pricing, financing, transporting, processing, grading, etc. are included in the activities of agricultural marketing.7

The Indian Council of Agricultural Research defined the involvement of three important functions, namely assembling, preparation for consumption and distribution. Thus, agricultural marketing involves, in its simplest form, buying and selling of agricultural produces.8 An efficient marketing system of agricultural commodities spurs farmers to augment agricultural development which is an important component of rural development. However, the farmer in general sells his produce at an unfavourable place and at unfavourable time and usually he gets very unfavourable terms.

1.3. Problems in Agricultural Marketing

The importance of agriculture in a developing country like India has been universally acknowledged. The problem of marketing of agriculture produce has assumed added significance, particularly after the advent of modernization of agriculture. The call to produce more without providing efficient marketing machinery which could assure a fair return to the producer-seller carried no conviction with the farmer. Agricultural marketing is an important economic activity, besides higher productivity and production, which influences the income of farmers and contributes to the development of an agricultural economy. All activities involved from the time agricultural produce leaves the farmer and reaches the consumers are considered agricultural marketing.\(^9\) An efficient market system is warranted which makes agriculture not only an inevitable source of livelihood but also a reliable source of remuneration to the farmers and at the same time, it should provide produce at reasonable prices to the consumers. But because of the highly perishable nature, agricultural commodities introduce an element of risk and uncertainty in the economy of the farmers.

Basically, agricultural production is scattered and is a small-scale production, which creates problems of marketing. In addition, the

---

infrastructure facilities like roads, means of transport, storage facilities, etc. are scarce in rural India. In India, there are a large number of markets, which are not regulated. These unregulated markets are in the hands of commission agents. There are many defects in this marketing such as they charge high commission, no open auction, no proper weighing scale, number of deductions, no prompt payment, etc. The disposal of the produce after the harvest and the return obtained, therefore, also has a significant effect on production and on the welfare of the farmers. Production in agriculture being seasonal, the crop is harvested during a short period and consumed gradually. In the absence of storing power, the large number of small farmers compete with each other and the markets witness conditions of occasional glut and scarcity.

Inadequate market infrastructure and too many intermediaries between the farmers and consumers lead to high marketing costs, resulting in lower share of producer in consumer rupee. The lack of market intelligence about the potential markets and the pattern of arrivals and prices are important in regional and national markets further add to the woes of the farmers. Sale of agricultural produce involves a number of functions such as assembling, storing, grading, standardizing, transporting and negotiating sale. But storage and sale of a commodity may perform some of these operations and finding finance for purchase, call for specialized knowledge and adequate resources, which the individual
cultivator does not possess. Those who render these services, therefore, perform a useful function by which a reasonable return is assured.

Village moneylenders advance loans to farmers for securing production requirements like seeds and manures, and for meeting other needs. These debts sometimes carry on an understanding or obligation to sell the produce to the lender or to his nominee. At the time of sale the position of advantage occupied by the village banker is reflected either in a lower price or unfair weights or delayed settlement. If the sale takes place in the mandi or the market through the brokers, the farmer pays not only for the services rendered by the middlemen but is also subject to other unwarranted deductions. Therefore, the Royal Commission suggested commencing with the regulated markets and accordingly various market committees were incorporated.

1.4. Government Measures for Agricultural Marketing

In India, efforts to develop agriculture seem to be directed more towards production than marketing. But, it has to be realized that even the most sophisticated production system would be incapable to attain and maintain its peak efficiency levels, if the distribution system fails to function at the desired level of efficiency.\(^\text{10}\) In this context, the success of

---

any agricultural development rests ultimately on the efficiency of the marketing system. The marketing of agricultural produce is as important as the production itself.\textsuperscript{11} In view of its dynamic functions, it has been described as the most important multiplier of agricultural development.\textsuperscript{12} Therefore, a mere call to produce more without providing an efficient marketing machinery could assure a fair return to the producer-sellers carrying no conviction with the farmers.\textsuperscript{13} The efforts by the Governments to revamp and restructure the agricultural marketing system in India started even before independence and have continued till today with a number of acts passed and measures taken in this regard.

Government of India has adopted a number of measures to improve agricultural marketing, the important ones being, establishment of regulated markets, construction of warehouses, provision for grading and standardization of produce, standardization of weight and measures, daily broadcasting of market prices of agricultural crops on All India Radio, improvement of transport facilities, etc. The regulation of markets, broadcasting of prices by All India Radio, improvements in transport


system, etc. have undoubtedly benefited farmers and they are now in a better position to obtain favourable prices for their produce.

The agricultural marketing system in India operates primarily according to the forces of supply and demand in the private sector. Indian government’s intervention is limited to protecting the interests of farmers and consumers and promoting organized marketing of agricultural commodities. In 2006, there were 6,680 wholesale markets, 21,671 rural primary markets, 2,429 principal regulated markets, and 5,137 regulated markets subyards. The central government provides assistance for the establishment of infrastructure and setting up of rural warehouses. Various central government organizations are involved in agricultural marketing, including the Commission for Agricultural Costs and Prices, the Food Corporation of India, the Cotton Corporation of India, and the Jute Corporation of India. There are also specialized marketing boards for rubber, coffee, tea, tobacco, spices, coconut, oilseeds, vegetable oil, and horticulture.

A network of co-operatives at the local, state and national levels assists in agricultural marketing in India. The major commodities handled are food grains, jute, cotton, sugar, milk and areca nuts. Established in 1958 as the apex of the state marketing federations, the National Agricultural Co-operative Marketing Federation of India handles much of the domestic and
most of the export marketing for its member organizations. Large enterprises, such as co-operative sugar factories, spinning mills, and solvent-extraction plants mostly handle their own marketing operations independently. Medium and small-sized enterprises, such as rice mills, oil mills, cotton ginning and pressing units, and jute baling units, mostly are affiliated to co-operative marketing societies. Of all the co-operative agro processing industries, co-operative sugar factories achieved the most notable success.

By the 1980s, warehouses for storing agricultural produce and farm supplies played an increasing role in government price support and price control programs and in distributing farm commodities and farm supplies. Because the public warehouses issue a receipt to the owners of stored goods on which loans can be raised, warehouses are also becoming important in agricultural finance. The Central Warehousing Corporation, an entity of the central government, operates warehouses at major points within its jurisdictions, and co-operatives operate warehouses in towns and villages. The growth of the warehousing system in India has resulted in a decline in weather damage to produce and in loss to rodents and other pests. Farmers in the private sector sell most agricultural produce in India to village traders. If these outlets are not available, then produce might be sold at irregularly held markets in a nearby village or town.
The Government’s objective of providing reasonable prices for basic food commodities is achieved through the public distribution system, a network of 3,50,000 fair-price shops that are monitored by state Governments. Channeling basic food commodities through the public distribution system serves as a conduit for reaching the truly needy and as a system for keeping general consumer prices in check. Punjab, Haryana and Western Uttar Pradesh provide more than 80 per cent of the supplies of grain to the public distribution system. The Food Corporation of India was established in 1965 as the public sector marketing agency responsible for implementing Government price policy through procurement and public distribution operations. It was intended to secure for the Government a commanding position in the food-grain trade. The corporation is operating in all states as the sole agent of the central Government in food grain procurement. The corporation uses the services of state Government agencies and co-operatives in its operations.

The Government has taken various steps to improve the conditions of agricultural marketing in the country. Attempts are made to improve the roads and communication facilities in the rural areas through the development programmes under Five Year Plans, central and state warehousing corporations encourage construction of warehouses and godowns. Village co-operative societies are given necessary technical and financial help for construction of godowns. Farmers can store their produce in these warehouses
and can get loans on that security. Declaring the minimum support prices for
the selected commodities, before the sowing season, stabilizes food grains
prices. The Department of Marketing, Government of India, had undertaken
market surveys for various commodities. These surveys brought out the
problems of marketing and suggested the remedial measures. These surveys
served as the basis for the policies in the subsequent period. In the field of
grading and standardization under the ‘Agricultural Produce (Grading and
Marketing) Act’, grades and standards are fixed for many goods like ghee,
flour, eggs, etc. The graded goods are given a seal ‘AGMARK’ by the
Agricultural Marketing Department.

For removal of the various drawbacks in the field of agricultural
marketing, the government performed its responsibility by passing the Act
on regulation of markets. This question was again examined by the Central
Banking Enquiry Committee in 1931. While endorsing the
recommendations of the Royal Commission on Agriculture, the Committee
went a step further by recommending the setting of a central agency for
initiating and coordinating state activities relating to the development of
agricultural marketing. As a result of these recommendations, the
Government of India set up in 1935, a central organization known as the
Office of the Agricultural Marketing Adviser to the Government of India.
1.5. Regulated Markets

A regulated market is one which aims at the elimination of the unhealthy and unscrupulous practices, reducing marketing charges and providing facilities to produce-sellers in the market. Regulated market is a wholesale market where dealings or buying and selling are regulated or controlled through a ‘market committee’. The committee consists of representatives of farmers, traders, agents, local bodies, co-operative societies and government. It is a market where the activities take place under set rules and regulations and the malpractices like incorrect weighment, unnecessary deductions are restrained. The regulated markets provide for settlement of disputes, if any, amongst the sellers and buyers. In regulated markets, the regulation may cover the terms and conditions of supplying goods and services and in particular the price allowed to be charged. Regulated markets create in the mind of the farmer a feeling of confidence and of receiving a fair play.

This is the mood in which he is most ready to accept new ideas and to strive to improve his agricultural production. It has, therefore, become imperative that arrangements should exist for efficient movements of the farmers’ produce to the consumers and for adequate and timely supply for superior inputs to the farmers. In this transitional stage, regulation of marketing

becomes an essential part of the state policy for improving the agricultural marketing system.\textsuperscript{16} Over a period of time these markets have, however, acquired the status of restrictive and monopolistic markets, providing no help in direct and free marketing, organized retailing, smooth raw material supplies to agro processing, competitive trading, information exchange and adoption of innovative marketing systems and technologies.