Chapter-III

INTRODUCTION TO AGRICULTURAL MARKETING

Production and marketing are the two basic elements in the system of agriculture. Agricultural Marketing is as critical to better performance in agriculture as farming itself. The term Agricultural Marketing is composed of two words-Agriculture and Marketing.

Agriculture in the broadest sense means activities aimed at use of natural resources for human welfare, making it clear agriculture in the broad sense includes all the primary activities of production and Marketing connotes a series of activities involved in moving of goods from the point of production to the point of consumption.

Marketing has its beginning in agriculture. It developed only after man was able to produce the food more than that he needed for himself, and only after a way of exchange. This transition from production for consumption to production for exchange came about slowly. To reach this stage, farmers became production minded. This tendency has increased their dependence on marketing, which has resulted in overall development of market mechanism. Thus there came the importance of Agricultural Marketing.¹

Agricultural marketing is the study of all activities, agencies and policies involved in the procurement of farm inputs by the farmers and the movement of agricultural products from the farmers to the consumers.

An efficient network of agricultural marketing system is a vital link between the farmers and the consumers. Thus it can be rightly said that Agricultural Marketing is a
link between farm sector and non-farm sector. Since agriculture is an important sector of the Indian economy, the changing scenario in agricultural marketing would have large implications on growth and other macro-economic factors.

“Agricultural Marketing involves in its simplest form, the buying and selling of agricultural produce”.

This definition of Agricultural Marketing may be accepted in the olden days when economy presented no difficulty as farmer sold his produce directly to the consumer. In brief it was only selling but no marketing. But in modern times the increased trend in production has brought in its wake new challenges to handle in terms of marketable surplus. A strong and efficient marketing system is the core content of agricultural marketing in the country. Keeping in view the management of marketable surplus, marketing of agricultural produce has to undergo series of transfers or exchanges from one hand to another before it finally reaches the consumer. Selling became challenging with latest technologies and involvement of middlemen, commission agents who keep their margins and move the produce further.

Agricultural Marketing in a broader sense is concerned with marketing of products produced by farmers and of farm inputs required by them in the production of these farm products. Thus subject of Agricultural Marketing includes produce marketing as well as input marketing.²

With food being the crowning need of mankind much emphasis has been on commercialising agricultural production. For this reason adequate production and even distribution of food has of late become a high priority of the Government.

The National Commission on Agriculture defined, “Agricultural Marketing as a process which starts with decision to produce saleable commodity and it involves all aspects of market structure of system both functional and institutional based on technical and economic considerations and includes pre and post harvest operations assembling, grading, storage, transportation and distribution”.

The Indian Council of Agricultural Research defined involvement of three important functions, namely

a) Assembling (Concentration)
b) Preparation for consumption (Processing)
c) Distribution. (Dispersion)

Thus it can be rightly said that production, processing and marketing are the three pillars of Agricultural Marketing.

**STRUCTURE OF AGRICULTURAL MARKETS IN INDIA**

In the context of Indian economy, agricultural markets can be broadly divided into two classes:

i) Wholesale markets, and
ii) Retail markets.

Wholesale markets are of three kinds:

a) Primary markets
b) Secondary markets
c) Terminal markets.

In the case of primary markets, their management is in the hands of the panchayats. A secondary market covers an area of about 15 to 30 kilometres. These markets are located at fixed places. Terminal markets perform the function of carrying goods to consumers,

---

to the final buyers. Such markets are to be found in big cities or at ports. Retail markets are to be set up in different parts of the urban areas where retailers sell their products. These markets are under the control of municipalities or municipal corporations.

AGRICULTURAL MARKETING IN INDIA

‘4Ps’, the acronym for product, price, promotion and place is the core principle of marketing. In the case of Agricultural Marketing in India, it is not exactly the marketing in literal sense and we call it as ‘distributive handling’ as there are number of intermediaries who are involved in Marketing of Agricultural produce. However, with the liberalisation, privatisation and globalisation the economic scenario in India has changed drastically and tremendously. As a result we have noticed changes in distributive handling and again it reinvented and evolved as Agricultural Marketing. It is basically because of rise of retail giants who are major buyers in bulk quantity and who constantly look for differentiated, graded, standardised, processed and packaged products rather than undifferentiated. They also look for qualitative and quantitative supply of agricultural stocks continuously to beat the competition in the retail sector.

The history of Agricultural Marketing since the medieval period to the end of the colonial era in India, reveals the dominance of intermediaries in the trade.

The Report of the National Planning Commission observes, The Indian farmer, in general, sells his produce at an unfavourable place, at an unfavourable time and usually he gets very unfavourable terms. ³

³ Tyagi, B.P., op. cit., p.372.
It is believed for well over eight decades now (ever since Royal Commission on Agriculture, 1928 submitted its report) that elimination of multiple layers of intermediaries between the farmer and the final consumer is the single most effective instrument for achieving the goal of higher prices for farmers (changing profile of farm-production marketing - A post globalisation perspective).  

A major share of final price is appropriated by a number of marketing intermediaries. Late Sri. N.G. Ranga, freedom fighter and agricultural expert observes,

‘Money lenders, merchants, processors and transport operations provide key services and they extract too high a price for their machinations’

Indian Agricultural marketing faces generally two sets of issues. Firstly, the issues relates to the imperfections and distortions in the existing system of agricultural marketing. Secondly, the issues relate to providing necessary infrastructure, both physical and institutional which are necessary for improvement in marketing. The first set of issues is called regulatory and the second set of issues is labelled as promotional in nature.

**ROLE OF INTERMEDIARIES IN THE AGRI-VALUE CHAIN**

The history of agriculture is a progressive evolution from self-sufficient forms of living to an exchange oriented activities production. Hence market oriented activities play an important part in the economic system. If the distributive system is inefficient,

---

4 L.P. Singh of L.N. Mithila University, Dharbhanga in Kurukshetra, August, 2008.
then increase in productivity cannot be sustained. Large marketable surpluses too have a
discouraging effect on the production activities, if the revenue realisation to the producer
is low during the post-harvest season. An efficient agricultural marketing system can be
an important means for raising the income levels of the farmers and increasing the
consumer satisfaction

It does not come as a shock to anyone that the post-harvest agriculture value chain
in India is fraught with complexities. Among the several shortcomings that plague, this
sector is the high intermediary margin that results from the numerous intermediaries in
the agri-value chain. These intermediaries add on their margins to the produce during its
transit from farm gates to the final consumer. It is however, interesting that intermediary
margin gets supplemented despite zero value addition to the crop at different stages of the
agri-value chain. A forthcoming study by the International Food Policy Research
Institute (IFPRI) points that agricultural intermediaries in form of commission agents at
mandis (government regulated markets) operate at 4-5% margins, intermediaries at
wholesale markets get around 30%, and the retail vendors make around 20-40%. Consequently, the price of the commodities that range between Rs.5-7 per Kg at farm
gate eventually costs in the range of Rs.15 per Kg at the consumer level.

A study by D.S. Sidhu revealed that farmers obtained only about 53% of the price
of rice, 31% being the share of the middlemen (the remaining 16% being the marketing
cost). In the case of vegetables and fruits, the share of farmers was even less-39% in the
former case and 34% in the latter. The share of middlemen in the case of vegetables was 29.5% and in the case of fruits was 46.5%.\textsuperscript{6}

As we have tradition of agricultural production marketing and allied commercial activities, now it is time for us to brainstorm and come out with new ideas of value added services. These value added services will give the existing agricultural engine a new dimension.

In the context of the present inflationary conditions in India, intermediaries in agri-value chain are also under the scanner. It is pertinent to mention here that while this value chain has been in existence for long, a key differentiating factor is the cascading effect of price rise and shortages in one commodity to the other commodities (some of which are not in short supply). The role of intermediaries in this is conspicuous as there is little shortage of several commodities, the prices of which has risen. For instance, there is no shortage of chillies in the market, yet still, there exists nearly 300 to 400% mark up in the prices for chillies. So far little rationale exists on the issue that point to anything other than a play by intermediaries in creating a notional shortage.

The traditional agricultural supply chain model that is operational in India results in significant reduction in farmers’ income. As such, the farmers have the option to sell in various agricultural mandies i.e., regulated markets under various APMCs (Agricultural Produce Market Committees) in a state. However, selling in mandies in most cases becomes feasible due to two notable reasons,

(i) Cost issues involved in transporting produce to mandi and

(ii) Structural deficiencies rampant at mandies.

On an average, the distance between the regulated markets (mandies) and farm field ranges from 7.7 kilometres to 15 kilometres in India. Since tractor transport is the most used medium it results in huge cost overruns for farmers. It is because of these deficiencies that intermediaries in agriculture value chain come into play and the farmers just to avoid the above two shortcomings, prefer selling to intermediaries. There are huge mark-ups in crops from farm gates to the fields; again, these mark-ups happen when there is near zero value addition in crops. It won’t be fallacious to state that intermediaries also have some role in price increases of several food commodities.

In the post-independence period substantial efforts were made to organise the farmers to protect their economic interest in agri-business. However, barring a few agri-business co-operatives and a large number of such institutions have become liabilities either on the government or the members themselves.
It has been observed in many research studies conducted on analysing the factors affecting the agricultural marketing over the post-independence period that the dominance of the private traders in the agri-business is very high in general and to the extent of 95% in particular to the trade of fruits and vegetables two of the most perishable commodities. The crux of marketing is lack of infrastructural facilities like pre-cooling units, cold storages, roads, transport, finance, forward marketing linkages and managerial support for achieving commercial propositions in the farming occupation.

The dynamics of co-operativisation in agriculture had begun since second five-year plan period with a view to building up an effective alternative marketing channel for the large number of farmers engaged in growing food crops, commercial crops, plantation crops and the like. However the co-operatives established with an intervention of government such as large scale multi-purpose societies, forest labourers, co-operative societies, agro-industrial co-operative societies etc., could not be successful due to lack of vertical and horizontal linkages pertaining to administrative decisions and member stake responsibilities. One of the major bottlenecks from business point of view could be lack of operating flexibility which private marketer enjoyed to position marketer. Further non productive investment in these agencies found to be high which was borne by state through issue of subsidies.

New economic policy which emerged in 1991 has invited global attention and promoted concept of high technology oriented projects in agriculture. The agro-high technology projects require suitable land, water, uninterrupted power supply, clearance from Reserve Bank of India, contribution from the government. The potential Export
Processing Zones (EPZ) in commercial crops are tobacco, cotton, spices, tea and coffee whereas in allied agricultural sector it is, processed dairy products. Agri-business thus saw the vision of International Marketing by 2000 A.D.

Agriculture Marketing is looked upon only as an exchange function of farm produce; on the contrary it is a resource-bed for better ways of investment in farms for augmenting the production. There is a need to develop agro-industrial avenues in the country to absorb the agricultural produce as raw material and pay a value added price to the farmers.

**PRESENT STATE OF AGRICULTURAL MARKETING IN INDIA**

There are many ways through which farmers dispose surplus. They are:

(i) Farmers sell to village money lender-cum-trader who may buy it either for self-consumption or as an agent of bigger merchant of neighbours “Mandi” towns.

(ii) Also sell surplus in “Hats and Shanties”. Hats are village markets held once or twice a week whereas Shanties are village markets held at longer intervals or on special occasions.

(iii) Through Mandies or whole sale markets in large and small towns. In Mandies there are brokers or dalals who help the farmers to dispose their produce to wholesalers known as “Arhatiyas”. Wholesalers dispose to the retailers.

(iv) Use of Co-operative Marketing societies which collect surpluses from members and sell it in Mandi collectively. This improves bigger bargaining power of the members.
(v) Government organised marketing of agricultural produce in the country. Network of regulated markets established under the provisions of the Agricultural Produce Marketing Committee Act enacted by the states and Union Territories. The Regulated Markets helped in mitigating market handicaps of producers and sellers. These have also provided physical facilities and institutional environment to wholesalers, commission agents, traders and other functionaries for conducting activities. It was envisaged that these regulated markets will provide facilities and services which would attract farmers and buyers creating competitive trade environment thereby offering best of prices to the producers-sellers.

**PROBLEMS OF AGRICULTURAL MARKETING IN INDIA:**

There are several challenges involved in marketing of agriculture such as,

1. **Perishability** of agricultural produce is a serious problem which depends on the type of produce. When the grains are not dried and stored properly they are attacked by the store grain pests in few days which makes them perishable.

2. **Pricing** of the products depends on seasonality and perishability as well as on demand and supply.

3. **Risk elements** in agricultural marketing are numerous. Price is fixed by the commission agents and the retailers (purchaser) under the cover of the cloth by making signs on the palm (Hatta system). Thus even the farmer cannot know real price at which produce is sold.
4. **Overcoming of several hurdles by the farmers become essential as the farmers have to face many hardships.** Our farmers usually do not grade their produce and as a result they do not get remunerative prices.

5. **Benefits of farmers are eaten away by too many vultures.** Brokers or Dalals dominate the markets.

6. **Lack of strong linkages between production and marketing strategies.**

7. **Literacy levels of the farmers are low.**

8. **Limited access for the farmers in the markets.**

9. **Local money lenders who are leeches and charge high rate of interest.**

10. **Loopholes in present legislation as there is no organized marketing system.**

11. **Earnings of farmers, who are poor and are not supported by the government as government funding is still at nascent stage.**

12. **Exploitation of farmers by using fraudulent means like heavy commission, use of faulty weights and measures and also by number of deductions.**

13. **Multiple channels of distribution that eats away the pockets of both farmers and the consumers.**

14. **Systems of technology have no doubt improved but it has not gone to the rural levels.**

15. **Small holdings and large number of producers scattered over a wider area is another peculiarity which creates problems in marketing of agricultural produce.**

16. **Sweat of farmers has not been paid its return with just price.**
NEED OF AGRICULTURAL MARKETING REFORMS:

Khusroo, Moore and Johl (1973) define the ideal market system in the context of Indian Agriculture as, “The ideal marketing is one that maximizes the long run welfare of the society. To do this, it must be physically efficient; otherwise the same output could be produced with fewer resources; and it must be allocatively efficient; otherwise a change in allocation could increase the total welfare”.

Ever since Independence, agriculture and its problems have been central issues in the Indian economy. Patel (1959) the then Minister for Agriculture observed ‘ the importance of the marketing of agricultural produce, the production of which, is subject to innumerable natural and economic limitations, is therefore, of paramount importance in an agricultural country like India which derives about half of its national income from agriculture’.

Inefficient Marketing systems tax producers by placing downward pressure on farm gate prices and tax consumers by raising retail prices thus representing a potentially important target for reform. Below are certain measures that can be affected to bring out the reforms in agricultural marketing, so as to ensure just and fair price to farming community:

1. Retail revolution has brought several changes in retail sector where retail giants buy in bulk directly from the suppliers and sell to the consumers directly and they pass the benefits to the consumers as well. Thus, there is a need to reduce the channels of distribution and courage direct selling, which connects farmers directly to the consumers.

---

2. Existing legislations are outdated and not in tune with changing trends and technological inventions and the same need to be updated.

3. Elimination of existing loopholes in present legislation is warranted.

4. Establishing of sound agricultural marketing information system in country. Such a system will ensure proper utilization of emerging trade opportunities by farming community so that they can plan their strategies for sale of produce at remunerative prices.

5. Fulfilling the objective of providing reasonable prices for basic food commodities through public distribution system is a must.

6. Fair price should be given to the farmers, for which counselling centres for the farmers should be established which enables them to know about worth of their stocks.

7. Outlets, which are local, should be created so that the farmers can sell their stock to the consumers or authorised buyers at fixed prices. This would help them to a great extent. Intervention of the Government in this network is essential to bring fruits to the farmers.

7. Rate of interest should be as low to the loans which should be advanced to the farmers so that they will be freed from the clutches of the local money lenders who squeeze them. It is said that farmer is born in debt, lives in debt and dies in debt. This saying has to be reformed.

8. Multiple entry taxes should be replaced with single entry tax for the transactions that are involved in agricultural marketing such as transportation, processing, grading etc as it would benefit both farmers and the consumers directly.
9. Stringent action against black marketers and hoarders who buy stocks from farmers at cheap prices and create artificial demand and later sell at higher prices should be taken.

Role of NIAM in Agricultural Marketing

The Government of India and various State Governments have realised the importance of providing adequate training to farmers in production planning, use of available resources and information, determination of objectives and marketing.

The National Institute of Agricultural Marketing (NIAM), Jaipur is a premier national level institute set by the Government of India in August, 1988 to offer a specialised training, research, consultation and education in Agricultural Marketing. NIAM is an autonomous body under the aegis of the Ministry of Agriculture, Government of India. It was set up as a registered society to cater to the needs of agricultural marketing personnel in India as well as from South East Asian Countries. The Union Minister of Agriculture is the President of the General Body of NIAM.

FUNCTIONS OF NIAM:

(i) The institute has prepared agricultural marketing master plans for the development of Agricultural Marketing in a number of states. It is preparing project reports for setting up terminal markets in different states.

(ii) NIAM conducts post-graduate programmes in agri-business management, agri-warehousing and cool chain management which are very popular. The Institute has been imparting training to all its stakeholders.

---

8 Saturday, December 30, 2006, Our Bureau, Mumbai.
The Institute is publishing a journal called ‘WATS’, covering different aspects of Agricultural Marketing.

NIAM has been entrusted with the task of sensitising the different stakeholders about the two new schemes, central sector scheme or the ‘Gramin Bhandaran Yojana’ and the development/strengthening of agricultural marketing infrastructure, grading and standardisation scheme. An investment proposal of Rs.106 crore is prepared to strengthen infrastructure of Andhra Pradesh.

Initiative has also been taken by NIAM to promote Public Private Partnership (PPP) in establishment of state-of-the art terminal markets. These terminal markets have been exclusively promoted to improve marketing efficiency, reduce post harvest losses and foster competitiveness.

This institutional infrastructure at grass-root level facilitated abolition of intermediary landlords system and implemented land reforms that enabled farmers to adopt technologies in Agriculture.\(^9\)

**EFFECT OF GLOBALISATION ON AGRICULTURAL MARKETING**

India is one of the largest agricultural based economies, remained closed until the early 1990s. The Indian Agricultural sector has been undergoing economic reforms since the early 1990s in the move to liberalise the economy to benefit from globalisation. By 1991, there was growing awareness that the inward looking import substitution and overvalued exchange rate policy coupled with various domestic policies pursued during

---

the past four decades, limited entrepreneurial decision making in many areas and resulted in a high cost domestic industrial structure that was out of line with world prices. Hence the new economic policy 1991 stressed both external sector reforms in the exchange rate, trade and foreign investment policies and internal reforms in areas such as industrial policy, price and distribution controls and fiscal restructuring in the financial and public sectors. In addition, India’s membership and commitment to World Trade Organisation (WTO) in 1995 was a clear sign of India’s intention to take advantage of globalisation and face the challenge of accelerating its economic growth.

The Globalisation has brought drastic changes in India across all sectors and it is more on Agriculture and farmers while making a deep impact on agricultural marketing. It is basically because majority of Indians are farmers. It has brought several challenges and threats like uncertainty, turbulence, and competitiveness apart from compelling them to adapt to changed technologies. If it is the dark cloud there is a silver lining like having excellent export opportunities for our agricultural products to the outside world.

**KEY TAKEAWAYS FROM CII AGRI-MARKETING SUMMIT 2009**

The highlights of Agri-Marketing summit enables to get an update on the evolving structure of agri-marketing in India and the increasing role of private players in improving the efficiency of the agri-marketing value chain. The key takeaways from the summit are:

(i) Need to amend the model APMC Act in order to provide more flexibility to various states for its speedy adoption and implementation in true spirit.
(ii) Agri-marketing reforms will be driven by commercial considerations with incremental investment being evaluated on risk-return profile. Private sector is keen on investing for the longer term as they see definite returns post gestation.

(iii) Technology (Information and Communication Technology) will play a crucial role in the evolution of the agri marketing structure in the coming years.

(iv) Clearer governmental policies on organized retailing (FDI and large corporate houses) will go a long way in improving the agri-marketing network. Development of organized retail in food products has become a necessity for transforming the agri-marketing network in India.

The conference highlighted the importance of agri-marketing reforms in achieving the target growth of 4% in agri GDP which in turn would be crucial in meeting the GDP growth target of 9% during XI plan (FY08-12). Further reforms could enable inclusive growth, as 60% of the rural population and 52% of the national work force is directly affected by agriculture. Though the share of agriculture in GDP has declined to 17% it still accounts for 48% of the rural GDP.

Agri-marketing deals with various aspects of the food supply chain, post production. 90% of the effort and investment in Indian Agriculture is production oriented; only 10% is on marketing/post harvest phases. Agri-output/agri-GDP, farmer realisation and reduce consumer prices through reforms in the field of agri-marketing.

Images retail, in its study, highlights that the retail price of the product sold by the farmer increases up to 3.5% the farm gate price. If the product is routed through growers co-operative and Distribution Company, the end retail price can be 26%
lower. If the distribution and the logistics are also controlled by the retailer, costs can be still lower, resulting in higher margins for retailers or reduced prices for consumers.

Cost build up in modern network is 25% lower than traditional model.

**Fig.III.2. Traditional model vs Modern Distribution model**

**CHALLENGES AILING AGRI-MARKETING IN INDIA**

With the changes in the village social economic sphere, Agri-marketing has been unable to make significant headway due to the following challenges:

**I. Implementation of amended APMC Act:**

Marketing of Agricultural Products is state subject and is governed by respective state APMC (Agricultural Products Marketing Committee) Acts. This has resulted in creation of marketing monopolies, detrimental to the growth of agriculture and farmers. The Ministry of Agriculture formulated a model APMC Act in 2003, and advised the states to implement the act. The
amended act aims at complete transformation of agricultural marketing in India to make it more market and growth oriented.

- Under the new act, private players will be allowed to open and operate agriculture markets, where farmers can sell their produce. It will end the state monopolies and result in competitive pricing for the farmers.
- There is no compulsion on the farmers to bring their produce to the market yard. They can directly sell the produce to private parties, food chains and the retailers.
- Contract farming has been allowed so that the food processing and the retail industry can get desired quantity and quality of the produce, without any need to route it through the notified markets.

Despite the radical changes that the model APMC Act can usher in, so far, only a few states have adopted it and that too partially. The resistance to the adoption of the model act is from the state governments and trader/commission agents. The states/APMCs have the fear of losing their business/income.

II. Transport and distribution:

Good roads are lacking in nearly 30% of the villages. In the rainy season it is not possible to reach many of them. The agricultural products cannot move.

III. Scattered villages:

There are 5.8 lakh villages. The movement of the produce from the villages to the towns and between the villages poses challenges and operation on many occasions prove to be uneconomical.
IV. Warehousing facilities:

The nature of commodities needs special warehousing and transport. Such warehouses are not available in adequate number to minimize the wastage.

V. Inadequate credit facilities:

A Village farmer who produces agricultural goods face problems of getting funds at the right time due to procedure hassles, less priority for priority sectors lending.

VI. Unremunerative Price:

The perishable nature of the commodities makes the price unremunerative. At times even the farmer/producer in villages do not get transport costs in return.

VII. Middleman Exploitations:

The middlemen take away the cake in terms of monetary benefits making the producer poor. The country loses more than Rs.58,000 crore worth of agricultural food items due to lack of post-harvesting infrastructure such as transportation, and storage facilities. Production of food grains goes waste because of lack of proper retailing and adequate storage capacity. More than 72 percent of the vegetable and fruits are wasted in the absence of proper retailing.
STATUSES OF IMPLEMENTATION OF APMC ACT IN INDIA:

Table III.1

Table showing the State-wise status of reforms in APMC Acts as on 31 December 2006

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Stage of Reforms</th>
<th>States/UTs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>States/UTs where APMC Acts have been suitably amended</td>
<td>Madhya Pradesh, Himachal Pradesh, Punjab, Sikkim, Nagaland, Andhra Pradesh, Chhattisgarh, Rajasthan, Orissa, Arunachal Pradesh, Maharashtra and Chandigarh</td>
</tr>
</tbody>
</table>
| 2      | States/UTs where reforms to APMC Acts have been partially modified:  
  a) by amending APMCS Act/Resolution  
  b) by Executive order | Haryana, Karnataka, Gujarat, and National Capital, Territory of Delhi  
                                  | Uttar Pradesh                                                             |
| 3      | State/UTs. Where there is no APMC Act in operation    | Bihar, Kerala, Manipur, Andaman & Nicobar Islands, Dadra & Nagar Haveli, Daman & Diu and Lakshadweep |
| 4      | State/UTs where APMC Act already provides for the reforms | Tamil Nadu                                                                |
| 5      | States/UTs where administrative action has been initiated for introducing the forms | Assam, Mizoram, Tripura, Meghalaya, J&K, Uttarkhand, Goa, West Bengal, Pondicherry and Jharkhand |

Source: Ministry of Agriculture, Government of India.

We expect the implementation of the model APMC Act to boost the farm incomes considerably over a period, as:

- There is a huge gap in the consumer prices and the farmer realisations, primarily due to the presence of intermediaries. It is estimated that such price differentials are as high as 40-60% of the consumer price. Reduction of intermediation costs will reduce consumer process and improve the realisation for the farmers.
• Contract farming results in companies providing farmers with assured prices, technical inputs and credit. This has the potential to improve yields and quality of the farm produce.

Every 10% cumulative increase in production and realizations could enhance farm incomes by more than 500 billion rupees, thus boosting the rural economy and demand potential substantially.

**BARRIERS DUE TO LACK OF SINGLE AGRICULTURAL MARKET**

There is no single unified market within India and there are significant inter-state barriers to trade. These barriers can be categorised into taxation related barriers and physical barriers such as:

**TAXATION RELATED BARRIERS**

- Variation in rates across states (rationalised after VAT introduction, but not eliminated, leads to evasion through paper trades by unscrupulous players).
- High rates (most common rate of 4% appears low but given the low margins in Agri-business, this rate is also an incentive for evasion)
- Multi-point taxation (APMC cess is collected at multiple points; cascading impact on prices.

**PHYSICAL BARRIERS**

- Through Essential Commodities Act (physical controls like stock limits at times of short-term shortages lead to long-term supply distortions; Restrictions on movement of specific commodities create situation of uncertainty).
- Through Check Posts (restricts movement of agri-produce to attractive markets over long distance; restricts ability of farmers to manage price risk).
PRIVATE SECTOR INVESTMENT FOR MARKETING INFRASTRUCTURE IN AGRICULTURE

Jayati Ghose and Chandrasekhar (2002) analysing the impact of the ‘liberalisation’ policy of the government on the agriculture marketing sector state that the basic premise behind adopting the ‘free-market’ philosophy in agriculture was that it would provide ‘a price-incentive in the farm sector, shift terms of trade in favour of agriculture and lead to enhanced private sector investments in agriculture’. However reduced government intervention has led to a reduction in public investment, reduced flows of funds from the banking sector, disabled the public distribution system and weakened the structural arrangements in agricultural marketing.

Editors of the Human Development Report 2004 opine that the argument that the private sector alone can and does function effectively is wrong. They advocate a constructive role for the Government in the management of the economy, especially in developing countries.

The Private sector has always played a key role in developing marketing infrastructure for agriculture. However, this infrastructure is limited in the form of warehousing, cold storage and pack houses. Provided adequate government support in terms of conducive policy regime, minimum guarantee of returns (as is the case with other infrastructure such as power and road), fair competition (monopoly of APMC

---

markets), the private sector can play a much bigger role in the area of agricultural marketing and infrastructure development.

**Fig. III.3. Proposed Public Private Partnership**

**TREND IN PUBLIC PRIVATE INVESTMENT**

Private investment will change the way farmers in the state operate till now. Agricultural produce in the country is bought and sold in the mandi, which is a government regulated market. All transactions in the market yard are made after a payment of the mandi fee.
Table III.2

Table showing Trend in Public Private Investment

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09 (upto June)</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Investment (Rs in millions.)</td>
<td>371</td>
<td>2,394</td>
<td>4,733</td>
<td>1,998</td>
<td>9,495</td>
</tr>
<tr>
<td>Public Investment (Rs in millions.)</td>
<td>3</td>
<td>1,396</td>
<td>4,872</td>
<td>0</td>
<td>6,270</td>
</tr>
<tr>
<td>Total investment (Rs in millions.)</td>
<td>374</td>
<td>3,790</td>
<td>9,607</td>
<td>1,998</td>
<td>15,765</td>
</tr>
<tr>
<td>Ratio of private/public Investment</td>
<td>122</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Agricultural Marketing Summit-2009.

Over the years with the volume of products going up, the mandi system is unable to cope with the pressure. Farmers do not get price for their produce. Large investments are needed to modernise the system. With the government deciding to amend the Agricultural Produce Marketing Act, produce will no longer need to be sold exclusively in the Mandis. Since agriculture is a state subject, the centre circulated the model bill for the states to adopt. The private investment is needed in the agricultural marketing system as there is considerable gap the facilities available in the market yards. According to the government report only one fourth of the markets have drying yards. Cold storage units exist only in 9% of the markets and grading facilities exist in less than one-third of the markets.

Thus in order to make marketing efficient large investments is required for the development of the post harvest and cold chain infrastructure nearer to the fields. An
estimated investment of Rs.12,230 crore in the next plan is required for infrastructure. A major portion of this investment is expected from the private sector for which regulatory changes like amending the act is needed.

However, the private companies will invest only with the amendment of the APMC Act because the draft model legislation provided for the establishment of private markets, direct purchase centres, farmers markets for direct sale and promotion of public private partnership in the management of the agricultural markets. Thus the farmer has several options to sell his produce preventing distress sales. The market committees will act as regulators in the changed scenario and ensure the validity of the contracts and make sure that the private market yards are paying their fees. They will promote standardisation, grading, quality certification, market led extension and training of the farmers.

Madhya Pradesh, Himachal Pradesh, Punjab, Sikkim, Nagaland, Andhra Pradesh, Chhattisgarh, Rajasthan, Orissa, Arunachal Pradesh, Maharashtra and Chandigarh have notified reforms in their APMC Act. Haryana, Karnataka, Gujarat and Uttar Pradesh have undertaken reforms partially by amending APMC Act through an ordinance.12

Dr. Reddy Foundation for Human and Social Development, Hyderabad,13 a leading organization in the field, has found that effectiveness in bringing about transformation depends upon the change agent’s strategy. Success depends upon the ability to:

1. Build partnerships between private sector and public sector institutions.
2. Ensure stakeholder interest and participation

12 Agri-marketing Summit ’09.
3. Involve the community in all efforts.
4. Gain approval of bureaucracy.
5. Mentor the participants.

**RISK MITIGATION IN AGRICULTURAL MARKETING**

Risk is inherent in every marketing activity. It is all the more in agricultural market where the process of nature beyond the control of man or what is popular as an ‘act of God’ is predominant and has an impact on the forces of supply. The Indian situation provides a much more challenging scenario. Indian agriculture’s fortunes coincide with the monsoon and it is often said that ‘Indian agriculture is a gamble with the monsoon’.

Unlike in the Industrial sector, where producing firms have a substantial control over the marketing process, in the agricultural sector, the marketing system contributes a lot to the process of value-addition and hence the degree of risk managed and attended to by the market system is very high. Farmers are most vulnerable to marketing related risks such as fluctuation in commodity prices due to their poor holding capacity and cash requirement for the next crop. The government has been trying to implement various market mechanisms to cover farmer’s market related risks-future and spot trade agricultural commodities though electronic exchanges, implementation of warehouse receipt system. However, the results of these instruments have not reached the target beneficiaries due to limited awareness and frequent changes in government policy regarding commodity futures.
Private investment will change the way of operation of the farmers. At present agricultural produce is bought and sold in the mandi which is a government regulated market.

Agricultural Marketing to undergo complete transformation:

Some of the key areas for strengthening of the agricultural marketing system through private participation are:

1. **Direct Marketing**: Direct Marketing enables the farmers to directly sell their produce to the agri-processor, marketer and the consumers. It also involves farmers cultivating specific produce to meet the demands of the buyers. This increases the price realisation for farmers due to significantly lower marketing and intermediation cost. This model has been successfully experimented in Punjab and Haryana (Apni Mandies for vegetables and fruits), Andhra Pradesh (Rythu Bazaar) and Tamilnadu (Uzhavar Santhaigal).

2. **Public Private Partnerships in Agriculture Marketing**: The Private sector brings the investment, management expertise and efficiency, and complements the role of the public sector. Wholesale markets in state may be set up in the private sector with the state government playing the role of the facilitator/promoter and the regulator.

3. **Contract Farming**: Contract Farming is an agreement between processing and or marketing firms for production support at predetermined prices. This stipulates a commitment on the part of the farmers to provide a specific commodity in terms of quality and quantity as determined by the purchaser.
and commitment on the part of the company to support the farmer for production through inputs and technical support. Contract farming is becoming very popular and there are a number of success stories like Maul, NDDB, Pepsi Co., etc. Major crops include potato, tomato, groundnut and chilli in Punjab, Safflower in Madhya Pradesh, palm oil in Andhra Pradesh and cotton in Madhya Pradesh and Tamilnadu.

(4) Centres for Perishable Cargo: Perishable cargo centres address the problems faced by Indian exporters of perishable products due to inefficient handling at the cargo centres, which results in poor quality of products reaching the international markets. During the XI plan period, 15 perishable cargo centres are expected to be set up under PPP model, with an estimated investment of Rs.3 billion.

(5) Mega Food Parks: Mega Food Parks would be well defined agri/horticulture processing zone, containing state of art processing facilities with support infrastructure and well established supply chain. The primary objective of the proposed scheme is to facilitate the establishment of an integrated value chain with processing at the core and supported by requisite forward and backward linkages. The XI plan envisages establishment of thirty mega food parks across the country.

Ashok Gulati, Director IFPRI, highlighted the radical changes being brought about by the private sector participation in developed economies of Northern Europe, North America as well as developing economies like China and Indonesia.
While organised retail in India is still in an evolutionary phase (especially food retailing), we believe there is immense room for improving productivity and reducing cost by reducing intermediaries between the farm and fork. It was aptly noted that very little has been done in India to establish a direct procurement mechanism by leading retailers. Even today, major retailers continue to procure directly from farmers which would help improve productivity through better cold storage, warehousing etc.,

IMPACT OF WTO’S AGREEMENT

The WTO’s Agreement on Agriculture (AoA) is a crucial component of global agricultural trade. Market restrictions are one of the most important clauses of this agreement. The implication of this clause started with effect from 1st January 1995. The primary objective of this clause is to protect local producers from international competition. The domestic market may be promoted through various restrictions like imposition of tariffs, import duties, import quotas and other non-tariff barriers. Tariffs, import duties, tariff rate and quota are the effective measures to protect the domestic producers. Apart from these, other non-tariff barriers like complicated, time consuming and restrictive license procedures also serve as impediment to trade. These measures other than tariffs are collectively called as ‘Quantitative Restrictions (QRs)’. The developing country like India who had not converted their QRs into tariffs was allowed to have ceiling bindings.

STRATEGIES FOR DEVELOPMENT OF AGRICULTURAL MARKETING

The government has taken various steps to improve the conditions of the agricultural marketing but these steps are not meeting the required demands. The recent liberalisation, privatisation and globalisation policies make the farmers to face lot of
challenges ahead to market his product. Some of the initiatives for the rapid development of agricultural marketing are as follows:

♦ The compatibility between improved marketing facilities and better transport facilities would also ensure financial benefits/good returns to farmers.

♦ In view of liberalisation of trade and emergence of global markets, it is necessary to promote development of a competitive marketing infrastructure in the country and to bring about professionalism in the management of existing market yards and market fee structure. While promoting the alternative marketing structure, the government however needs to put in place adequate safeguard to avoid any exploitation of farmers by the private trade and industries.

♦ In addition, in order to provide dynamism and efficiency into the marketing system development of post harvest and cold chain, infrastructure near the farmer’s field is very important. This needs massive investments. An estimated over Rs.62,000 crores will be required for this purpose during the eleventh plan period.14

♦ An appropriate regulatory and policy environment is also equally necessary. Alongside enabling policies need to be put in place to encourage procurement of agricultural produce directly from the farmer’s field and to establish effective linkage between farm production, retail chain and food processing industries.

♦ There are several commodities which are of high economic significance that need urgent coverage through comprehensive price stabilisation and a need for policy which should have high market interventions to increase the operational efficiency of purchasing agencies in the context of cost efficient purchases.
CONCLUSION

The potential of agricultural sector in contributing to the rural economic growth and poverty alleviation needs to be strengthened in India. Agricultural Marketing constitutes an integral part of the economic development process. Marketing of agricultural products may appear to be simple, but it is very complicated and consists of various complex operations. A number of studies have been made to identify the defects, shortcomings and weaknesses of the ‘Agricultural Marketing system’ in India. Over the years, the Government, agricultural experts and academicians have tried to unearth the primary reasons which have lead to the prevalence of an undesirable state of affairs wherein ‘customers pay exorbitant prices for agricultural products while farmers do not get a fair price for their produce’. It is with reference to similar situations that the Marketing Committee of the UNO (1945) has observed, ‘It would be useless to increase the output of food, it would be equally futile to set up standards of nutrition, unless means could be found to move them from the producer to the consumer at a price which represents a fair remuneration to the producer and is within the consumers ability to pay’.¹⁵ Thus the agri-marketing in India has undergone rapid change in the last two decades. Though it is not a new concept, it is gaining constructive changes and developments after liberalisation. It opens various avenues for agricultural production and marketing in the development countries. In the present context of globalising Indian agriculture, the government has to evolve new marketing strategies which are essential to enhance the competitiveness of various crops and plan for appropriate extension activities to face the global competition.


¹⁵ Mamoria, op. cit., p.767.