Agricultural marketing in India suffers from inefficiency, a disconnect between the prices received by producers and the prices paid by consumers, fragmented marketing channels, poor infrastructure and policy distortions. Urgent reforms are needed to address these inadequacies and check the excesses of middlemen. While encouraging new models that improve the bargaining power of producers and scaling up successful experiments, producers’ companies and cooperative marketing societies could be promoted to provide alternative avenues for sale of produce. Meanwhile, price policy has to be reoriented to bring it in tune with the emerging demand and supply of various crops. Though the private sector is vital to improving efficiency, the public sector is equally essential to serve the larger social goal of maintaining price stability through market operations.

In a narrow sense, the role of agricultural markets is delivering products from sources to consumers. But, in a broad sense, their role extends to transmitting macroeconomic signals to producer firms, providing incentives to producers to attain the desired growth in agri-food output, improving the welfare of producers and consumers, balancing demand and supply, and promoting the efficient use of resources in the production and distribution systems. These roles require a competitive environment, strong physical and institutional infrastructure, and a favourable regulatory system. These conditions cannot come up on their own, particularly in a developing country like India. Therefore, agricultural market policies are treated as an integral part of development policies and their functioning has remained an important part of public policy in India.

This paper discusses various policies related to agricultural markets since the early 1960s, a time when major steps were taken for their transformation. It analyses how these policies have performed and their relevance, given changing production and consumption patterns, and technological and commercial developments.

**Policy Interventions in Agricultural Markets**

Policy interventions in agricultural markets in India have a long history. Till the mid-1960s, it was mainly meant to facilitate the smooth functioning of markets and to keep a check on activities that were considered inimical to producers and/or consumers. Subsequently, the country opted for a package of direct and indirect interventions in agricultural markets and prices, initially targeted at procuring and distributing wheat and paddy. This gradually expanded to cover several other crops/products and aspects of domestic trade in agriculture.

The present policy framework for intervention in agricultural markets and prices can be broadly grouped under three categories – (a) regulatory measures; (b) market infrastructure and institutions; and (c) agricultural price policy.

**Regulatory Measures**

The regulatory framework for agricultural markets consists of two sets of measures. One, measures for the development and regulation of wholesale markets; and two, a series of legal instruments for regulating the functioning of markets and trade activities.

**Agricultural Produce Market Regulation Act**

All wholesale markets for agricultural produce in states that have adopted the Agricultural Produce Market Regulation Act (APMRA) are termed “regulated markets”. Apart from Kerala,
Jammu and Kashmir, and Manipur, all other states in India have enacted marketing legislations, known as Agricultural Produce Marketing Committee (APMC) Acts. The Act is implemented and enforced by APMCs established under it. It mandates that the sale/purchase of agricultural commodities notified under it are to be carried out in specified market areas, yards or sub-yards. These markets are required to have the proper infrastructure for sale of farmers’ produce. Prices in them are to be determined by open auction, conducted in a transparent manner in the presence of an official of the market committee. Market charges for various agencies, such as commissions for commission agents (arhtiyas); statutory charges, such as market fees and taxes; and produce-handling charges, such as for cleaning of produce, and loading and unloading, are clearly defined, and no other deduction can be made from the sale proceeds of farmers. Market charges, costs, and taxes vary across states and commodities.

On the whole, the APMC Acts have served some important purposes. They got rid of several malpractices and imperfections in agricultural markets, created orderly and transparent marketing conditions,1 and ensured a fairer deal to farmers selling their produce (Acharya 2004). It was a pressing need at the time and it transformed agricultural markets in most states of the country. Besides improving the way markets functioned, the Acts created an environment that freed producers-sellers from exploitation by traders and mercantile capital.

In recent years, pressure has mounted to change this market regulation and remove its various restrictions. It is argued that the Act was relevant when private trade was underdeveloped, exploitative, and controlled by mercantile power. The marketing monopoly provided to the state by the Act is seen as protecting them from exploitation by middlemen, and creating a competitive pricing environment. Simultaneously, the hold traders and commission agents had over them by providing credit was diluted by increasing the supply of institutional credit. This, along with technology-led output growth, resulted in increased farm incomes, making farmers less dependent on the trading class for credit and cash requirements. It also gave farmers the freedom to choose markets and buyers for their produce.

The spread and success of the green revolution during the 1970s and 1980s led to an increase in the political power of the farming class and their clout in policymaking. This was reflected in the creation and strengthening of farmer-friendly institutions and a policy environment favourable to farmers. Marketing institutions like market committees, state-level agricultural marketing boards and many others in the public and cooperative sectors served the interests of the farming community. Over time, as the country moved close to food self-sufficiency, public policy began losing its focus. The marketing system and marketing institutions were plagued by inefficiencies, bureaucratic control, and politicisation. The growth in market facilities did not keep pace with the growth in market arrivals, forcing producers to seek the help of middlemen in the market, which, in turn, led to dependence on them. There was also a reversal in the credit situation after 1991, making farmers more dependent on commission agents and traders for loans. The trading class quickly regained its marketing power over farmers by meeting their credit requirements with interlocked transactions, robbing producers of the freedom to decide where they would sell and whom they would sell to.
Taking advantage of the lax attitude of state governments towards marketing, the trading class consolidated their power in mandis. The so-called unorganised traders, individually small but numerically large, acquired power by organising themselves, which proved to be a potent factor in electoral politics. The ascent of the Bharatiya Janata Party (BJP) provided considerable clout and power to the trading class to influence public policy. And with populist politics, no state government wanted to undertake any market reforms that were opposed by the trading class for fear of losing its support. As a result, traders, commission agents, and other functionaries organised themselves into associations, which do not allow the entry of new players, stifling the competitive functioning of markets (Acharya 2004: 106). Middlemen successfully turned marketing policies to their benefit, dictating terms to producers, and thwarting modern capital from entering agricultural marketing. Some examples of this are: (i) increasing the commission rates of arhtiyas without any justification; 
(ii) rejecting direct payment to producers, which would bypass commission agents; and (iii) determining prices through non-transparent methods.

These developments speak of the political clout and influence that middlemen have acquired in agricultural markets. There are also reports of collusive behaviour by wholesale buyers in markets (Banerji and Meenakshi 2001). Commission agents sometimes charge exorbitant fees for carrying out auctions. According to Gulati (2009), farmers at the Azadpur fruits and vegetable market in New Delhi have to pay commission agents a fee ranging from 6% to 10% for an auction that lasts for about five minutes. Similarly, in Vashi market in Mumbai, the commission agent’s fee is 8% and even goes up to 15%.

The various problems facing the agricultural marketing system were summarised by the Twelfth Plan Working Group on Agricultural Marketing (Planning Commission 2011):

- Too many intermediaries, resulting in high cost of goods and services;
- Inadequate infrastructure for storage, sorting, grading, and post-harvest management;
- Private sector unwilling to invest in logistics or infrastructure under prevailing conditions;
- Price-setting mechanism not transparent;
- Ill-equipped and untrained mandi staff;
- Market information not easily accessible; and
- Essential Commodities Act (ECA) impedes free movement, storage and transport of produce.

Thus, the APMC Act, which was enacted to protect farmers’ interests and increase market efficiency and transparency, is now being used to deny them opportunities to get better prices, to prevent competition, and to guard the interests of middlemen. Various researchers have reported findings on these lines. A serious consequence of selling at a designated place, the yard of a mandi, is that once agricultural produce has been brought to it, it is seldom taken back in the event of any unfair deal. The costs already incurred in bringing the produce to the market and in cleaning and unloading it prevent this. This robs the producer of whatever little bargaining power she/he has in price determination. The direct sale of produce leaves this option with farmers. The system of having to go through regulated mandis also places small producers with less to sell in a disadvantageous position.

Small Traders Dominant
Agricultural markets in the country are crowded with small traders who operate on a small scale in a limited market segment. In agriculturally advanced Punjab, there are as many as 22,000 commission agents; one for every 50 farmers. Then there are a host of other middlemen such as wholesalers, transporters, labour contractors, and brokers in each market. As the size of their business is small, they seek large margins on small volumes of business. Thus, the channels for marketing of agricultural produce remain long and fragmented and lack economies of scale. On an average, four to six transactions take place before the produce reaches consumers from the point of sale by producers. As each transaction involves cost and some margin for intermediaries, the price spread between consumers and producers becomes quite large, without any real value addition. Some of the middlemen are found to render no real service – they simply earn rent. Even the Model Act has failed to change the status quo. So, producers feel that they do not get value for their produce and consumers feel that they have to pay an unjustifiably higher price. The only way to address this is to integrate the supply chain, reduce the number of intermediaries, and allow economies of scale in market operations. This is not possible if there are no alternative marketing options to government mandis.

A grave fallout of the present market system is declining competitiveness. This means increases in prices at the consumer level, which are the result of various factors, are not passed on to farmers. A classic example of this is the case of arhar (pigeon peas) in Maharashtra, where the benefit of price increases has been captured by middlemen without any benefit to farmers, as is shown in Figures 1 to 3 (p 56). The price spread between the farm harvest price (FHP) of arhar (whole grain) in Maharashtra and the wholesale price (WSP) of arhar dhal7 (split and polished grain) in the Mumbai market increased from less than 25% to more than 70% between 2000 and 2009 (Figure 1). Thus, in just 10 years, the margin middlemen earned recorded a threefold increase in the same state for the same type of product. Between 1999-2000 and 2009-10, the price received by producers for arhar increased by less than 5% per year, whereas wholesale and retail prices of arhar dhal increased by more than 10% per year. Figure 2 also shows the change in minimum support price (MSP) of arhar announced by the central government relative to the change in the WSP of arhar dhal. The MSP for arhar at the beginning of the last decade was more than 50% of the WSP of arhar dhal in the Mumbai market. The level of support declined steadily to one-third by 2009-10. Thus, an increase in the MSP of arhar, even though notional, did not keep pace with the increase in market price in this period. This illustrates a policy (price) failure in the case of pulses.

The main reason for requiring that produce be sold and purchased only in a regulated market is revenue generation...
through collection of mandi fees and taxes. But this often stops farmers from selling produce outside the state for better price realisation. While the mandi fee is a service charge for using its services, other taxes are for state revenue. It needs to be carefully worked out whether revenue considerations are more important than increments in price realisation to producers from selling produce outside the mandi, and whether there are ways to take care of the state revenue from agriculture marketing if produce does not pass through mandis.

**Legal Instruments**

Apart from the APMC Acts, the activities of market functionaries are regulated by several other legal instruments promulgated and revised from time to time by the central and state governments (Acharya 1998, 2001: 131). The most important regulation is the ECA (1955). Almost all agricultural commodities, such as cereals, pulses, edible oilseeds, oilcakes, edible oils, raw cotton, sugar, gur, and jute, are included in the list of essential commodities. The Act provides for instruments like licences, permits, regulations and orders for (a) price control, (b) storage, (c) stocking limits, (d) movement of produce, (e) distribution, (f) disposal, (g) sale, (h) compulsory purchase by the government, and (i) sale (levy) to the government. A very large number of control orders have been put into force by the central government and state governments under the ECA.

To encourage quality and promote consumers’ confidence in agricultural products, another Act known as the Agricultural Produce Grading and Marking Act was passed in 1937. It defines standards of quality and prescribes grade specifications for a number of products. The Act authorises an agricultural marketing adviser in each state to grant a certificate of authorisation to persons or corporate bodies who agree to grade agricultural produces as prescribed by it. There are AGMARK grade specifications for 212 agricultural products, but the use and awareness of it have remained low despite a better understanding of quality attributes among consumers.

The main aims of the various regulations were to check the exploitation of producers and consumers by private traders through collusion and hoarding, to stabilise prices, and to raise the standards of markets and improve their performance. Many changes have taken place in the marketing and trade environment since these regulations were framed. The development of transport and communication, an expansion of marketing, and increased competition make it possible for the private sector to play a larger role in agricultural marketing. It is felt that excessive control and intervention by the government have hampered the participation of private trade in agricultural marketing, which is counterproductive (Debroy and Kaushik 2002; Jha et al 2010). As a step towards liberalisation of agricultural trade, the union government issued an order on 15 February 2002, which removed licensing requirements and all restrictions on buying, storing and transporting specified commodities, including wheat, rice, oilseeds and sugar. They were further decontrolled after this. Similarly, the dairy sector was liberalised through various amendments to the Milk and Milk Product Order, beginning in 1992. The main purpose of these changes was to allow increased participation by the private sector in marketing agricultural commodities. In response, private-sector investments in the dairy sector have increased and it has healthy competition between cooperatives and the private sector.

However, the experience of liberalising grain trade has not been very encouraging. The 2002 change in the ECA attracted big domestic and multinational players like ITC, Cargil, Australian Wheat Board, Britannia, Agricoire, Delhi Floor Mills and Adani Enterprises to the grain trade. This came after the government had accumulated excessive foodgrain during 2001-03. But soon, the domestic foodgrain demand and supply balance, particularly for wheat, turned adverse and India had to import more than 6 million tonnes of wheat in 2006-07. The imports were arranged with great difficulty and at a high price because India’s wheat shortage coincided with a period of high global prices, which culminated in the global food crisis of 2007-08.
Partly because of below normal production and partly because of an increase in procurement by private trade, the official agencies could not obtain enough wheat in 2006-07. The government was worried about being able to procure an adequate quantity of wheat in 2007-08 because rising global and domestic food prices were providing a strong incentive to the private sector to buy wheat coming to the market. Unrestricted trade in grains by the private sector was also found to aggravate instability in prices. These developments led the government to reconsider and it, along with many state governments, decided to reverse the decision on the RCA. This made a large section of the organised private trade (large players) withdraw from the grain market.

Some researchers have analysed the demand and supply situation of wheat and other trade issues during this period (Chand 2007a, 2007b), but in-depth information on why the government became wary of allowing freedom to market forces and the private sector in the grain trade is missing. There is a need to investigate whether it was circumstances, the conduct of private trade, or a fixed procurement price for the whole season that made it difficult for the government to manage the foodgrain economy in 2006-07 and 2007-08.

Tracking events during that period indicates that the sharp drop in procurement of wheat in two successive years, caused by the high prices offered by private players, created a panic situation of sorts and it led the ministry of food to reverse the reforms in the grain market. It is very pertinent to note that it was only in 2005-06 and 2006-07 that wheat producers in UP, the largest wheat-producing state, received prices higher than the MSP. 9 The government was worried about being able to procure an adequate quantity of wheat in 2007-08 because rising global and domestic food prices were providing a strong incentive to the private sector to buy wheat coming to the market. Unrestricted trade in grains by the private sector was also found to aggravate instability in prices. These developments led the government to reconsider and it, along with many state governments, decided to reverse the decision on the RCA. This made a large section of the organised private trade (large players) withdraw from the grain market.

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- How can competitiveness in the grain market be improved while maintaining price stability?
- How can public agencies secure supplies to meet food security obligations, like providing subsidised grain to the public distribution system (PDS), in a free market when the private sector offers more attractive prices to producers?

Table 1: Minimum Support Price and Price Received by Farmers for Paddy and Wheat in Highest Producing States (Rupees/Quintal)

<table>
<thead>
<tr>
<th>Year</th>
<th>Paddy</th>
<th>Wheat</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSP</td>
<td>FHP (West Bengal)</td>
<td>FHP-MSP</td>
</tr>
<tr>
<td>1995-96</td>
<td>360.0</td>
<td>417.0</td>
</tr>
<tr>
<td>1996-97</td>
<td>380.0</td>
<td>466.0</td>
</tr>
<tr>
<td>1997-98</td>
<td>415.0</td>
<td>580.0</td>
</tr>
<tr>
<td>1998-99</td>
<td>440.0</td>
<td>634.0</td>
</tr>
<tr>
<td>1999-2000</td>
<td>490.0</td>
<td>543.0</td>
</tr>
<tr>
<td>2000-01</td>
<td>510.0</td>
<td>438.0</td>
</tr>
<tr>
<td>2001-02</td>
<td>530.0</td>
<td>471.0</td>
</tr>
<tr>
<td>2002-03</td>
<td>530.0</td>
<td>434.0</td>
</tr>
<tr>
<td>2003-04</td>
<td>550.0</td>
<td>469.0</td>
</tr>
<tr>
<td>2004-05</td>
<td>560.0</td>
<td>507.0</td>
</tr>
<tr>
<td>2005-06</td>
<td>570.0</td>
<td>520.0</td>
</tr>
<tr>
<td>2006-07</td>
<td>580.0</td>
<td>562.0</td>
</tr>
<tr>
<td>2007-08</td>
<td>645.0</td>
<td>631.0</td>
</tr>
<tr>
<td>2008-09</td>
<td>850.0</td>
<td>696.0</td>
</tr>
<tr>
<td>2009-10</td>
<td>950.0</td>
<td>772.0</td>
</tr>
</tbody>
</table>

These issues are discussed in the section on price policy.

Agricultural marketing is a state subject and many states are either slow or reluctant to implement various reforms and legislations related to marketing, even though they are considered necessary for developing the market and trade and for improving the welfare of producers and consumers. Some experts suggest moving agricultural marketing to the concurrent list so that the required changes can be implemented quickly and smoothly.

### Marketing Infrastructure

Marketing infrastructure has two broad dimensions – quantity and quality. A simple indicator of market infrastructure is the number of agriculture markets. Progress on this vis-à-vis an increase in agriculture production, as seen in the index of crop production and volume of production, is presented in Table 2. Between 1976 and 1991, the total number of regulated markets in the country increased from 3,528 to 6,217, a 76% increase over 15 years. In the same period, agriculture production in the country increased by 74%. This shows that marketing infrastructure in terms of availability of space kept pace with the growth in output. After 1991, the number of regulated markets grew only 22% in 17 years, till 2008. In the same period, the volume of production increased 70%. There has been no increase in the number of markets after 2006. Further, due to rising commercialisation of agriculture, market arrivals have increased at a much higher rate than the growth in production, indicating a widening gap between the increase in marketed surplus and the number of markets. As a consequence, markets are crowded, putting sellers in a disadvantageous position and providing advantages to buyers.

**Table 2: Growth in Agricultural Output and Markets since Mid-1970s**

<table>
<thead>
<tr>
<th>Year</th>
<th>Crop Output</th>
<th>Quantity</th>
<th>Regulated Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>85.2</td>
<td>–</td>
<td>3,528</td>
</tr>
<tr>
<td>1980</td>
<td>102.1</td>
<td>–</td>
<td>4,446</td>
</tr>
<tr>
<td>1991</td>
<td>148.4</td>
<td>285.5</td>
<td>6,217</td>
</tr>
<tr>
<td>2001</td>
<td>179.1</td>
<td>373.7</td>
<td>7,161</td>
</tr>
<tr>
<td>2008</td>
<td>201.8</td>
<td>483.7</td>
<td>7,566</td>
</tr>
</tbody>
</table>

**Compound growth rate %**

- **1976 to 1991**: 3.769 – 3.849
- **1980 to 1991**: 3.458 – 2.729
- **2001 to 2008**: 1.719 – 0.789

*Includes foodgrains, oilseeds, cotton, fruits and vegetables.

Source: Agricultural Statistics in India, Department of Agriculture and Cooperation, Ministry of Agriculture, New Delhi, various issues, Manual on Agricultural Prices and Marketing, CSO-MAPM-2010, CSO, Ministry of Statistics and Programme Implementation, New Delhi, October 2010, Annexure VIII.

The experience of some states, especially in agriculturally less-developed regions, shows that mere regulation does not help in improving market performance if the required infrastructure is not there. It is reported that one-third of regulated markets in the country do not have a common auction platform. The infrastructure for marketing perishables like fruits and vegetables, which require special facilities for storage and processing, are very inadequate (Planning Commission 2007a). The Working Group on Agriculture Marketing for the Twelfth...
Plan highlighted the following gaps in the marketing infrastructure (Planning Commission 2011).  
• There has been virtually no progress in setting up wholesale markets, except in Kerala;  
• There are only 1,637 grading units at the primary level in the whole country;  
• Of 7,246 regulated markets in India, grading units are found in less than 20% of the market yards/sub-yards;  
• Only around 7% of the total quantity sold by farmers is graded before sale;  
• The scientific storage capacity is only 30% of what is required; and  
• Cold storage facilities are available for only 10% of fruits and vegetables.

The appalling state of marketing infrastructure can be seen in Table 3, which presents data from the Directorate of Marketing and Inspection. It shows deficiencies in infrastructure that has to be provided in regulated markets according to the APMRA. These statistics reveal why producers depend on arhtiyas and traders in primary markets. A common auction platform is not available in one-third of the markets, necessitating the use of private platforms or the conduct of auctions without the proper display of produce. Producers are often not aware of acceptable moisture levels in their produce. Market yards are required to provide common areas for drying produce before it is auctioned. This facility was available in only 26% of the regulated markets. Simple facilities like benches to sit on and drinking water taps were not available in more than 70% of the markets. Price information to enable producers to know the ruling price was not displayed in 39% of the markets. The lack of various facilities and amenities in markets forces producers to look for them elsewhere, which means agents and traders.

| Table 3: Facilities/Amenities in Regulated Markets |
|-----------------|------------------|
| **Facilities/Amenities** | **Percentage of Markets with Facility (%)** |
| Common auction platform (covered) | 64 |
| Common auction platform (open) | 67 |
| Common drying yards | 26 |
| Grading equipment | 30 |
| Canteen | 43 |
| Drinking water taps | 28 |
| Seating benches | 28 |
| Public address system | 34 |
| Price display board | 61 |

Source: Manual on Agricultural Prices and Marketing, CSO-MAPM-2010, CSO, Ministry of Statistics and Programme Implementation, New Delhi, October 2010, Annexure VIII.

The AGMARK facility, which is meant to promote grades and standards, has not become popular (Table 4). The total quantity of produce graded at the producers’ level in any year has not even reached 10 million tonnes (mt) – the highest level attained was 9 mt in 2008-09. AGMARK grading touched its highest total of 1.16 mt in 2010-11. The highest quantity of exports under AGMARK was 51,000 tonnes in 2009-10. Due to lack of awareness and extremely low brand value, the total value of AGMARK certified output did not cross even 1.5% of the total value of crop produce in the country. In 2010-11, exports worth only Rs 180 crore were certified, which was 0.16% of the total value of agricultural exports from India.

The main reasons for poor market infrastructure are (i) market committees did not plough back the market fee collected into developing infrastructure and these funds in several cases were siphoned off to the government account (GoI 2001), and (ii) the government monopoly in setting up agricultural markets has prevented the private sector from taking the initiative to develop marketing infrastructure (Acharya 2004: 107).

**Institutions and Alternative Marketing Models**

A large number of public-sector institutions and cooperative marketing organisations were set up after Independence to improve the market structure, its conduct and performance, and to help growers realise better returns for their produce. Private trade in India at the time was underdeveloped and not equipped to meet the needs of a growing economy. Some of these institutions, such as the Food Corporation of India (fci), the Cotton Corporation of India (cci), the National Dairy Development Board (nddb), and the National Agricultural Cooperative Marketing Federation of India (napfed), and some commodity boards have a strong presence in the market whereas others have become dormant or defunct. The decline has been quite serious in the case of state-level and cooperative institutions. The country needs to revive these institutions and build them on business lines as they Act as a balance to the private sector and serve the purpose of attaining social objectives.

**Alternative to Mandi System**

The Model Act was to add alternatives for the sale of produce and to provide competition to government mandis. The following are its salient marketing features.

• Establishment of new markets for agricultural produce in any area by legal persons, growers and local authority;  
• Contract farming with a provision for direct sale of produce from farmers’ fields, without requiring it to pass through a notified committee;  
• Purchase of agricultural produce through private yards or directly from agriculturists; and  
• Establishment of consumer/farmers’ markets to facilitate direct sale of agricultural produce to consumers.

There has been some progress in contract farming, but growth in the other aspects has been very slow, particularly the setting up of alternative mandis by cooperatives and the private sector. It is pertinent to mention two ventures that have had tremendous success – Safal Fruits and Vegetables Auction Market, a cooperative set by Mother Diary Food Procuring Limited (mdfpl), an nddb subsidiary, in Bangalore, for procuring and marketing horticultural produce; and the rrc e-choupal, a private platform for purchase of farmers’ produce...
in Madhya Pradesh. The main reasons for the private sector not coming forward to set up an alternative market infrastructure are the reluctance of states to change the existing mandi system, a lack of enthusiasm for the Model Act, and the difficulties and cost involved in acquiring land for setting up markets.

**Innovative Marketing Mechanisms**

Some innovative marketing mechanisms have been developed in some states, which involve the direct sale of farm produce to consumers, the sale of produce to buyers without routing it through mandis, and group marketing. Many states have attempted to promote direct contact between producers and consumers by making arrangements for sale at designated places in urban areas. Examples are Apni Mandis or Kisan Mandis in Punjab and Haryana, Rythu Bazaars in Andhra Pradesh, Sherkari Bazaars in Maharashtra, Krushak Bazaars in Odisha, and Uzhavar Sandhais in Tamil Nadu. The scale of operation of these marketing arrangements is quite small as only farmers in the vicinity of big towns can take advantage of them. But this mechanism has scope for reducing the market margin and eliminating middlemen, though it cannot cover produce separated by a geographic distance from consumers.

Another successful example of linking producers to consumers and eliminating middlemen is of Safal, a division of the NDDB. Its method of direct procurement backed with technical support has benefited farmers immensely, even without an assurance on prices. Similarly, vertical integration of poultry meat production under integrators who supply everything from inputs to technical support and pay the producer a predefined fixed price has been very successful (Birthal et al 2005).

Farm producers’ organisations (FPOs) of various kinds are emerging as a new model for organised marketing and farm business. Such models include informal farmers’ groups or associations, marketing cooperatives and formal organisations like producers’ companies. Producers can benefit from getting together to sell their produce through economies of scale in the use of transport and other services, and raise their bargaining power in sales transactions, while marketing expenses get distributed. This results in a better share of net returns. Such models are particularly required for small farmers to overcome their constraints of both small size and modest marketable quantities.

In response to a long-pending demand from farmers’ groups, the government amended the Companies Act, 1956 in 2002, allowing the incorporation of producers’ companies. According to the amended Act, 10 or more individual producers, or two or more producer institutions, or a combination of both, and cooperatives can form a producers’ company. The company can produce, harvest, procure, handle, pool, grade, market, sell, and export the primary produce of members, or import goods or services for their benefit. It can also be involved in processing, including preserving, drying, distilling, brewing, canning and packaging the produce of its members. Such companies can go a long way in improving the well-being of producers through group action – in production, post-harvest activities, and promoting marketing and trading. Though the benefits of FPOs are obvious, they cannot be expected to come up and grow on their own. FPOs require committed and sustained help from government agencies to mobilise members, help capacity development, and hand-hold them in the initial stages.

Contract farming has seen appreciable growth in most states after the legal restrictions on them were removed. This has paved the way for vertical coordination becoming a viable model for the food-processing industry as well as agri-commodity markets, and several initiatives, though on a small scale, have been taken in recent years. Yet, there are some reported dangers like the overuse of natural resources, violation of contracts, and the introduction of undesirable seeds. Keeping the pros and cons in view, the union ministry drafted a model contract farming agreement and a supportive legislation that can be inserted in the APMC Acts. The model provides for compulsory registration of contracts, a dispute settlement mechanism, the settlement of claims within three months, and a ban on enmeshing farmers’ land (Acharya 2006). The following are some of the suggestions to make contract farming successful.

1. Contract farming should be made legal. If contracts are violated, farmers as well as the company should be able to approach an organisation or institution, which can mediate and settle the dispute.

2. There should be an institutional arrangement to record all contractual arrangements, maybe the local market committee or panchayat or some government department. This will promote and strengthen confidence-building between the parties and also help solve disputes.

3. Contract farming should have a provision for both forward and backward linkages. Unless both input supply and market for the produce are assured, small farmers will not be able to participate in it.

4. Contracts should be managed in a more transparent and participatory manner so that there is greater social consensus in handling violations, which could avoid costly and lengthy litigation.

The direct purchase of farm produce by retailers has been steadily increasing with the growth of organised retailing in India. This is expected to accelerate with the entry of foreign direct investment (FDI) to the field. Food World (of the RPG group) is the leader among organised food retail chains, and there are many more such as FabMall, Monday to Sunday, Family Mart, More for You, Heritage, and Reliance Fresh. Most food chains are regional in nature, having one or two outlets in the main cities, but no big presence outside their states. Rapid urbanisation, urban population growth, increase in incomes and consumer spending, changing lifestyles, and access to technology have been the important factors behind the expansion of food retail chains in India. Despite several factors favouring organised retail trade, it is still in a nascent stage in the country.

Integration of farmers into retail chains through contractual arrangements can fetch them higher and assured prices and allow the chains to plan the quality and quantity of supply. The other advantages of this model are reductions in transportation and handling costs, the absence of middlemen, an
assured market, and reduced price risk. However, this model has limited reach. Though the official view is that PDS in retail trade will be a boon to the farm sector and solve problems in the marketing system, the experience of countries where organised retail has reached a mature phase show that it can cover and benefit a maximum of 10% to 15% of farm producers. Therefore, the potential of organised retail to benefit some farmers should not deflect attention from the various measures that are needed to connect retail and farm prices, and producers and consumers.

**Agricultural Price Policy**

The agricultural price policy is aimed at intervening in agricultural produce markets to influence the level of fluctuations in prices and the price-spread from farm gate to the retail level (GOI 2010). The main instruments of agricultural price policy have been (i) assured prices to producers through the system of MSPs implemented through obligatory procurement, (ii) inter and intra-year price stability through open market operations, (iii) maintaining buffer stocks, and (iv) distributing foodgrains at reasonable prices through the PDS. This policy has been helpful in several ways. From a situation of massive shortages, India has emerged as a net exporter of food, and food security has been attained at the national level. Prices of basic food items have remained relatively stable, and India did not face the sharp price spikes experienced by many countries during the global food crisis (Chand 2008). The policy has had a positive effect on farm income and led to economic transformation in well-endowed, mainly irrigated, regions.

**Critique of Price Policy**

The price policy implemented in the last four and a half decades has mainly benefited wheat and rice among foodgrains and sugar cane and cotton among other crops (Chand 2003). This has resulted in a shift of land and other resources away from pulses, oilseeds and coarse grains to wheat and paddy, which has created serious imbalances in the demand and supply of various agricultural commodities in the country. The country has been facing large shortages of pulses and edible oils and has to now meet about 15% of its demand for pulses and 40% of its demand for edible oil through imports. These imports have an adverse impact on producers in unfavourable dryland areas, while exports of rice and wheat have increased, alongside a piling up of stock. The national requirement, particularly of pulses, has been bypassed by the price policy.

The per capita availability of pulses, which are the main source of protein in Indian diets, suffered a decline from 25.2 kg in 1961 to 18.7 kg in 1971 and further to 13.5 kg in 2000. This was not the result of a shift in preference but because of a decline in their availability. This is evident from that their prices have increased at a higher rate than those of cereals. The country has been importing pulses and edible oil for a long time now. On the other hand, it has been exporting a sizeable quantity of rice and occasionally also wheat. Except in 2006-07 and 2007-08, India has not had to significantly import wheat. Based on these trends in demand and supply, trade and stock, one would expect the price policy to influence a price parity in favour of pulses and oilseeds vis-à-vis rice and wheat. The actual experience on this is depicted in Figure 4. It shows that the ratio of MSP of wheat relative to chickpea and rapeseed mustard declined for almost a decade beginning 1995-96, and increased sharply after that. Thus, the price of wheat relative to pulses and oilseeds remained at almost the same level where it was during the mid-1990s. The price of paddy relative to pigeon pea shows an annual decline of 1.2%, but it was found to be statistically non-significant. Thus, during a period when the country moved towards surplus rice and wheat and inadequate pulses and oilseeds, no serious policy change was followed to change the price parity in accordance with the national requirement.

Policy-induced changes in production patterns towards rice and wheat have put a lot of strain on natural resources. Intensive cultivation of these two cereals, particularly rice-wheat rotation, has resulted in depletion of water, soil degradation, and deterioration in water quality (Chand 2010). The price policy practised in the country since the onset of the green revolution ignored the TOR, which recommended developing a production pattern broadly in the light of national requirements and ensuring the rational use of land, water, and other resources.

The second major criticism of the price policy is that a large number of crops and states are not covered by effective implementation of the MSP (Chand 2003). The prices received by farmers are often below the MSP in a large number of crops and in a large number of markets where it is not supported by effective procurement (Planning Commission 2007b: 67-68).
This can be seen from the prices received by farmers for wheat and paddy in UP and West Bengal in the last 15 years (Table 1). The table shows the difference between the MSP and FHP in the two states. The average FHP in West Bengal was higher than the MSP from 1995-96 to 1999-2000. After this, the paddy price received by farmers has remained lower than the MSP in all years, with the gap widening in recent years. The story of wheat in UP is similar. After 1996-97, UP farmers have received a price higher than the MSP in only two years out of 13 – the years the private sector was in the wheat market in a big way. In the other years, the FHP has been lower than the assured price announced by the government.

**Reforming Price Policy**

Till now, the price guarantee to producers has been implemented by procuring produce at the MSP/procurement price, in selected states and markets. It is not feasible for public agencies to procure the marketed surplus of each and every commodity everywhere in the country to prevent prices falling below a floor level; nor would this be desirable. Honouring price guarantee through procurement, which always involves raise in price, also leads to serious price distortions (Chand 2009). So, new mechanisms have to be devised to protect producers against the risk of the price falling below the threshold level.

One way of doing this is to provide a price guarantee for all the major crops grown in each state either through MSPs or a minimum insured price (MIP). The basis for the MIP could be the paid-out cost (A2) or average price of the past three or four seasons. The MSP should be restricted to basic staples like paddy and wheat, and it should be made effective through a procurement mechanism in all the districts that have a reasonably high surplus of the crops. All other major crops should be covered by the MIP. Under this, all farmers should be given the option of registering the quantity of surplus produce expected from their farm with the market committee, at the time of sowing, and insuring it against the price falling below a certain level by paying a nominal charge. If the actual market price for the produce sold in regulated markets during the specified marketing period falls below the insured price, the farmers covered by the MIP should be compensated through deficiency price payment (DPP). Another way of ensuring the MIP is through extending the market intervention scheme (which is in operation in some commodities and in some states) to all the major crops in all the states.

To sustain the food security of the country, the agricultural price policy should focus on harnessing the agricultural potential of low productivity regions like Bihar, east UP, Odisha, Assam, Madhya Pradesh, and Chhattisgarh. This can be done by extending foodgrain procurement operations involving remunerative and assured prices through implementation of MSPs. These states have poor marketing infrastructure and underdeveloped and exploitative private trade. Public procurement would not only help in boosting the growth of cereal output and in reaping technological gains, but also in developing a marketing system.

There is the need to maintain a distinction between the MSP and procurement price. While the MSP in its present form should continue to be announced before the sowing season, the government should separately announce a procurement price at the start of the harvest season. This price should be used as a benchmark for foodgrain procurement by the government. A cell in the ministry of food should monitor prices regularly, and if need be, change the procurement price upwards or downwards (each week or day), depending on the market situation. In this age of instant communication, there should be no problem in instructing the field staff of public agencies about the day-to-day procurement price. Under this, the government should procure all grain offered for sale at the MSP if prices fall below the threshold level. If the market price is above the MSP, the government should not distort prices to force them to the level of the MSP to achieve its procurement target. Rather, it should buy produce at the procurement price, which has been adjusted to the prevailing market reality. This requires the FCI to operate alongside private players without distorting the market, rather than seeking a space free of private trade.

**Summing Up**

Agricultural marketing suffers from inefficiency, a disconnect between the prices received by producers and the prices paid by consumers, fragmented and long marketing channels, poor infrastructure, and policy distortions. Agricultural markets are not vertically integrated (Chand 2006), though they are horizontally (Jha et al 1997). In the total value added in production and marketing, the share added in the post-harvest phase is rising and that in production is falling. In some cases, value addition in marketing is larger than value addition in production. With farm sizes getting smaller, income from agriculture produce can be improved by enabling the farmers to get a share of the value added in marketing by developing and strengthening marketing mechanisms that includes them as partners. Urgent reforms are needed in agricultural marketing to achieve such goals and address the inadequacies now prevailing in markets.

The best marketing model for producers and consumers is where producers sell directly to consumers, either as individuals or as some sort of organisation. Such models have been developed in some states and farmers are allowed to sell their produce as retail to consumers in towns on certain days without intermediaries. The scale of operation of these arrangements is quite small and only farmers near big towns can benefit from them. Such innovative marketing should be promoted on a large scale.

The demand pattern for agricultural commodities, both at the consumer and industry levels, has been changing rapidly towards processed products, quality products, and specific traits. These changes favour integrated supply chains over conventional marketing channels, assured markets over open markets, and specific produce over generic produce. Such supply chains offer tremendous scope to reduce the margins paid to middlemen. A well-functioning supply chain can reduce the
cost of marketing by linking farmers more closely to processing firms and consumers, and guide the production to meet changing consumer preferences for quantity, quality, variety, and safety. Modern supply chains also often have strict private standards and this helps to standardise product requirements over many regions or countries, enhancing efficiency and lowering transaction costs (Chand et al 2009). The supply chain concept can be beneficial to small holders, who dominate India’s agriculture. It has also been suggested that the institution of integrators who assemble small produce and sell it in the market on behalf of producers or themselves be promoted.

A few experiments such as direct procurement backed by technical support have benefited farmers immensely. These indicate that the participation of cooperatives and private-sector firms in marketing agricultural produce under specific conditions can help farmers. This calls for a thorough review of existing agricultural marketing policies, and implementing changes to bring producers closer to consumers.

Organised retailing in India has grown steadily in the last decade. Despite official claims that ron in organised retail will provide a big boost to farmers, experience elsewhere shows that it can help some pockets, but not serve the multitude of Indian farmers. Therefore, organised retail, with or without ron, should not be seen as a panacea for addressing the problems of agricultural marketing and it should not deflect attention from other models and mechanisms for improving competitiveness and efficiency. Given the vastness and diversity of Indian agriculture, the country requires multiple approaches, including the APMC mechanism, new models, and scaling up successful ventures such as cooperative milk marketing, along with organised retail. All states, in particular, need to promote producers’ association, producers’ companies, and cooperative marketing societies to improve the bargaining power of producers and to raise their share in value addition, which is getting bigger and bigger. Most of the reforms needed in agricultural marketing are proposed in the Model Act. The states must implement the Model Act in the right spirit without diluting it to serve the interests of particular groups. This will pave the way for direct marketing and vertical coordination through contract farming. It will also provide alternative options to producers for sale of produce, and create a competitive environment for services that are now a monopoly of APMCs.

There is a pressing need to reorient our price policy to bring it in tune with the emerging demand and supply of various crops, and the sustainable use of natural resources, as laid down in the ron for price policy. The country has to use mechanisms like deficiency price payment to avoid a bias in price support to select regions.

While increased participation of the private sector in agricultural marketing is desirable, the country also needs the strong presence and participation of the public sector and marketing models based on the participation of producers,
such as cooperatives, producers’ companies and producers’ association. We feel the public sector in agriculture and food marketing is as important to competitiveness as the private sector is to improving efficiency. The public sector is also essential to serve the larger social goal of maintaining price stability through market operations. The private sector has absolutely no interest in price stability, it benefits from the reverse. This is strongly borne by the global experience of the last six years, where in the wake of supply shocks, countries like India with a strong presence of the public sector in staple food succeeded in protecting the market from price volatility, while many developing countries with no public-sector presence in food staples suffered seriously from unstable prices.

NOTES

1 Some isolated cases of price determination in a non-transparent manner still continue. This includes determining prices through negotiation and secret signals, as observed in the Azadpur market in Delhi.

2 Market area for this purpose is not restricted to a market yard or mandi; it includes the entire geographic area that comes under the purview of the market committee.

3 According to the All India Rural Debt and Investment Survey Report, the share of institutional sources in total credit received by cultivator households slipped from 66.3% to 61.1%. This could have been due to a squeeze in farm incomes caused by the decline in size of holdings, the disappearance of technological gains, and the mismatch between consumption expenditure and income of farm households. These changes are evident from rising farm distress in the country.

4 Agriculturally progressive Punjab increased the commission of arhtiyas from 2% to 2.5% in 1990-2000 without any additional service being rendered by them. This raised the commission of arhtiyas three times, per unit of foodgrain, in 10 years.

5 The central government asked the states to stop direct payments to farmers (“Unwanted prime minister and the agriculture minister

6 Krishnamurthy (2012) writes of critics who find a preference for direct payment and 84% ofry producers, mandis have thrived under a po-

7 The move was strongly opposed by arhtiyas, but supported by farmers. According to a survey conducted at Punjab Agricultural University, ludhiana, 93% of the farmers expressed a preference for direct payment and 84% wanted the arhtiya system abolished. The state government, rather than siding with the farmers, took recourse to the APMC Act to protect the interests of arhtiyas. According to media reports, the chief minister went to Delhi a number of times to plead with the prime minister and the agriculture minister to stop direct payments to farmers (“Unwanted Middlemen: Direct Payments to Help Farmers”, editorial, Tribune, Chandigarh, 11 February 2012).

8 Krishnamurthy (2012) writes of critics who find a preference for direct payment and 84% wanted the arhtiya system abolished. The state government, rather than siding with the farmers, took recourse to the APMC Act to protect the interests of arhtiyas. According to media reports, the chief minister went to Delhi a number of times to plead with the prime minister and the agriculture minister to stop direct payments to farmers (“Unwanted Middlemen: Direct Payments to Help Farmers”, editorial, Tribune, Chandigarh, 11 February 2012).

9 Wheat procurement dropped to 9.2 million tonnes in 2006-07, which was the lowest in the last decade and around half the average procurement of the previous five years. The procurement level reached 11.1 mt during 2007-08, which was again far below the procurement target of the government.

10 The union government decided in August 2006 to keep in abeyance certain provisions of the order dated 15 February 2002 on wheat and pulses for a period of six months and subsequently extended its validity.

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