ANALYSIS OF APMC

Agricultural marketing is the critical link between agricultural production and farm sector revenue percolating to the farmers. Apart from performing transferring agricultural goods to consumers it transmits the price signals in the marketing chain.

Today's agricultural marketing has to undergo a series of exchanges or transfers from one person to another before it reaches the consumer. Selling on any agricultural produce depends on some couple of factors like the demand of the product at that time, availability of storage, etc. The products may be sold directly in the market or it may be stored locally for the time being. Moreover, it may be sold as it is gathered from the field or it may be cleaned, graded and processed by the farmer or the merchant of the village. Sometime processing is done because consumers want it, or sometimes to conserve the quality of that product. The task of distribution system is to match the supply with the existing demand by whole selling and retailing in various points of different markets like primary, secondary or terminal markets.

Most of the agricultural products in India are sold by farmers in the private sector to moneylenders (to whom the farmer may be indebted) or to village traders. Products are sold in various ways. For example, it might be sold at a weekly village market in the farmer's village or in a neighboring village. If these outlets are not available, then produce might be sold at irregularly held markets in a nearby village or town, or in the mandi.

In India, there are several central government organisations, who are involved in agricultural marketing like, Commission of Agricultural Costs and Prices, Food Corporation of India, Cotton Corporation of India, Jute Corporation of India, etc. There are also specialised marketing bodies for rubber, tea, coffee, tobacco, spices and vegetables.

Although the regulation of commodity markets is a function of state government, the directorate of marketing and inspection provides marketing and inspection services and financial aid down to the village level to help set up commodity grading centers in selected markets.

Importance of Proper Agriculture Marketing

Farmers are mostly distress sellers. Being unable to store their products they are forced to sell their products at low price to the middlemen after the harvest and cannot even cover the production cost. Due to lack of proper storage facilities, adequate and cheap transport facilities, organized and regulated retail market, correct information about the product price and market conditions, Indian system of agricultural market does not operate efficiently and farmers do not get fair price for their crops.

Thus an efficient marketing system enables producers to get the best possible revenue by reducing gap between the price earned by actual producer and price paid by the ultimate consumer. Direct linkage always gives higher returns to the producer and the consumers are also benefitted as they get the goods at reasonable price far less than the price paid through other channels either through different groups of intermediaries.

Present Agriculture Marketing System in India

Agricultural Markets in most parts of the Country are established and regulated under the State APMC Acts. The whole geographical area in the State is divided and declared as a market area wherein the markets are managed by the Market Committees constituted by the State Governments. Once a particular area is declared a market area and falls under the jurisdiction of a Market Committee, no person or agency is allowed freely to carry on wholesale marketing activities.

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These markets impose substantial taxes on buyers, in addition to commissions and fees taken by middlemen, but typically provide little service in areas such as price discovery, grading or inspection. A key impact of this regulation is the inability of private sector processors and retailers to integrate their enterprises directly with farmers or other sellers, eliminating middlemen in the process. Farmers also are unable to legally enter into contracts with buyers. This leaves no incentives for farmers to upgrade, and inhibits private and foreign investments in the food process sector.

Issues Related to APMC

(a) **Commodity coverage:** The manner of notifying the commodities for regulation varies from State to State. Some States like Andhra Pradesh and Himachal Pradesh have included all the commodities in the schedule or within the definition of the agricultural produce on the other hand in case of Punjab, Madhya Pradesh, Maharashtra, Rajasthan, Gujarat, etc though the schedule of the commodities has been appended to the respective Acts, yet control could be exercised only on such commodities from amongst these included in the schedule, as are specified in the notification in respect of each market, despite the fact that some more agricultural commodities arrive in the markets which are intended to be regulated.

(b) **Market Committee:** The responsibility of enforcing different provisions of the Acts, Rules and Bye-laws framed thereunder for regulation of markets has been vested with the Market Committee in all the State Acts. In case of Tamil Nadu, only one Market committee is constituted for all the regulated markets located in the district. The numbers of members of the Market Committees vary from 10 to 17 in different States. They are either elected or nominated by Government in accordance with provisions of the State Act.

(c) **Agricultural Marketing Boards:** The institution of Agricultural marketing Board was established for expeditious execution of the market development work. In some States like A.P., Odisha and Tamil Nadu the Boards are advisory in nature and in the Sates of Punjab, Haryana, Rajasthan, W.B., Karnataka and Maharashtra are statutory in nature and have powerful role. There are wider variation in their composition and functioning.

(d) **Demarcation of functions between Director Marketing and Board:** The review of function of the Board revealed that functions assigned to the Board in Punjab, Haryana, Rajasthan, U.P. are wide and therefore, gives an impression that these Boards are slightly over stepping the principal purpose of their establishment. Most of the States have also State Agricultural Marketing Departments and in many of the States, Director of marketing also functions as Managing Director or Secretary of the State agricultural Marketing Board. Therefore, it is necessary that functions of the Director marketing and Board may be defined clearly for smooth functioning and implementation of the Act. The Director Marketing may look after the statutory regulation, standardization and grading, market intelligence, etc and Board may be assigned the work of development of infrastructure, market research and training, etc.

Role of APMC act in Raising Food Inflation

Agricultural markets in India, in particular the supply chain management and business models, are inefficient. In India, farmers produce is generally disposed of in the village, rural/primary market or secondary agricultural market. The challenges facing supply-chain management and agri-business in India can be broadly classified into three, namely, 1) lack of accessibility to regulated markets, 2) lack of competitition under the Agricultural Produce Market Committee (APMC) Act, and 3) absence of a nationwide common agriculture market. These are challenges that run across the various channels through which the supply-chain and agri-business models operate. These channels are (i) Producer-Consumer, (ii) Producer-Retailer-Consumer, (iii) Producer-Wholesaler-

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Retailer-Consumer, (iv) Producer-Commission agent-Wholesaler-Retailer-Consumer and (v) Producer-Village Merchant-Wholesaler-Retailer-Consumer.

Agriculture markets in India are regulated through the model APMC Acts. The model APMC Act allows States to collect market fees from the buyers/traders on the sale of notified agricultural produce which are generally high. The high incidence of commission charges on agricultural/horticultural produce renders marketing cost high. There are other charges like entry tax/octroi tax that vary across states as well as across commodities. These charges prevent the emergence of a nationwide common market for agricultural produce. Moreover, restrictions on the movement of goods under the Essential Commodities Act remain in place in various states. These had inhibited free access of agriculture markets. Most of the agricultural markets are also characterized by dominance of cash based transactions where issues of cash management also become important. Also, there are issues of weights and measurements as well as the presence of brokers and commission agents. There is reason to believe that regulatory barriers have constrained investments in development of storage and processing facilities, hampered the development of effective institutions, and lowered the capacity of agricultural producers to be internationally competitive.

Model Act of APMC

The Model Legislation provides for establishment of Private Markets/Yards, Direct Purchase Centers, Consumer/ Farmers Markets for direct sale and promotion of Public Private Partnership in the management and development of agricultural markets in the country. It also provides for separate constitution for Special Markets for Commodities like Onions, Fruits, Vegetables, Flowers, etc. A separate Chapter has been included in the legislation to regulate and promote contract-farming arrangements in the country. It provides for prohibition of commission agency in any transaction of agricultural commodities with the producers. It redefines the role of present Agricultural Produce Market Committee to promote alternative marketing system, contract farming, direct marketing and farmers/consumers markets. It also redefines the role of State Agricultural Marketing Boards to promote standardization, grading, quality certification, market led extension and training of farmers and market functionaries in marketing related areas. Provision has also been made in the Act for constitution of State Agricultural Produce Marketing Standards Bureau for promotion of Grading, Standardization and Quality Certification of agricultural produce. This would facilitate pledge financing, e-trading, direct purchasing, export, forward/futures trading and introduction of negotiable warehousing receipt system in respect of agricultural commodities.

Risk factors involved in APMC model act for the farmers

- **Risk factors according to the Model Act**

1. To qualify as a member of the market committee, the Model Act imposes the conditionality that the agriculturist has to have sold agricultural produce in the market for two years. This makes contract farmers more likely to qualify for membership in the market committee and pushes the agricultural system towards contract farming.
2. The Model Act gives MNCs entry into the agricultural retail sector. This will push out existing local traders and trading systems seriously impacting livelihoods of small and medium farmers and traders, hawkers, coolies and associated service sectors.

- **Risk factors involved in contract farming**

Contract farming mainly attracts small, medium and marginal farmers who are not in a position to invest in farming due to several reasons; they are the one who will be negatively affected by entry of big companies/ MNCs into agricultural sector.

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1. In contract farming, farmers have to depend on external sources for food because sponsors favour growing commercial crops rather than food crops. Also, after the contract period, farmers will find it difficult to grow food crops in the same land because of intensive use of fertilizers and pesticides in contract farming. This will destroy the whole network in the agriculture sector and seriously impact food security, leading to more migration to cities, lack of job opportunities, and increase in urban poverty.

2. There is tremendous uncertainty involved in growing new, unfamiliar crops and producing for markets that might not always live up to the sponsor's expectations. Under the new system of contract farming, however, there is no provision made for extension support or training in crop management for farmers.

3. Under contract farming, the farmer is at the mercy of the sponsor with no protection from the state government. In some cases sponsors may be tempted to manipulate quality standards in order to reduce purchases from farmers. In other cases inefficient management can lead to overproduction for which the farmer may not be able to find a market.

4. One of the biggest risks for farmers is debt which can be caused by production problems, poor technical advice, significant changes in market conditions, or a company's failure to honour contracts.

Importance of APMCs and Reforms Needed

The APMC laws were drawn up to protect the farmer from middlemen. It was mandated that all farm produce must be sold in the state APMC where the farmer is located. After the primary sale, farmers could move out to the rest of the country. The idea was to ensure that the farmer got a fair deal and was not cheated since the *mandis* have facilities for auctions, weighing, storage, display, payments and receipts. The result was not really positive. There are auction platforms in two or three of the *mandis* while grading facilities are available for about a third of them. Cold storage provisions are available in less than 10 per cent. It is alleged that the buyers who are licensed middlemen work as a cartel and keep prices low. No new licences are issued because there is no space for more shops in this area.

There are 7,190 regulated *mandis* and another 22,505 periodic markets in the country. Given India's size, the average coverage is 115 sq km, whereas the ideal should be 80 sq km or a radius of five km. Therefore, access is quite difficult; it means farmers have to travel a long distance to sell their goods every day. If one tries to understand the system, it will become clear why the *mandi* system continues to be a preferred option.

The *mandi* is a known system for the farmer and the practices, though opaque, are accepted. The farmers know the *adathiya* or middleman and the latter is sure of a sale. If the farmer were to sell elsewhere, he would have a problem getting a better price and as well as finding someone who will buy his "size" of the commodity. A farmer bringing, say, one tonne of a food product would not be able to sell it across the counter in the absence of an institutional set-up. He has to sell his produce the same day because there are no facilities to store the product outside his farm. Therefore, even in a state like Bihar, which has abolished these laws, there has been no change in the pattern of sale.

Further, though we like to criticise the middleman for buying "low" and selling "high", he actually provides a service in stocking the good. Typically, most crops have one season, kharif or rabi. Rice and maize, though primarily kharif crops, also grow as rabi. The kharif crop is harvested between September and November, and has to be made available through the year. This job is done by these intermediaries. And under normal weather conditions, they keep prices stable through the year. But there are costs involved such as storage, packing, transporting and, finally, selling the good across the country. Therefore, though we do lament the high price differential between the farmer and consumer, a large part of the price difference can be explained by these costs that are due to a lack of organised systems. Despite these structures, wastage could go up to six per cent

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for cereals and pulses, 18 per cent for fruit and 12 per cent for vegetables, according to a report on marketing reforms brought out by the ministry of agriculture in 2012.

Given these practical problems, merely scrapping APMC laws will not quite work. We need a multi-pronged approach to create alternative systems, a point that has been made in the past but never with any perseverance. We need to provide competition to *mandis* so that they become more transparent.

The steps needed to reform APMCs are:

- First, having electronic private *mandis,* like the one promoted by the National Commodity and Derivatives Exchange (NCDEX), is one solution. But access for farmers is still a problem since we need to have multiple centres for delivery and the farmer may not always be able to deal directly on the electronic platform.
- Second, periodic *bazaars* (Rythu bazaar in Andhra Pradesh, Shetkari bazaar in Maharashtra, Apna Mandi in Punjab and so on) should be more widespread and the responsibility lies with the state government to create create the infrastructure. By allowing such free trading farmers would enjoy lower costs, such as 0.5-2 per cent *mandi* fees, commissions that can go up to eight per cent for horticulture products, weighing and handling charges and so on. This has to be subsidised through state budgets or else we will end up in the *mandi*-like situation.
- Third, contract farming is a good idea. It is allowed in several states where the processor gets into contracts with timers for buyback. But anecdotal evidence suggests that often farmers renege on their contracts and it is not feasible for the corporate to take legal recourse.
- Fourth, corporate farming should be permitted on a large scale so that large retail chains grow the crops they can sell in their stores and create the necessary infrastructure to do so.
- Fifthly, introduce some investments in godown and cold storage facilities in the reform process. Farmers would be relieved to store their surpluses and the income-smoothing over volatile production cycles. Consumers benefit likewise as price spikes from temporary production shortfalls are less accentuated, traders' exploitation potential is reduced and lowered wastage increases welfare overall. Such investments will also insulate and over time, eliminate the embedded politics in agriculture trade too.

Thus, APMC markets are very important especially in States such as Bihar where small and marginal farmers comprise more than 90 per cent of the sector. These markets need to be reformed and made to deliver by liberalising APMC licensing, opening more APMCs in local areas, enabling e-payment of market fee, giving representation to farmer producer companies, denotifying commission agents (*arthiyas*) as is done in Madhya Pradesh, and introducing quality and open auction based price discovery.

These markets are important for small farmers who may not attract large buyers for direct purchase or contract farming. They also serve as a benchmark for seeking contract farming and direct purchase prices. Therefore, there is no need to dismantle the APMC to reform agricultural markets. It is easier to dismantle institutions than build them. The consequences could be very serious for the farm sector and the farming community thus reform is needed with strong political will.

Emerging Alternative Marketing Models

- **Modern Terminal Markets (TMC):** has been conceptualized and introduced as a new item under National Horticulture Mission (NHM), which is proposed to be implemented in a Public Private Partnership (PPP) mode by establishing the Hub (Main Market) and Spokes (Collection Centers) model by private enterpreneurs. There is a provision of equity participation by Producer Associations upto 26% of the total

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equity in the TMC. This Scheme is reform linked and would be implemented in those States who have amended their APMC Act. The Terminal Market complex (based on PPP model) at Patna (Bihar) and Perundurai and Chennai (Tamil Nadu) has been approved under National Horticulture mission (NHM). In principle approval to the TMC projects of Madurai (T.N.), Nagpur, Babangaon (Mumbai) and Sambalpur (Odisha) have been accorded. However, no Terminal Market has been established anywhere as yet.TMC would ensure direct procurement from producers which will enhance better price realization by the producers and lower prices for the final consumers. The private sector can bring in the required investment and management skills for successful development of these markets.

- **Contract farming:** Farming under contracts, which confer benefits to both producer and purchasers, for ensuring assured and remunerative marketing opportunities to the farmers by way of assured procurement of the produce of desired quality by the contract farming sponsor from the contract (producer at a pre-determined price (either at a fixed rate or formula) is called contract farming. The contract-farming sponsor may also provide input and technology support to the contract producer including extension support for desired quality and specification/standards of agricultural produce. The model APMC Act 2003 stipulates institutional arrangement for registration of sponsoring companies, recording of Contract Farming Agreement, indemnity for securing farmers land and lays down a time bound dispute resolution mechanism. Contract farming has been prevalent in various parts of the country for commercial crops like sugarcane, cotton, tea and coffee, etc. There have been several recent private sector initiatives in direct procurement from farmers i.e. M/s Pepsi Foods Pvt. Ltd, Tata Rallies, Mahindra Shubh Labh, Cargill India, etc. These corporate are entering into partnership with farmers and providing them inputs, R & D and extension support, credit, processing services and marketing avenues. The focus on the contract arrangement has been towards the elimination of waste, productivity enhancement and increase in farm income.

- **ITC e-Choupal :** ITC e-choupal model promoted by ITC seeks to address the constraints faced by the Indian farmer arising out of small and fragmented farm holding, weak infrastructure, supply chain intermediaries and the lack of quality and real time information. ITC has set up small internet kiosks at the village level to provide farmers real time market information related to prices, availability of inputs, weather data and other matters related the farmers. Local level farmers, called "Sanchalak man these kiosks. Online extension services are also provided. It is estimated that ITC intervention in supply chain has permitted farmers to increase their sales realization by 10-15%. Further, ITC has succeeded in generating procurement cost saving to the tune of 3-4% allowing it to incrementally improve its competitive position. ITC *e-chaupals* had made a major impact in the soya bean market in Madhya Pradesh and we need to encourage such systems that bridge information symmetry and deliver superior solutions.

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