

***MARKET REFORMS IN INDIA:  
MAKING MARKETS WORK FOR FARMERS***

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**Agri-Markets in India as on 31.03.2006**

- **6680** Wholesale Markets in India
- **21671** Rural Primary Markets (Total – 28351)
- **2429** Principal Regulated Markets
- **5137** Regulated Markets Sub-yards (Total – 7566)  
(Only 286 regulated markets in 1950)

## Indian Agricultural Market - Present Constraints

- Indian farmers are predominantly marginal or small – have small quantities of marketable surplus
- Restriction on sale of produce outside regulated market yards
- Large distances to markets & Inadequate infrastructure
- Multiple intermediaries & exploitation by agents/ traders
- High cost of transport/ marketing fee in regulated wholesale markets
- High post-harvest losses and wastage
- Lack of standardization, grading & certification
- Limited access to information on domestic and overseas markets and opportunities
- Unorganized producers have limited bargaining power

## Inadequacy of Facilities in Markets

- Covered or open auction platforms exist in only 2/3<sup>rd</sup> of regulated markets
- Only 1/4<sup>th</sup> of markets have drying yards
- Trader modules, viz. shop, godown & platform in front of shops exist in only 63% of markets
- Cold storage units exist only in 9% of markets
- Grading facilities in less than 1/3<sup>rd</sup> of markets
- Farmers' resting facilities only in half the markets
- Basic facilities like internal roads, boundary walls, electric lights, loading & unloading facilities, weighing equipments etc. not available in nearly 20% markets



## Functional Needs for Market Reforms

- Increasing diversification into higher value crops for better returns
- Greater farmer-market linkage needed for demand-driven cropping
- Dynamism & efficiency in markets needed for better farm income
- Policies required to facilitate reduction of intermediaries & promotion of direct procurement of agri-commodities/ alternatives to farmers
- Large investments required for development of post-harvest & cold chain infrastructure
- Major portion of investment expected from private sector
- Appropriate regulatory & policy environment necessary for required private investment.

## Various Reform Measures Initiated – I

- Development of alternative marketing systems – private/co-operative markets, modern terminal markets, direct purchase, contract farming etc. - Model APMC Act circulated to States
- Draft Model APMC Rules circulated for consultation & final draft likely to be provided to States for adoption by the end of this month
- Progressive dismantling of controls and regulations under EC Act
- Law for implementing Negotiable Warehouse Receipts System passed by the Parliament
- Enactment of an Integrated Food Law to promote quality & single window regulatory system
- Futures trading permitted in agricultural commodities for better price risk management and price discovery

## Various Reform Measures Initiated – II

- Reform-linked central assistance to encourage private investment for development of marketing infrastructure, integrated supply chain and grading/ quality certification facilities
- Expansion of scientific storage facilities in rural areas
- Facilitation of common facilities for aggregation & value addition of produce in production areas
- Development of cold chain, CA storage facilities, refrigerated transportation by road/ rail, perishable cargo centres at air & sea ports
- Marketing Information System (AGMARKNET) to facilitate market intelligence services and market led extension to encourage demand-driven quality production
- Facilitation of e-trading through Electronic Spot Exchanges.

## Reforms through Model APMC Act

- Initiative for new markets by Local Bodies, farmers etc.
- Setting up of special commodity markets
- PPP in management & extension activities/ Promotion of e-trading
- Encourage professional management in APMCs
- Provisions for Contract Farming
- Single point levy of market fee/ Single point registration of functionaries
- Establishment of Private markets/ Farmers'-consumer markets/ Direct marketing
- Powers of State to exempt market fee
- Setting up of Extension Cells/ State Agricultural Produce Standards Bureaus

<b>Status of APMC Act Amendments</b>	
<b>States/ UTs having amended Acts –</b> <ul style="list-style-type: none"> <li>• Andhra Pradesh,</li> <li>• Arunachal Pradesh</li> <li>3. Assam</li> <li>4. Chhattisgarh,</li> <li>5. Gujarat</li> <li>6. Himachal Pradesh,</li> <li>7. Madhya Pradesh,</li> <li>8. Maharashtra</li> <li>9. Nagaland</li> <li>10. Orissa</li> <li>11. Punjab/ UT of Chandigarh</li> <li>12. Rajasthan</li> <li>13. Sikkim</li> <li>14. Tamil Nadu &amp;</li> <li>15. Tripura</li> </ul>	<b>Amendment Bills passed by State Legislature –</b> <ul style="list-style-type: none"> <li>• Goa</li> <li>• Karnataka</li> </ul> <b>Amendment Ordinance approved by State Cabinet –</b> <ul style="list-style-type: none"> <li>• Uttar Pradesh</li> </ul> <b>Amendment Bills under active finalization –</b> <ul style="list-style-type: none"> <li>• West Bengal, Uttarakhand</li> <li>• NCT of Delhi &amp; Puducheri</li> </ul>

<b>States/ UTs having no APMC Act</b>
<ol style="list-style-type: none"> <li>1. Bihar (recently repealed),</li> <li>2. Kerala,</li> <li>3. Manipur and</li> <li>4. UTs of Andaman &amp; Nicobar Islands,</li> <li>5. Dadra &amp; Nagar Haveli,</li> <li>6. Daman &amp; Diu &amp;</li> <li>7. Lakshadweep</li> </ol>

## APMC Reforms: Old to New System

**OLD:**



**NEW:**

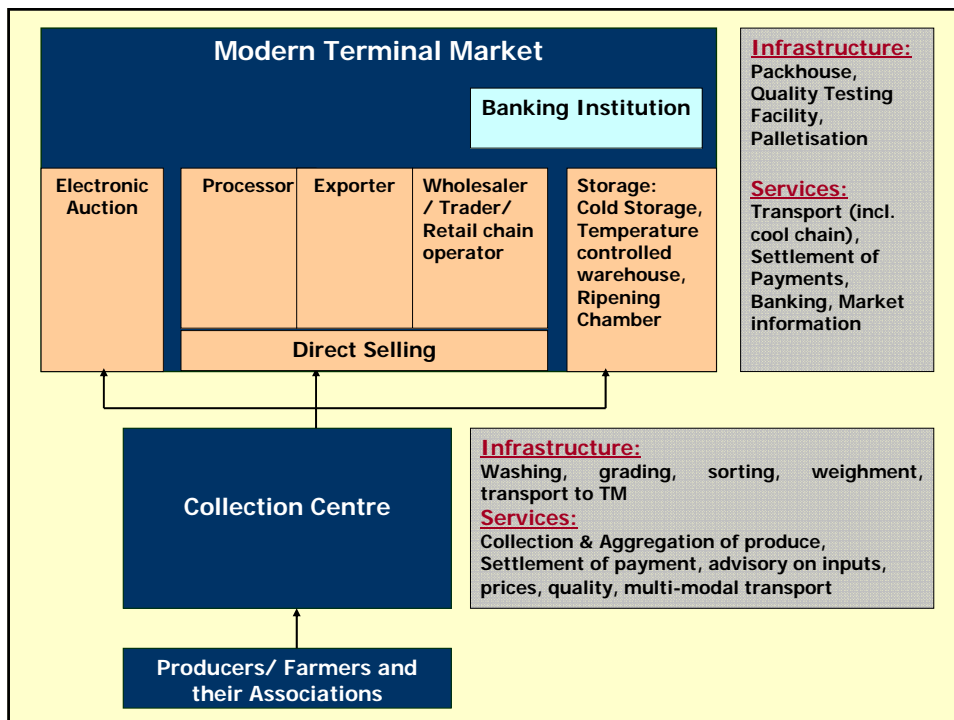


## Successful Interventions

- **Modernization of Wholesale Markets/ New Markets**
  - Safal Market in Karnataka
  - Several new Modern Terminal Markets coming up in other states following amendments in APMC Acts
  - Various Central Schemes & Agri-Marts under MACP (WB)
- **Marketing & Distribution**
  - ITC e-Chaupal
  - Haryali Kisaan Bazaar
  - Mahindra Shubh Labh
  - Cargill Farm Gate Business
  - Tata Kisan Sansar
- **Commodity Exchanges**
  - National Commodity & Derivatives Exchange Limited (NCDEX) & Multi Commodity Exchange Limited (MCX)
  - National Electronic Spot Exchange Ltd.

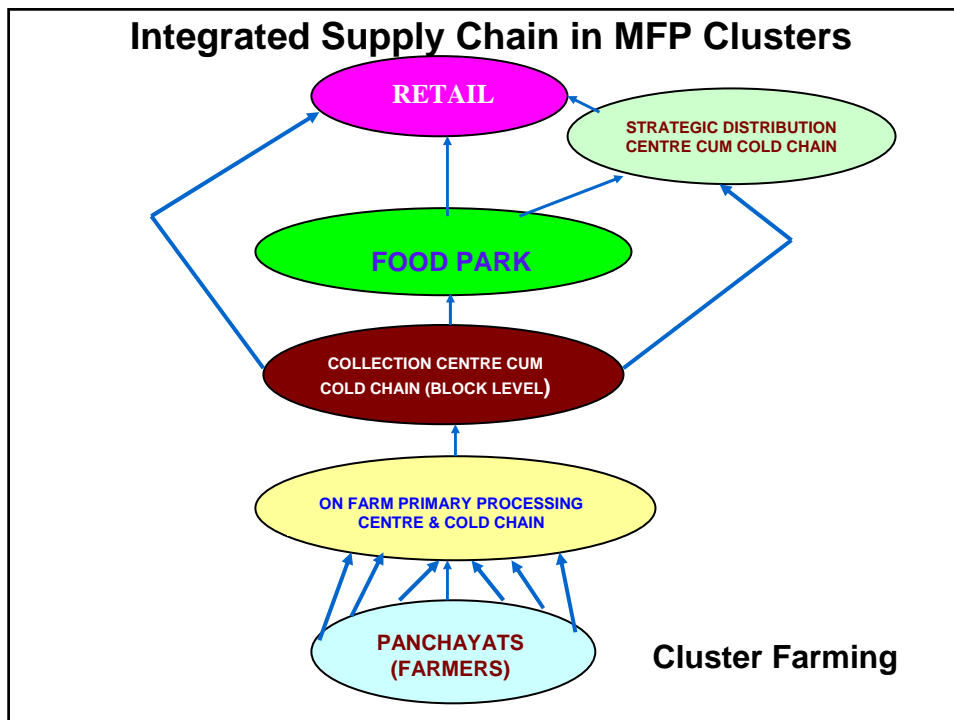
## Concept of Modern Terminal Market

- Mainly to cover **perishable commodities**
- **Hub-and-Spoke Format:** Terminal Market (**the hub**) to be linked to number of collection centres (**the spokes**).
- **Collection centres (Spokes)** to be conveniently located at key production centres to allow easy access to farmers & provide advisory services to them.
- Provide **state of art facilities** for grading, transportation, storage, domestic marketing & export
- To facilitate **aggregation, value addition, integrated cold chain, direct marketing, transparency in trading & improved price realisation** by farmers.



## Food Park Scheme

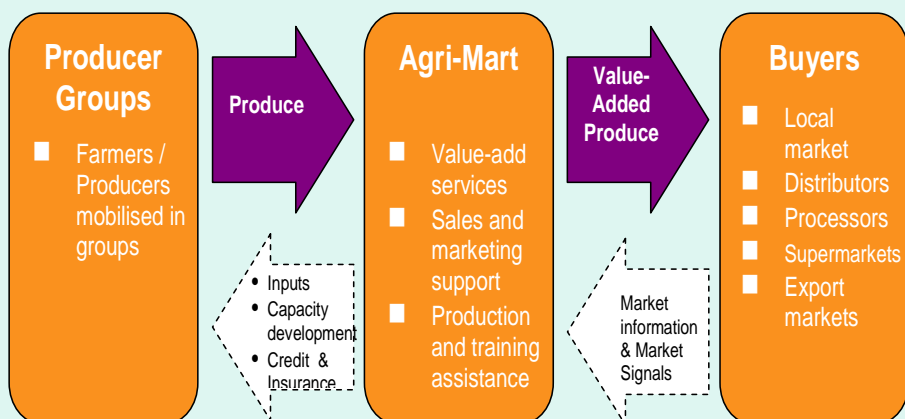
- The Scheme launched by MoFPI during X Plan to provide infrastructure and common facilities for use by agro-enterprises to enhance value addition in agriculture
- The Scheme also aimed to establish stronger linkages with production areas through a cluster-based approach and capacity building outreach to farm communities
- The Revamped 'Mega Food Park' Scheme in XI Plan will incorporate lessons learned from the earlier implementation with greater private sector involvement
- Mega Food Parks to function as sourcing hubs for retail/ processing industry
- Farmer-processor linkages will help increase farmers' income and ensure availability of raw material at affordable prices to processors.



## Agrimart - MACP Model (World Bank)

- **Hub and spoke approach** - Command area of hub and spoke would be site specific
- **At the hub –**
  - Post harvest activities including sorting, grading, packing etc
  - Market facilitation – acting as an aggregator of goods for Mandi, Processors, organized retailers, Terminal markets etc.
- **Activities at the spoke –**
  - Agri Input retailing
  - Equipment hiring – Crates, Machinery
  - Market led extension services through ATMA
  - Financial services facilitation – credit, insurance etc.

## Design of Agri-Mart



Source: Presentation by World Bank on Agri-Mart

## Contract Farming – Emerging Choice

- Forward trade agreement between the producer & sponsor (buyer) who may be a processor or supplier/ exporter
- It covers price risks & helps in mitigating production risks
- Producer commits to supply a specified agricultural commodity in pre-decided quantities and quality
- Sponsor commits to purchase commodity at a pre-agreed price
- In some cases, sponsors arrange the supply of required quality inputs, technological backstopping, credit, insurance cover etc.

## Status of Contract Farming

- **Major States:**  
Maharashtra, Punjab, AP, Karnataka, Orissa, Tamil Nadu, Madhya Pradesh etc.
- **Major Crops:**  
Cotton, Gherkins, Soyabean, Potato, Sugarcane, Basmati Rice, Chilli, Cocoa, Spices, Medicinal Plants, Fruits and Vegetables, Flowers, Poultry etc.
- **Major Sponsoring Agencies:**  
Mahindra Shubhlabh, Cargil India, Evon Exchange Enviro Farms Ltd., Nijjer Agro, Satnam Overseas, ITC-IBD, PepsiCo, United Breweries, Sukhjit Starch, Nandan Farms, ACE Agrotech, Cadburry, Godrej, Himalaya Health Care, Tinnu Oils and Chemicals, Dabur, Suguna etc.

## Assessed Impact of Contract Farming

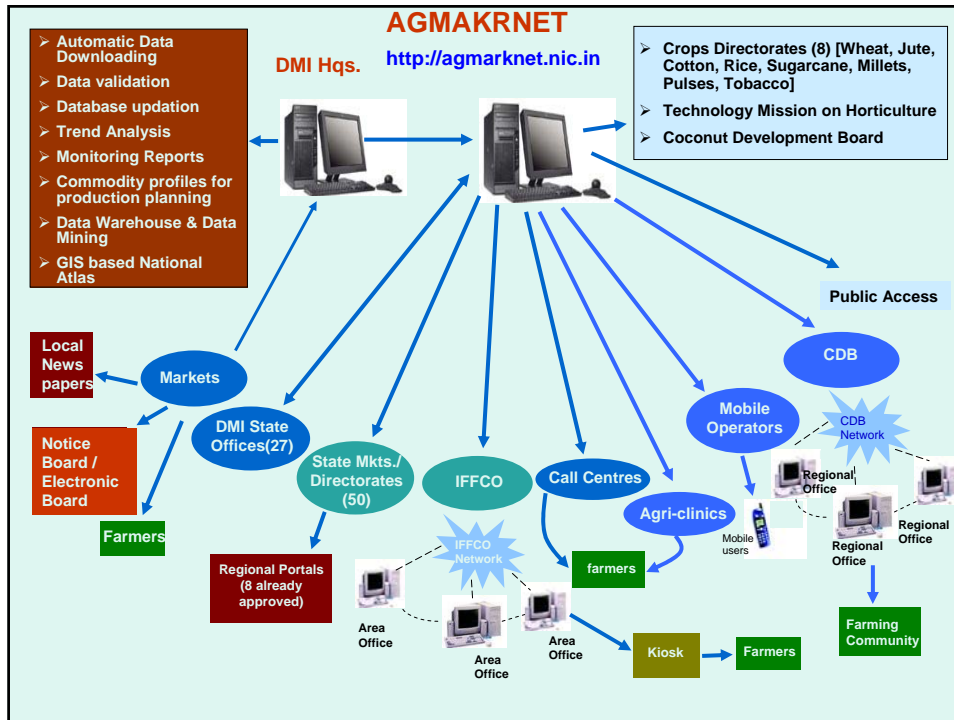
- Contracts in India are mostly verbal – failure does not give any protection to farmers
- Contracts made by groups/ cooperatives of producers or tri-partite agreements involving FIs/ Input suppliers/ Govt. Agencies are mostly written & more advantageous to farmers
- Contract Farming in most cases has facilitated substantial increase in yields & farm incomes
- It has helped in reducing production & marketing costs, mainly, in terms of farmer's time, transport of inputs & produce and access to information & technology
- Occasional poor performance of farming contracts is mainly the result of inadequate contract design & programme implementation

## Proposed Legal Framework of Contract Farming

- Contract Farming Sponsor to register himself with the Market Committee or with a prescribed officer
- The Contract Farming Sponsor to get the contract farming agreement recorded with a prescribed officer
- No title, rights, ownership or possession shall be transferred or alienated or vest in the contract farming sponsor or his successor or his agent as a consequence arising out of the contract farming agreement
- Dispute Redressal Mechanism
- The agricultural produce covered under the Contract Farming agreement may be sold to the Contract Farming Sponsor outside the market yard/and, in such a case, no market fee will be leviable
- Specification of Model Agreement for Contract Farming

## Market Information Network - Agmarknet

- A nation-wide market information network for speedy collection and dissemination of market information and data
- The project , which started with networking of 210 nodes in IX Plan , has expanded to 2800+ nodes during X Plan
- ~ 5000 market personnel trained through NIC State/ District units
- ~ 300 commodities , ~2000 varieties, 10 languages covered
- Information on portal includes-
  - **Prices and Arrivals** (Max, Min, Modal, MSP; Weekly/monthly prices/arrivals trends ; Future prices from 3 National commodity exchanges )
  - **Grades and Standards** (AGMARK, CODEX,PFA Act and Rules)
  - **Commodity Profiles** (Paddy/Rice, Bengal Gram, Red Gram, Wheat, Soyabean, Mustard-Rapeseed, Mushroom etc. Other commodities in progress),
  - **Market Profiles** ( Contact details, rail/road connectivity, market charges, infrastructure facilities, revenue etc.)
  - **Other Reports** (Best Marketing Practices, Market Directory, Scheme Guidelines, DPRs of MTMs etc.)
  - **GIS based Atlas** (under progress)



## Agri-business Development through SFAC

- Provide venture capital to qualifying projects with banks participation to facilitate assured market to producers for increasing rural income & employment
- SFAC to strengthen backward linkages of agri-business projects with producers, assist farmers, producer groups, and agriculture graduates to enhance their participation in value chain
- Project Development Facility to assist producer groups/ Agri-graduates for preparation of bankable projects
- 10 % of project cost or 26 % of equity or Rs. 75 lakh, whichever is less - higher assistance for deserving projects on merit with the approval of the Executive Committee.
- 102 Projects supported with venture capital assistance in 2005-07

## Commodity Exchanges

- The Forwards Contracts (Regulation) Act, 1952 has been amended to permit futures trading in agricultural commodities ( more than 100 commodities & their sub-groups listed – about 80 being traded )
- 22 Regional Exchanges & three National Commodity Exchanges are active - value of futures traded exceeded Rs.21,550 billion (2005-06) and in 2006-07, by December it reached Rs. 27,390 billion
- Agricultural commodities account for 60 % of the total volume & mainly include jute, gur, cotton, coffee, oilseeds complexes, pulses, rice, spices, guar seed/ guar gum & sugar
- There is a need of creating greater awareness, wider access and deeper understanding so that small farmers can better manage their price risks through commodity exchanges.

## Electronic Spot Market

- FTIL, MCX & NAFED have joined together to set up National Spot Exchange Ltd to provide a Nation-wide Electronic Trading Platform
- NSEL to provide state-of-the-art trading, delivery and settlement facilities which can be accessed from across the country
- To help in realizing the best possible price at the time of sale for agricultural produce
- To increase holding capacity due to availability of Warehouse Receipt Financing
- To increase bargaining power due to availability of an alternative market for sale of farm produce
- To facilitate trade and payment guarantee

## Farmers' Need to Get Organized

- Group/ Cooperative Society/ Producer Company formation can help in lowering transaction costs in marketing & purchase of inputs and increasing bargaining strength,
- Helps in aggregation of marketable surpluses & value addition and development of forward linkages with suppliers/ processors/ exporters/ futures market,
- Facilitates access to technical services & credit,
- Can help in owning & managing marketing/ processing facilities – Farmers' Markets coming up in many States – V & F Promotion Council of Kerala, Ryathu Bazars in AP, Apni Mandis in Punjab are examples,
- ATMA Scheme & other Govt. Programmes promoting group formation, capacity building, revolving funds, access to market information etc.

## Future Policy Directions

- Completion of Market Reforms (Min. of Agriculture & State Govts.);
- Promotion of Supply Chain Infrastructure (Various Ministries);
- Promotion of Grading, Standardization and Quality Certification of farm produce (Min. of Agriculture).
- Expansion of Food Processing Facilities (Min. of FPI)
- Removal of Controls over Storage, Movement and Marketing of agri-commodities under EC Act (Min. of CA, F & PD);
- Ensure farmers' linkage with Futures Market for Price Discovery and Price Risk Management and establish Spot Exchanges. (Min. of CA, F & PD);
- Implementation of the Integrated Food Law to bring convergence in laws relating to Quality and Safety of Food( Min. of FPI).

***Thank you***

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