Market linkages for Agricultural Commodities

In recent years Govt. of India has initiated a number of reform measures related to agriculture marketing which are likely to have far reaching positive impact on farmers' income. Launching of electronic National Agriculture Markets (eNAM) is one such measure. It would interlink various agri markets within the State and the country by creating a unified market through online trading platform, both, at State and National level. The eNAM is expected to promote uniformity in agriculture marketing by streamlining of procedures across the integrated markets, removing information asymmetry between buyers and sellers and promoting real time price discovery based on actual demand and supply. Similarly, the Model Agricultural Produce and Livestock Marketing (Promotion & Facilitation) Act, 2017, introduced by GOI, incorporates various changes to reflect the agenda of a unified national market for agriculture, besides facilitating alternate market channels, including opening up the system to private sector as well for alternate online marketing platforms. For tangible impact of these measures to emerge, they need to be supported with co-ordinated development of transport and logistics infrastructure for pan- India delivery of agri produce transacted on e-NAM besides putting in place arrangements for assaying, grading, storage, dispute settlement, etc.

Meanwhile, however, farmers are facing problems in terms of low price realisation as market rates of many farm commodities in the major mandies are ruling below minimum support price (MSP).

Agriculture in India is dominated by small and marginal farmers, who constitute about 85 per cent of the total landholdings, with around 40 per cent share in the total marketable surpluses. They face a number of issues related to marketing of their produce. Some of them are discussed below:

Limited access of agricultural produce markets

There are 6,630 regulated wholesale markets in the country with an average density of 496 square Km. per market. However, there is a large difference regionally. In Assam, a wholesale market covers about 6442 sq. km (45 km radius), whereas in Punjab market covers 116 sq. km of area (6 km radius). There are about 22491 rural haats in the country of which about 11811 rural haats are under Rural Local Bodies (Panchayats) and about 1274 rural haats are under APMC, Cooperatives and other government agencies and approximately 9856 rural haats are under private sectors including individuals, trusts, waqf boards, etc.

The National Commission on Agriculture (1976) had recommended a market within range of 5 km of farms, a distance negotiable by walk or cart within an hour. This assessment was subsequently also reiterated by National Commission on Farmers (2004). In pursuing this recommendation, the optimal market density is normally spoken of in relation to markets having a catchment area of 80 sq. km (5 km radius). There is, therefore, a need to make agri markets more accessible to small and marginal farmers.

2. Low share of farmers' price realisation

Traditionally, the agricultural marketing chain in the country is very long with a large number of intermediaries between the producers and the consumers, adding up more of costs without adding significant value.

The share of farmer in consumer's price is very low, particularly in perishables, due to a number of intermediaries, lack of infrastructure and poor holding capacity. In order to provide remunerative prices to the farmers, there is a need to reduce intermediation by providing alternative marketing channels like direct marketing, contract farming, aggregation through farmers collectives, etc. for which reforms in agricultural marketing system are necessary.

3. Poor infrastructure in agricultural markets

Studies indicate that covered and open auction platforms exist only in two-thirds of the regulated markets, while only one-fourth of the markets have common drying yards. Cold storage units exist in less than one tenth of the markets and grading facilities in less than one-third of the markets. Electronic weigh-bridges are available only in a few markets. There is, therefore, a need to study the status of infrastructure facilities currently available in the existing agri markets and invest in bridging the infrastructure gaps.

To address the problem of marketing infrastructure, a dedicated **Agri-Market Infrastructure Fund (AMIF)** with a corpus of Rs.2,000 crore has been set up was with NABARD for development and upgradation of marketing infrastructure in 10,000 Gramin Agricultural Markets (GrAMs) and 585 APMCs. Creation of the fund was announced in the Union Budget FY 2018- 19.

Objectives of AMIF for development and upgradation of GrAMs and APMC markets:

1) To improve marketing and supporting infrastructure in Gramin Agricultural Markets (GrAMs) as well as in regulated wholesale markets of APMC/RMC by developing marketing infrastructure so as to enhance farmers' market accessibility and reduce post-harvest losses, marketing cost and number of intermediation in supply chain , resulting into increased net income of the farmers. To link GrAMs to e-NAM portal to facilitate the farmers for on-line trade of the aggregated produce and thereby to avail the benefit of transparent online trading on e-NAM platform for a remunerative prices through better price discovery.
2) To provide better farmer-consumer interface through development of GrAMs as Farmer-Consumer Direct Markets.
3) To facilitate aggregation of the produce in GrAMs and establish forward linkages with the secondary markets of APMCs in hub and spoke mode and also in Public Private Partnership mode as well as to establish linkage with the processors, organized retailers and consumers including that with Mega Food Parks and Integrated Cold Chain etc.
4) To modernize the marketing, processing, storage and ancillary infrastructure/logistics including better assaying facilities in 585 regulated

APMC markets to enhance marketing efficiency and promote inter-mandi and inter-State trade transactions by developing adequate logistics.

The fund would be operational for the period 2018-19 to 2025-26 and the fund would be operated by NABARD.

4. Fragmented markets & eNAM implementation

Under the present system, the marketable surplus of one area moves out to consumption centres through a network of middlemen and traders, multiple market areas and institutional agencies. There is no national level regulation for physical markets and the existing regulation does not provide for a barrier free market in the country. Therefore, there is a need to develop a national single market for agricultural commodities by removing all the existing barriers of licensing, movement and storage. Introduction of eNAM is a significant positive step in this direction.

The GoI announced establishment of an electronic National Agricultural Market (eNAM) in the budget for FY 2014-15. Through e-NAM, physical infrastructure of mandis is expected to be leveraged through an online trading portal. In all, 585 major wholesale markets (APMCs) across 18 States and two UTs have been linked electronically through eNAM. Small Farmers' Agribusiness Consortium (SFAC) is operating the NAM as the implementing agency with technical support from the Strategic Partner (SP). To facilitate assaying of commodities for trading on NAM, common tradable parameters have been developed for 90 commodities.

For integration with the e-platform, States/UTs need to bring about three main reforms. These include implementing a single licence to be valid across the state, a single point levy of market fee and provision for electronic auction as a mode for price discovery.

State agricultural departments have been finding it difficult to convince all stakeholders — farmers, traders and commission agents — to move to the online platform. While traders fear the taxman, farmers fear lower prices if the produce is assayed.

As per information available from various sources, the progress made in implementation of eNAM is not as per the expectations envisaged in the vision of eNAM. There is a need to identify bottlenecks/ constrains in implementation of eNAM and address the same expeditiously.

5. Poor assaying facilities

For the e-NAM platform to be successful, there ought to be credible assaying facilities, via which any trader seeing the quality of the commodity can place his or her bid from a distant location. The current mandi infrastructure significantly lacks these facilities. While at some mandis the instruments may be available, they are rarely used. Traders examine the quality of the commodity visually, and show their mistrust on the results based on scientific assaying facilities. Where they are unable to be present themselves, they much rather rely on commission agents. They believe that the scientific techniques can't capture all relevant parameters. Farmers, on the other hand, also seem to prefer not to part with their produce for the purpose of sampling. Moreover, the demand for assaying facilities during peak season are overwhelming. Significant investment in building these facilities is required such that it these services do not result in delay in agricultural transactions during periods of high arrivals.

6. Supporting infrastructure for e-trading

For a mandi to be eligible for e-NAM, it must have provisions for electronic auction. While provision of electronic auction facilities is a necessary condition for the successful implementation of e-NAM, it is hardly sufficient. Poor internet connectivity, server load issues during peak season, frequent power-cuts, and unavailability of hardware equipment severely deters the possibility of smooth transactions via the electronic platform.

The integration of markets under eNAM envisages that APMCs shall have following facilities;

- infrastructure facilities and services relating to registration, cleaning, sorting, grading, assaying, IT, internet connection;
- facilities for installation of computer hardware / printers along with UPS / generator;
- availability of room/desk/space for support staff deployed for successful rollout and also operation and maintenance of e-NAM;
- e-auction hall equipped with computers;
- quality assaying laboratory;
- at least one electronic weighbridge;
- facilities to integrate the entire market operations right from gate entry till exit of transacted commodity.

The current *mandi* infrastructure significantly lacks these required infrastructural facilities, especially related to grading and assaying facilities. To enable realisation of vision of eNAM, the physical infrastructure to support the electronic market needs to be made robust.

7. Promoting Warehouse Receipt Financing

In spite of existence of Warehouse Development and Regulation Authority (WDRA) for more than seven years, the Warehouse Receipt Financing (WRF) has not realized its full potential in facilitating access of small and marginal farmers to post-harvest finance from banks and financial institutions through creation of fiduciary trust in the ecosystem. Warehouse receipt financing (WRF) allows banks to shift risk from farmers' fixed assets to the commodities that farmers produce. It also allows farmers to smoothen cash flows and enhance income by having more flexibility in timing sales to protect against price seasonality.

The Negotiable Warehouse Receipts (NWR) issued by the warehouses, registered with WDRA, have been envisaged with the objective of strengthening the market for commodities, encourage establishment of well managed warehouses across the country, help farmers and agri value chain to access a larger market and to have better access to finance against the underlying assets discouraging distress sell of their produce.

One of the reasons behind slow progress under Negotiable Warehouse Receipts (NWR) financing has been the limited number of WDRA accredited warehouses. As on 31 March 2018, only 1697 warehouses with storage capacity of about 6 million MT of Central Warehousing Corporation (CWC), State Warehousing Corporations (SWCs), Primary Agricultural Co-operative Credit Societies (PACSs) and private organizations have been accredited by WDRA as against the total number of warehouses being more than 50,000 having a capacity of 157 million MT.

Launching of the "Electronic Negotiable Warehouse Receipt (e-NWR) System" by WDRA in September 2017 is a significant step to promote WRF in India. The e-NWRs have the advantage that there are no chances of any tempering, mutilation, fudging, loss or damage of Warehouse Receipts and with no possibility of multiple financing by Banks. Hence, these NWRs will not only facilitate an easy pledge financing by banks and other financial institutions but also smoothen trading on various trading centres like commodity exchanges, electronic National Agriculture Markets (e-NAM) and other electronic platforms. These e-NWRs will also save expenditure in logistics as the stocks could be traded through multiple buyers without physical movement and can be even split for partial transfer or withdrawal.

Setting up of two repositories, i.e. National E-Repository Limited (NERL) and CDSL Commodity Repository Limited (CCRL) in 2017 is also an important development in strengthening of ecosystem for WRF. These repositories provide a platform for issuing negotiable warehouse receipts for commodities in electronic form. Using innovative and flexible technology systems, they work to support farmers, traders, processors and all value chain participants in the commodity markets. They aim at ensuring the safety and soundness of Electronic Warehouse Receipts by developing solutions that increase efficiency & minimize risk. Under the aegis of WDRA, it is envisaged that these repositories will help enhance the credibility of warehouse based financing in India.

8. Adoption of Model APLM Act, 2017

The Model Agricultural Produce and Livestock Marketing (Promotion and Facilitating) Act (APLM Act), 2017 prepared by Ministry of Agriculture and Farmers' Welfare, in consultation with State Governments and other stakeholders, has the potential to address majority of issues discussed in the foregoing.

The new definition of market area in the Model Act, 2017, is in tune with the concept of unified market for agricultural produce. This will go a long way towards removing the entry barriers and trade barriers in the agricultural marketing system of the country. This will also make marketing system more competitive by attracting new players and doing away with the monopolistic and oligopolistic tendencies of the players in the present APMC markets.

The provision for declaring warehouses / silos / cold storages or other such structure or place as market sub yards is made to provide better market access / linkages to farmers. This development will help integrate the warehouses / silos / cold storages etc., into the online e-platform. This, in turn, will help in facilitating operationalization of warehouse receipt system and capturing of information for a responsive market information system.

The inclusion of Livestock in the title of the new Model Act is also a step in the right direction. In some states the livestock and livestock products are not notified commodities. This will help in introducing good marketing practices in the livestock sector. The provisions made for private markets are with intent of "ease of doing business", as it provides for level playing field both for APMC market and private market. Under the new legislative model, APMC will not be the regulator of private markets and licensee of such markets can collect the user charges and retain with him, thus, making it an economically viable proposition.

The Model APLM Act, 2017 is a progressive and facilitative Model Law, which holistically encompass a host of reforms that addresses the diverse and complex segments of a large sector like agriculture and its allied sectors. The Model APLM Act, 2017 is a recommendation for the States to adopt, to initiate greater marketing changes in agriculture and to encourage a single national agriculture market. The adoption of Model APMC Act by States needs to gain a sense of urgency and momentum. The change in existing APMC Act on the lines suggested in Model APLM Act, 2017 is critical to improve the efficiency in agricultural markets and to integrate farm level production with end-uses across the country and outside.

9. Pradhan Mantri Annadata Aay Sanrakshan Abhiyan (PM-AASHA)

The Government of India launched the Pradhan Mantri Annadata Aay Sanrakshan Abhiyan (PM-AASHA) in September 2018 towards the initiatives to benefit the farmers through protection of income as well as by facilitating opportunities for better price realisation.

PM-AASHA is posited to be implemented through three separate components. These three components will complement the existing schemes of the Department of Food and Public Distribution. They relate to paddy, wheat and other cereals and coarse grains where procurement is being done at MSP. The components of the PM-AASHA are:

1) **Price Support Scheme (PSS):**
   Under PSS, physical procurement of pulses, oilseeds and copra will be done by Central Nodal Agencies with involvement of State Governments. Besides, NAFED and Food Cooperation of India will also take up procurement of crops under PSS in the states/districts. The expenditure and losses due to procurement will be borne by the Central Government.
2) **Price Deficiency Payment Scheme (PDPS)**
   PDPS covers all oilseeds for which MSP is notified. The difference between the MSP and actual selling/modal price will be directly paid into the pre-registered farmers selling their produce in the notified market yard through a transparent auction process. All payment will be done directly into registered bank account of the farmer. This scheme does not involve any physical procurement of crops as farmers are paid the difference between the MSP price and Sale/modal price on disposal in notified market.

3) Pilot of Private Procurement and Stockiest Scheme (PPPS)

The PPPS is targeted to cover Oilseeds. The States may roll out PPSSs in select districts/APMCs of district involving the participation of private stockiest. The pilot district/selected APMCs of district will cover one or more crop of oilseeds for which MSP is notified. Being similar to PSS the PPPS shall substitute PSS/PDPS in the pilot districts. The selected private agency shall procure the commodity at MSP in the notified markers during the notified period from the registered farmers in consonance with the PPSS Guidelines, whenever the prices in the market fall below the notified MSP and whenever authorized by the state/UT Government to enter the market. The private player can procure crops at MSP when market prices drop below MSP. The private player will then be compensated through a service charge up to a maximum of 15% of the MSP.

10. Model Contract Farming Act:

With a view to integrate farmers with bulk purchasers including exporters, agro-industries etc. for better price realisation through mitigation of market and price risks to the farmers and ensuring smooth agro raw material supply to the agro industries, a 'Model Contract Farming Act' was initiated by the Ministry of Agriculture & Farmers' Welfare for adoption by the states. Farmer's Producers Organisations have been accorded a major role in promoting Contract Farming and Services Contract by enabling them to enter into agreement with the sponsor on behalf of the farmers.
The final Model Act is titled **"The --------- State/UT Agricultural Produce and Livestock Contract Farming and Services (Promotion & Facilitation) Act 2018"**.

Salient features of the Act:

a) The Act lays special emphasis on protecting the interests of the farmers, considering them as weaker of the two parties entering into a contract.
b) In addition to contract farming, services contracts all along the value chain including pre-production, production and post-production have been included.
c) "Registering and Agreement Recording Committee" or an "Officer" for the purpose at district/block/ taluka level for online registration of sponsor and recording of agreement provided.
d) Contracted produce is to be covered under crop / livestock insurance in operation.
e) Contract framing to be outside the ambit of APMC Act.
f) No permanent structure can be developed on farmers' land/premises
g) No right, title of interest of the land shall vest in the sponsor.
h) Promotion of Farmer Producer Organization (FPOs) / Farmer Producer Companies (FPCs) to mobilize small and marginal farmers has been provided.
i) FPO/FPC can be a contracting party if so authorized by the farmers.
j) No rights, title ownership or possession to be transferred or alienated or vested in the contract farming sponsor etc.
k) Ensuring buying of entire pre-agreed quantity of one or more of agricultural produce, livestock or its product of contract farming producer as per contract.
l) Contract Farming Facilitation Group (CFFG) for promoting contract farming and services at village / panchayat level provided.

m) Accessible and simple dispute settlement mechanism at the lowest level possible provided for quick disposal of disputes.
n) It is a promotional and facilitative Act and not regulatory in its structure.

Concluding Remarks

More than ever before, the country's agricultural marketing sector is garnering attention and is the subject of an intense debate at all levels. It is time to recognize that farm production and marketing would have to march together in order to benefit farmers and consumers. Farmers need to be empowered to decide when, where, to whom and at what price to sell. The dependence on middlemen needs to be reduced drastically. The seasonal spike in prices of perishable commodities that pushes up the food inflation, without benefitting farmers, cannot be addressed without agri market reforms discussed in the foregoing.

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