

# Agricultural market reform in India

## One step forward, one step back

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# Goals of reform

- How can we strengthen farmers' right/freedom to sell to a buyer of his/her choice?
  - Market reform
- How can the disparities across the country, along the supply chain be reduced?
- How can farmers get a better and stable price?
  - Risk management and “disintermediation”

# Legal /Policy framework

- Agriculture is a state subject (Entry 14, List II, Entry 26 subject to Entry 33); Centre's potential role, Article 301, Constitution of India
- Both Centre and State legislations govern markets
- Centre
  - Essential Commodities Act (1932; 1955 amendments thereafter)
  - Trade Policy (EXIM)
  - Procurement and price policy
- State level
  - APMR (commonly called APMC Acts) 1960s/70s

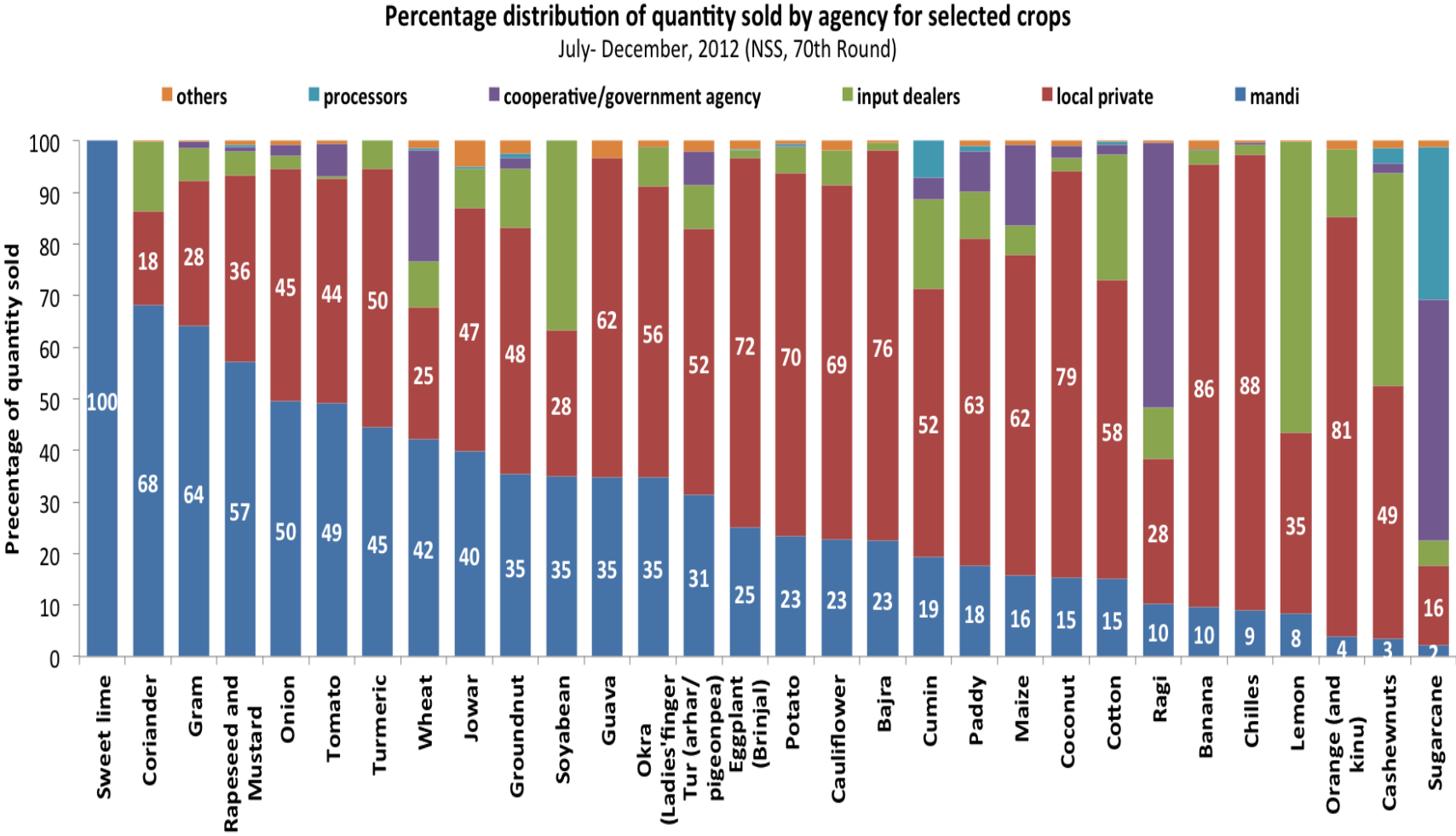
# The crux of APMC

- Historically, to regulate agriculture trade to protect farmer interests
- List of notified commodities – includes perishables and non-perishables
- Market areas defined, each market area under an APMC – with a yard (mandi), set of fees, etc.
- Traders and agents need a license from a specific APMC to operate in a mandi

# Types of trade

- Farmers may sell
  - to itinerant vendors, village traders, pre-harvest contractors
  - To others such as input dealers, larger farmers
  - to processors- ginneries, solvent extractors, sugar mills, exporters, with or without contracts
  - Via cooperatives, FPOs, other aggregators
  - Regulated markets (via commission agents) to distant traders
  - Government procurement agencies

Figure 1: Marketing channels used by farmers for select crops (Kharif, 2012)



# The marketing problem

## Proximity and Contestability

- Take markets to the farmer, to reduce transactions costs
  - Important when transaction volumes are small
- Ensure competitive markets – thick, rather than thin markets
  - For transparent price discovery
  - Spatial transmission of prices
  - Price signals for production
- Often, a tradeoff.
- Larger ecosystem of marketing (transport, infrastructure in markets, assaying, warehousing, storage and finance)

# Issues with spot markets in India

- Poor infrastructure/ storage issues – cold storage in 9% of markets, grading facilities in less than a third.
- Non-transparent price discovery (Banerji and Meenakshi, 2004)
- Price wedge along the supply chain; across space
  - For potatoes in West Bengal, farmers received 25-50% of the wholesale prices (Mookherjee, 2015)
- Interstate movement, restrictive.
- Non-transparent levies/charges – upto 12.5% in Punjab; 4-8% market fee for horticulture



# Byadgi, Gulbarga and Sonipat





# Farmers sell to traders





# Village market versus wholesale markets or “mandi”



# Marketing reforms

- The “rainbow revolution”, National Agricultural Policy
  - APMC Model Act, 2003, 2007
  - Allowing private players in marketing , processing (Including private mandis and contract farming)
  - 11<sup>th</sup> FYP (2007-12) need for a national market
  - 12<sup>th</sup> FYP task group NAM
- Current status
  - E-NAM electronic national agricultural market
  - APLM Model Act, 2017
  - Contract Farming Act, 2017

# What is e-NAM? (Karnataka model)

1. Unified license
2. Online bidding/auction
3. Payments cleared centrally
4. Receipt generated, goods can move anywhere without further charges

## Transaction Flow





# The Karnataka model – Chitradurga,



# Status of e-NAM (1)

- Claims of 479 markets in 14 states, 1 UT (<https://www.enam.gov.in/NAM/home/index.html>; accessed September 19, 2018)
- Only 79 out of 250 (in 2016) were active (Sharma & Hussain, 2016). Less than 1% of trade via e-NAM
- Notional online trading (one crop/mandi)
- Entry on e-NAM portal done ex-post (field visits to Haryana in end-2016)

# Electronic markets at work?





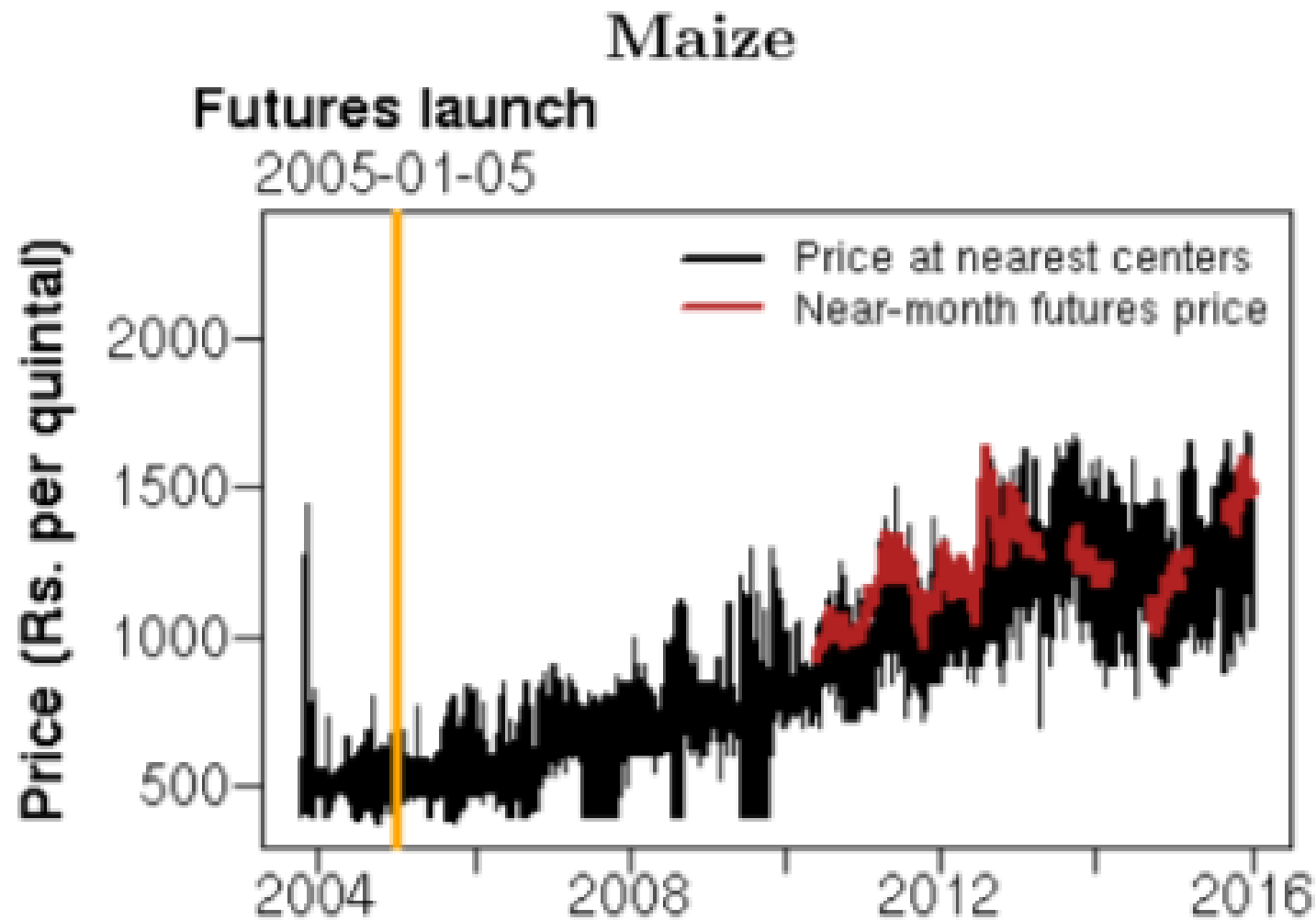
# Status of e-NAM (2)

- Despite what the website says, not successful
  - Interlinked transactions with commission agents
    - Credit and output markets
  - Wary of Loan account transactions
  - Trader reluctance to use online systems
    - Quality assessments
    - In some cases, collusion
  - Inter-state disputes

# Issues and challenges

- Cannot ignore the APMC, but hardest to reform
  - Interlinked transactions
  - Politically difficult
- Domestic reform in the context of
  - Procurement operations (rice/wheat/oilseeds/pulses)
  - Global markets – shrinking independent policy space
  - Financialization of commodity markets – blindspot; farmers cannot be expected to use futures markets for risk management
  - Limited success of non-APMC channels

# The influence of global markets

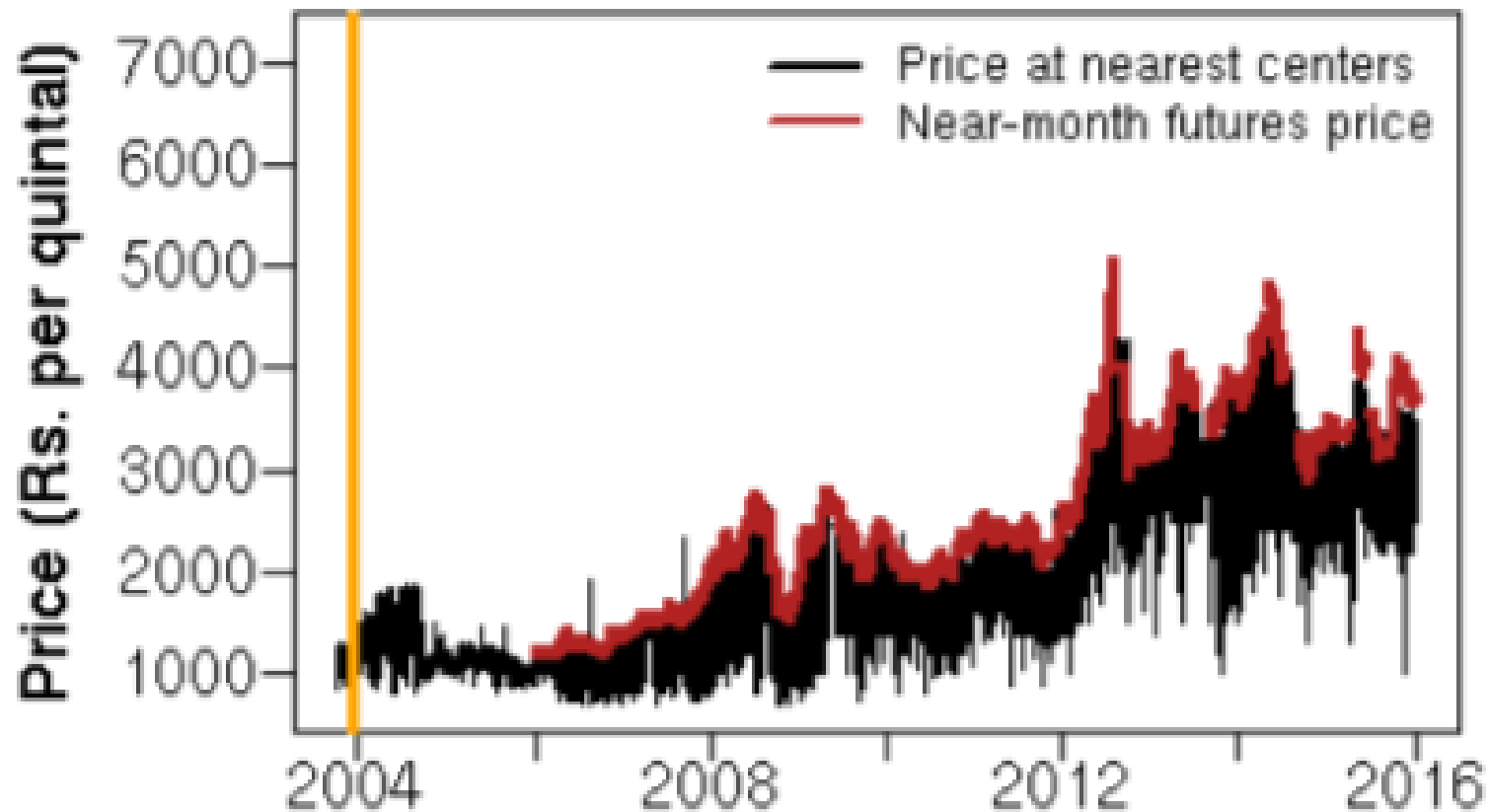


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## Soybean

**Futures launch**

2003-12-15



# The way forward

- Farmer's right/ freedom to sell to a buyer of his/her choice
  - Plural marketing channels, without restrictions; procurement as a safety net
- How can the disparities across the country be reduced?
  - Creating a single “market” for the country – seamless across channels, across regions – Seamlessness creates own barriers
  - Commodity boards (for example, tea and rubber)
- How can farmers get a better price?
  - Small volumes traded; scope for aggregation of volumes (FPOs/FPCs, cooperatives, new forms of intermediaries - ag startups)
  - Need for greater competition between channels and within markets
  - Need to improve farmer capacity to hold produce for better prices; or sell forward via spot exchanges, etc.
  - Credit interventions – interlinkage of credit and output is still widely prevalent (Warehouse receipts and pledge financing)
  - Government price support/income protection to guard against catastrophic fall in prices /price bands – all WTO-incompatible!