Agricultural Marketing in Maharashtra: Limitations and Emerging Modes since Enactment of Model APMC Act in 2005

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Abstract

Agricultural marketing is the crucial link between the processes of food production and food consumption. The origin of marketing is found in the transformation of agriculture from a subsistence activity to a commercial one. Traditional agricultural marketing is ridden by numerous limitations viz; large number of intermediaries, archaic and nontransparent systems, limited information dissemination, etc. Therefore new systems of marketing have emerged. Farmers' cooperatives, big business retail, contract farming, and producer companies are new and alternative forms of agricultural marketing. The Government of India formulated the Model APMC Act in 2003. Maharashtra is one of the first states to adapt and implement the Model APMC Act in 2005. This has changed the landscape of agricultural marketing in Maharashtra. This paper is an effort at analyzing the emerging modes of agricultural marketing in Maharashtra. The paper also examines the limitations of the APMC market system and the need for further reform in the state of Maharashtra.

KEYWORDS: agricultural marketing, model APMC Act, traditional and modern modes of agricultural marketing, cooperatives, direct marketing, producer companies, FDI in retail.

INTRODUCTION

According to the National Commission for Agriculture, "Agricultural marketing is the process which starts with a decision to produce a suitable farm commodity and it involves all aspects of market structure or systems, both financial and institutional, based on the technical and economic considerations and includes pre and post-harvest operations like assembling, grading, storage, transportation, and distribution" Agricultural marketing is the crucial link between the processes of food production and food consumption. The origin of marketing is found in the transformation of agriculture from a subsistence activity to a commercial one. Traditional forms of marketing in India consisted of hatha, dara, moghum sales etc. Village level bazaars and taluka markets were the area of marketing for farmers. Processes of grading, storing and packaging were very elementary. Farmers had to physically locate markets and sell their produce in those markets without much support physically or financially and often at discounted rates. Some of these crude processes persist even today in a variety of food products.

World over agricultural marketing has undergone tremendous transformation. Developed nations have seen a vertical integration of agriculture and industry sectors. Farmers' cooperatives, big business retail, contract farming, and producer companies are new and alternative forms of agricultural marketing. Forward and backward linkages have formed between producers and food processors leading to emergence of agri-business as an important alternative to traditional manufacturing in India. ITC, Mahindra Sulabh, Tata

Kisan Sansars and Reliance Agri are some such firms in India. These corporate firms are exploring all aspects of this value chain, from research and development to retailing the produce. And they are investing huge sums in these activities, leading to a 'farm- firm-fork' triangular supply chain.

Agricultural marketing has evolved from being a basic manual activity to technology driven activity. Traditional and modern modes of agricultural marketing coexist in the state of Maharashtra, ranging from local mandis to commodity exchanges. Extension services, pricing, marketing and delivery of services have all become technology driven. Farmers are now accessing information through mobile and online extension services, identifying markets and conducting business to business activities like tie ups with super markets, contract farming for food processing firms, export marketing etc. The spectrum of agricultural marketing is wider and deeper now. Supply chains earlier comprised farmer- trader- consolidating agent- commission agent- wholesaler- retailer- consumer. A new supply chain may be as short as farmer- firm- consumer.

Limitations of APMC mode of agricultural marketing:

It was observed that APMC markets have provided farmers with an assured market and numerous facilities like accurate weighing, grading, storage, etc. But these regulated markets suffer from deficiencies like congestion, inaccessibility, monopolizing by intermediaries etc. Studies show that though only 20% of the over 242 million tons of fruits and vegetables produced in India is traded through regulated markets, it is this 20 per cent which determines the price of the entire lot. Because of cartelization, 20% of the farmers are forced to sell at very low rates, which then affect the prices for the remaining 80%. So, the mandis, as they exist today, serve the interest of neither the farmers nor the consumers. These boards have a monopoly in their regions on marketing the agricultural products in their respective industries; dairy, for example, or eggs. That means farmers must either sell their products to the board or follow its rules when selling on their own.(Krashinsky, S.2012). Therefore farmers are exploring new systems of marketing like cooperatives, direct marketing, sale to food processors and exports.

According to unofficial estimates, commissions earned by agents, also called artiyas, stand at two-five per cent of retail prices. Other taxes such as mandi tax, octroi, value-added tax, sales tax and inter-state movement charges account for 10-12% of the retail price. In the Azadpur market here, among the largest wholesale markets in India, agent commissions stand at about six per cent of retail prices. The retail price of most vegetables in the state is 100-150% higher than the wholesale price. Fiscal and monetary policies influence agricultural markets- taxes imposed include mandi fees; purchase fee, agricultural development cess etc. Cooperatives cannot evade taxes. Market arrivals are affected by taxes. Interest rates also form part of the marketing costs (Acharya, 1998)

For three decades, since the 60's, the APMC Act and regulated markets generated a monopoly of procuring farm produce in almost all food products. The country has 7,246 such mandis each of which caters to an average area of nearly 450 sq km. The mandis control almost the entire wholesale trade of agricultural goods. How these mandis operate has a huge bearing on the retail prices of fruits, vegetables and other agriculture produce. Intermediaries often flout market norms and their pricing lacks transparency. Wholesale regulated markets, governed by State APMC Acts, have developed a monopolistic and nontransparent character. Indian farmers realize only 1/3rd of the total price paid by the final consumer, as against 2/3rd by farmers in nations with a higher share of organized retail (Roy and Kumar, 2012) Currently the APMC market yards have become hubs of monopolistic control over farm produce and commission agents who take a major share in the price of produce.

Some recent reforms in agricultural marketing:

Delhi government de-listed fruits and vegetables from the APMC act in July 2014. Freeing fruits and vegetables from the ambit of mandis is expected to lower transaction costs and help consumers get the final produce at lower rates. Also, it enables bulk purchases by food processors (Mukherjee and Roy, 2014). Farmers in Maharashtra are also exploring alternative forms of marketing like co-operatives, direct marketing to consumers, food processors, contract farming etc. to circumvent the limitations of regulated markets.

The deregulation of agricultural marketing has led to increasing interlinking of industry and agriculture. Business firms are exploring the opportunity of investing in agri-business with involvement right from provision of inputs, warehousing and storage capacities, transport infrastructure, information dissemination, contract farming and retailing of produce. They have invested in retail stores, to market their products ranging from consumer goods to agri-inputs to financial assets. They are also investing in food processing firms, thereby ensuring an assured market and better returns to farmers along with an assured supply of raw material to the food processing sector. These inter-linkages have transformed agricultural marketing and offered farmers viable alternatives to increase their productivity and returns. Organized retailing acts as a stimulator to promote growth of agro based industries, helping the farmers in production planning in advance, based on demand forecast. (Patidar,Khan,Sharma,2012).

There is a general consensus that just delisting agricultural commodities from the APMC Act alone will not resolve the issues in agricultural marketing. It requires a combination of agricultural marketing reforms like strengthening infrastructure, incentivizing crop production, removing barriers to trade across states etc. In the XIIth five year plan the "Integrated Scheme for Agricultural Marketing (ISAM) was formulated by merging six schemes of the XI FYP. ISAM scheme is having five components, namely:

(i) Agricultural Marketing Infrastructure (AMI)
(ii) Marketing Research and Information Network (MRIN)
(iii) Strengthening of Agmark Grading Facilities (SAGF)
(iv) Agri-Business Development (ABD) through Venture Capital Assistance (VCA) and Project Development Facility (PDF), and
(v) Training, Research and Consultancy through Choudhary Charan Singh National Institute of Agriculture Marketing (NIAM).

The XII Plan outlay for ISAM is Rs.4548.00 crore. It can be observed that the Centre was focused on integrated reforms in agricultural marketing.

Reforms in the State of Maharashtra:

The state of Maharashtra has divisions such as Kokan, Pune, Nasik, Nagar, Marathwada, Solapur, Vidarbha and Kolhapur with a variety of climatic and soil conditions conducive for the production of a huge variety of food and cash crops. The state also has a number of government agencies involved in marketing of agricultural produce. The Maharashtra Agricultural Produce Marketing (Development and Regulation) Act was passed in 1963. The Act provides for setting up market committees in the state. At present there are 305 APMCs with main markets and 603 sub markets. The Maharashtra State Marketing

Board coordinates the working of different market committees and establishment of agro-export zones. There have been amendments to this Act in 1987 and thereafter in 2005.

Maharashtra has been in the forefront of reforms since 2005. Based on the model APMC Act, Maharashtra State Government made amendments to the existing APMC Act and it was titled Maharashtra Agricultural Produce Marketing (Regulation) (Amendment) Act 2005. 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. This would facilitate pledge financing, direct purchasing, forward/future trading and exports. Under this Act, 180 direct marketing licenses have been issued up to December 2014, of which 77 are functional. And 35 private market licenses are issued of which 21 markets are functioning and the NCDEX is operating through the internet.

As per Government resolution No. APMC- 1099/P.C.305/11-C dated 2nd July 2002, Govt. of Maharashtra has decided to set up Shetkari Bazars in the State and the MSAMB has been appointed as nodal agency for implementing this scheme. Government also offers Market Intervention Scheme (MIS) for procurement of horticultural and agricultural commodities which are generally perishable in nature and not covered under Price Support Scheme (PSS).

In addition, Government implements various schemes such as Development/ Strengthening of Agricultural Marketing Infrastructure, Grading and Standardization; Construction/ Renovation of Rural Godown; Marketing Research and Information Network; Rashtriya Krishi Vikas Yojana; National Horticulture Mission, etc. for creation of marketing infrastructure, storage and post-harvest management of crops.

Some emerging modes of agro-marketing in Maharashtra:

The situation in Maharashtra is either slow development or no development of APMC yards. The problem is addressed by providing assistance under Maharashtra Agricultural Competitiveness Project, which is to be linked to reforms in the functioning, management and operations of the market yard. The modernization of APMCs is expected to achieve transparency, compulsory open auction, value addition etc. there is a provision of electronic auction houses at two of the largest APMCs in Maharashtra viz; Navi Mumbai and Nagpur.

Farmers' cooperatives have obtained licenses for direct marketing of produce to consumers. Farmers have organized into groups to sell directly to consumers in the premises of their office or homes. Self-help groups of farmers have received support from banks in the form of seed capital. For example, farmers in Junnar district received help from Bank of Baroda, they were able to avoid the Hundekari system, pay in cash for the inputs to suppliers and also receive 25-30% more for their produce through direct selling.

Online marketing. In Mulashi taluka of Pune district farmers are now making vegetables available online at the touch of a click. A large proportion of these vegetables are organic in nature. A group of 10 farmers from village Kalwadi, about 10 km from Narayangaon, has been selling a few tones of vegetables everyday directly to the housing societies in Pune. This offers dual benefit to consumers who now get healthy organic produce at reasonable rates at their doorstep. The financial viability of this model, the need for aggregation facilities and technical skills need to be addressed. (Bhosale, J, 2011).

Farmer's market-Other models in Maharashtra include Shetkari bazaars on the lines of Raithu bazaars of Andhra Pradesh. Maharashtra government also delisted 30 fruits and vegetables from the APMC freeing farmers of the commissions and markets fees for these products, etc.

E-trading. National Dairy Development Board has established Safal National Exchange for fruits and vegetables in Jalgaon district to promote e-trading. Two futures exchanges NCDEX and MCX have also been given licenses.

PPP model. The State has floated tenders for selection of private enterprise for development of modern terminal market complexes at Mumbai, Nashik and Nagpur under public-private partnership (PPP) model. In Maharashtra, there are 299 principal/main markets and about 600 sub-yards. The State has a strong cooperative marketing network.

Producer companies. Farmers have realized the benefit of large scale economies and collective bargaining in a more market driven agricultural economy. The amendment to the Companies Act in 2004 paved the way for farmers to set up Producer Companies. Agri-business enterprises are looking for ways to tie up with farmers directly to source agricultural produce. Producer companies provide a solution for aggregation and quality management. These companies help formulate collective production and marketing strategy, to negotiate prices, to buy seeds and chemicals in bulk and to receive technical assistance at their doorstep. Some NGOs are acting as sponsors and consultants to identify opportunities, making business plans and registering the company. 10 farmers are appointed as promoters. The company floats shares which are picked up by farmers. They are transferable but not listed. Farmer companies are now dealing in variety of crops like horticulture, spices, and oilseeds cereals across Maharashtra.

Observations from Sangli district in Maharashtra:

A preliminary investigation, we conducted in the Sangli district of Maharashtra revealed the following issues:

1. The district is part of the western Maharashtra region which is a reasonably well developed agricultural zone.
2. The most prevalent crop is sugarcane. Almost all farmers, small and large, practice multi cropping, as the soil and climatic conditions are favorable.
3. Other major crops include vegetables, grapes, turmeric, soybean and bananas.
4. Farmers depend heavily on sugar cooperatives and banks owned by them for investible funds and assured buy back of crop.
5. In case of other crops farmers sell their produce through regulated markets.
6. Some sort of complacency has set in due to the sugar cooperatives assuring a market for crops. Farmers continue to grow sugarcane despite rising costs, excessive water and labor shortage and struggle with the government and cooperatives to get a reasonable rate for their crop.
7. There are two regulated market yards set up in Sangli city, one for crops like spices (mainly chillies), jaggery, turmeric, coconuts etc. Another regulated market yard for fruits and vegetables is set up separately.
8. Since majority of farmers are small or marginal, traders and firms do not approach them prior to the harvesting season to buy crops, therefore an assured market is missing, except in grapes.
9. Farmers have to bear the cost of storing, processing and transporting their produce to the regulated market yards.

10. The brokers and commission agents then arrange for open auction of the crops. These auctions are supposed to lead to price discovery.
11. Arhatiyas and commission agents are the intermediaries between farmers and the traders. They also collect the charges to be paid by farmers and deposit receipts with the government.
12. Rajaram Solvex Pvt Ltd is the sole firm which has recently made efforts to buy soya bean oilseeds directly from farmers, for further processing. But it has met with limited success because farmers expect much more than the firm can offer. This is on account of farmers' unawareness of the system of direct marketing and misjudging of returns that can be earned in regulated or traditional markets.
13. On my visit to the regulated market yard, I observed an open auction of turmeric. The farmers had come to this market yard from other states like Karnataka and Telangana. Inspite of high transport costs they were confident of earning better returns in this market than their own home markets.
14. The commission agents arranged for storing, grading and auctioning of the produce.
15. On interacting with some commission agents, I understood that although agri-business is a future possibility, currently regulated markets are working fine and are a support system for the farmers.

Some Limitations of new modes of agricultural marketing:

There is a possibility of **vertical market failures in direct marketing,** which impair the performance of input markets and output supply chains (Kydd and Dorward, 2004). For e.g. there may be lack of investments by a group of farmers, due to possible absence of complementary investments by other players at different stages, say input providers, traders and processors, in the supply chain. Such co-ordination failures lead to situations in which everyone is worse off than if there were efficient and successful co-ordination.

There have been instances of **failure of agreements** between farmers' cooperatives and organized food retailers. Some instances of failure to abide by contract farming agreements by multinational corporations have also occurred. Farmers are forced to fight such cases legally. This drains the already scarce resources of the farmers further. Also none of the companies involved in contract farming in the state provide all required inputs such as pesticides, fertilizers, and more importantly credit to the farmers. Majority of farmers are still dependent on middlemen/traders/moneylenders for production as well as consumption finance.(Sharma, V. P. (2007).

Investments in agricultural marketing are in the form of private and foreign firms' participation in organized retailing, contract farming agreements by food processors and direct marketing by agri-business firms. There is a real possibility that these large organized firms with strong capital resources **will dictate terms and disturb the cropping patterns,** to serve their own interests rather than food security of the nation.

FDI in agricultural retailing should be permitted albeit cautiously. There is a possibility of the multinational investors in retailing making **investment decisions purely for profit and short term gains rather than investment in basic infrastructure** and modernization of processes of marketing. Roy and Kumar (2012) suggest a minimum stipulation that a percentage of FDI should be spent towards building up of back end infrastructure, logistics or agro processing units.

CONCLUSIONS

The agricultural marketing system all over India and specifically in Maharashtra is traditional but evolving and ready to adapt. Physical infrastructure, socio-legal and economic circumstances all define the agricultural supply chain. Infrastructure is the weakest link in the supply chain. Public private partnerships and government facilitation can ensure smooth reforms and structural changes in agricultural marketing. State of Maharashtra adopted the model act by enacting the Maharashtra Agricultural Produce Marketing (Development and Regulation) Act, 2005. It is a good initiative, one that was almost imperative. Given the wide geographic and climatic spread of Maharashtra, there is tremendous scope to produce a variety of food and cash crops. Farmers of Maharashtra need further incentives in the form of legal and infrastructural changes to make agriculture commercially viable and profitable. There are numerous stakeholders in agricultural marketing like farmers, wholesalers, traders, retailers, APMCs, food processors, agri-business firms and so on. Future reforms need to be based on wide considerations regarding interests of stakeholders in agricultural marketing. Shorter agricultural supply chains are the need of the day, but meaningful government intervention is also required to safeguard livelihoods and consumer interests.

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