

NATIONAL AGRICULTURE MARKET

Background & Way Forward



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01 JUL 2015

MESSAGE

It is a matter of great privilege and honor for me to inaugurate ASSOCHAM's **Conference on "National Agricultural Market; Empowering Farmers & Moderating Food Inflation"**. I appreciate ASSOCHAM for taking this initiative and to brainstorm ways to create a unified National Agriculture Market.

India is basically an agrarian society where sole dependence has been on agriculture since time immemorial. There are several challenges involved in marketing of agricultural produce. Direct marketing of the agricultural produce is the need of the hour. Efforts may be made to provide facilities for lifting the entire stock that farmers are willing to sell with incentive price.

Time and again, there has been a demand of creation of a unified national agriculture market with a view to boost incomes of the farmers. There is a need to take steps to encourage states to develop farmer markets in towns to enable farmers to sell their produce directly to command the best national price for their produce. These pressures are bound to be higher in future. A much more planned strategy and efforts, both on production and marketing fronts, are required to enhance the pace of response for ensuring food, nutritional, income and livelihood security with high levels of growth.

Ministry of Agriculture has recently launched the Mission Mode Project in Agriculture under National e-Governance Plan (NeGP-A) which is aimed to achieve rapid development of agriculture in India through the use of ICT. Marketing is one of the core areas under this scheme and plans have been made to develop Web based applications for agricultural marketing before their roll out in the States with required local customization.

I appreciate the efforts undertaken by ASSOCHAM for pushing the frontiers of collaboration, with private sector and other stakeholders and organizing regular interaction like this with the industry and other partners. I also congratulate ASSOCHAM for bringing out this study which presents an overall picture of agriculture market scenario in India. I am sure that this conference will fulfill its objective of brainstorming and devising ways for developing create a unified National Agriculture Market.

I wish the Summit a great success.


(Radha Mohan Singh)

मोहनभाई कुंडारीया
MOHANBHAI KUNDARIYA



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June 30, 2015

Message

It is a matter of great pleasure for me to be a part of ASSOCHAM's Conference on "National Agricultural Market : Empowering Farmers & Moderating Food Inflation".

The present conference proposes to deliberate on issues pertaining to National Agriculture Market which has been one of the important thrust areas of Government of India. The Economic survey, 2014-15 has highlighted the restrictions and bottlenecks to free trade in the present agricultural marketing system like fragmentation of markets, multiple point levy of market fee, imposition of other taxes/Value Added Tax (VAT), multiple licensing requirements etc. and has stressed the need for creation of a liberalized National Market for Agricultural Commodities.

The Ministry of Agriculture is committed to bring in market reforms in the agricultural marketing and has identified vital areas of market reforms to pursue with the States/Union territories (UTs) for their appropriate and timely implementation. The proposed reforms if implemented fully would, not only protect the interest of farmers and consumers of agri products, but also greatly help the States/UTs to ensure establishment of a competitive and transparent agri-market governance system.

The Central government, in order to develop an efficient, barrier free agricultural marketing across the States with multiple alternative channels of marketing, has been advocating reforms including the State Agricultural produce marketing (Development and Regulation) Act, 2003 (model Act) and Rules 2007 (Model rules). Further, in order to build a modern transparent and efficient marketing system that could facilitate barrier free trade across the country, the Ministry of Agriculture is developing a common e-market platform. This common marketing system would bring in more transparency in the whole process of marketing. This would also ensure better price realization to the farmers through improved and competitive agri-marketing system.

I believe that we need to deliberate more on systemic sustainability of a common agri-market infrastructure and to ensure the establishment of a fair marketing environment in the country for agri-commodities. I hope that the deliberations made in the conference will be beneficial to all the Stakeholders towards finding out effective and efficient solutions to successfully address the current challenges in the National Agriculture Market.

I wish the conference a great success.


(Mohanbhai Kundariya)

FOREWORD



Agriculture is by far the single biggest enabler of inclusive growth for India and has been duly placed on top priority in the Union Budget, with focus on growth, investments and development. The proposal to set up a Unified National Market for agri commodities, in close coordination with State Governments, will promote seamless movement of produce from farm to fork and accelerate growth of the sector.

Over 7,000 principal and sub-market yards in the country are currently operating under the Agricultural Produce Marketing Committee (APMC) Act. It was enacted with the objective of providing fair and regulated markets to the farmers for selling the produce at a competitive price. However, all the notified commodities under APMC have to be sold through commission agents, licensed by APMC and using archaic physical infrastructure, resulting in inefficient transactions. Also, APMCs have been charging a host of levies and other market charges imposed by states which vary widely and have resulted in market distortions. Due to multiple costs that are added to the produce without commensurate value addition across the value chain, it results in a cascading effect on the final price to the consumer.

A number of positive developments have shaped the course of reform in this sector. The Ministry of Agriculture developed a Model APMC Act, 2003 and has been working with the State Governments to modify the respective state Acts, with varying success. There are several forward looking provisions in the Model Act on direct marketing by farmers, single levy of market fee, private market yards and modernization of market infrastructure. An efficient marketing infrastructure is vital to facilitate effective price discovery and transaction functions of the rural economy. Seamless inter-State movement of agri produce and state-of-the-art infrastructure, coupled with regulatory enablers like GST, can eventually lead to a more efficient price-realization mechanism for farmers.

The National Agriculture Market initiative is a bold step towards empowering the farmer with opportunities and choices in the marketplace, for inclusive development of our Nation. This unified common market will gradually evolve with state and regional integrations and the first significant step has already been taken by Karnataka in creating Rashtriya e-market Services Pvt. Ltd. (ReMS), a statewide common market with a single licensing system.

Towards the foregoing, I am pleased to present the ASSOCHAM - YES BANK knowledge report **National Agriculture Market - Background & Way Forward** which highlights the underlying concept, elements & ecosystem of NAM, key challenges and its roadmap. I am confident that the contents of the knowledge report will provide important insights to policy makers, industry leaders and stakeholders of the NAM, which will take us further along the road towards achieving food security for the nation in true *Sab ka Saath, Sab ka Vikas* spirit.

Thank you.

Sincerely,



Rana Kapoor

President ASSOCHAM

Managing Director & CEO YES BANK



MESSAGE

It gives me immense pleasure to note that ASSOCHAM is organizing Conference on **“National Agriculture Market:- Empowering Farmers & Moderating Food Inflation”** on July 02, 2015 at New Delhi.

Time and again, there has been a demand of creation of a unified national agriculture market with a view to boost incomes of the farmers. There have been consistent efforts by the Government of India to encourage development of farmer markets to sell the produce directly to command the best national price for their produce.

I am hopeful that the deliberations and suggestions made in this conference will help all the stakeholders and State Government to bring in all-round location specific in developing National Agriculture Market.

ASSOCHAM extends its earnest gratitude to Ministry of Agriculture, Government of India, SFAC, NABARD, Karnataka, Telangana, Meghalaya and Delhi as a State Partner for their support in making this program a grand success.

I extend my heartfelt thanks to YES BANK for bringing out a very informative study. This extensively researched publication will highlight challenges in developing national agriculture Market and way forward to create a unified agriculture Market.

This conference would not be the same without due support from our corporate and media partners. Lastly, I also appreciate the efforts put in by **Dr. Om. S. Tyagi, Sr. Director, ASSOCHAM** along with **Mr Vipul B Gajingwar** and **Mr Nitesh Sinha** for organizing this conference.

I not only wish the conference a great success but also assume that ASSOCHAM shall continue to organize such programs for larger public benefits with great degree of excellence.

D.S. Rawat
Secretary General



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1

Agricultural Marketing in India



1 | Agricultural Marketing in India

Agricultural marketing involves an array of activities like grading, sorting, processing, packaging, storage and distribution which brings the farm produce to the final consumer. Agricultural marketing in India is quite complex due to large number of small scale producers and involvement of intermediaries like aggregators, commission agents and wholesalers as well as associated risks like perishability, seasonality and availability of produce. All these factors along with demand and supply gap are interwoven in the system, which ultimately impact the pricing of the produce, thus making the role of agricultural marketing more crucial.

In India, regulation of agricultural commodity markets is largely a function of state government. Several government organisations like Commission of Agricultural Costs and Prices, Food Corporation of India, Cotton Corporation of India, Jute Corporation of India are also involved in agricultural marketing. There are also specialised marketing bodies for rubber, tea, coffee, tobacco and spices. Directorate of Marketing and Inspection (DMI) helps in implementing agricultural marketing policies and government programmes. The formal agricultural marketing network in the country consists of the following entities.

Agricultural Cooperative Marketing Societies - The agricultural cooperative marketing generally has a four tiered structure in which the primary marketing societies are at the base level, district/regional federations at the district level, state marketing federations at the state level and national federation are at the apex level. The National Agricultural Cooperative Marketing Federation (NAFED) is the apex cooperative marketing organisation in India. The agricultural cooperative marketing societies generally undertake procurement and marketing of agricultural commodities, distribution of agricultural inputs and implements, export and import of agriculture commodities. Some societies have also diversified their activities into areas such as warehousing, providing credit facilities and processing of agro-products.

Regulated Markets - In India, regulated markets play a major role in organized marketing of agricultural produce. The objectives of these physical markets are to make sure that farmers get reasonable profits by managing the forces of supply and demand, regulation of market practices, transparency in transactions and facilitating trading in an orderly manner. To achieve an efficient system of buying and selling of agricultural commodities, most state governments and union territories have enacted Agricultural Produce Marketing Committee (APMC) Act for regulation of agricultural produce markets. There are about 2,477 principal regulated markets based on geography (the APMCs) and 4,843 sub-market yards regulated by the respective APMCs in India¹.

Futures Trading - Future trading has been allowed in certain agricultural commodities to protect the market participants from the risk, arising out of adverse price fluctuations. For conducting futures trading, there are recognised commodity associations/exchanges. The functioning of these exchanges and approval of their constitution and bye laws is regulated by Forward Market Commission (FMC). The Department of Consumer Affairs (Ministry of Consumer Affairs, Food and Public Distribution, Government of India) is at the apex level to oversee the overall functioning of the forward and futures markets.

Private trading of the commodities is also undertaken at many places, besides the above mentioned channels.

The merger of the FMC with the Securities & Exchange Board of India (SEBI) is underway. Once the merger takes place, all commodity exchanges will be treated at par with the equity exchanges and will be governed by the new set of regulations under SEBI.

1.1 Agricultural Marketing Infrastructure

For the growth of comprehensive and integrated agricultural marketing system in the country, development of marketing infrastructure like physical markets, sorting, grading and storage facilities along with enabling infrastructure such as power, roads, water etc. is very crucial. Presence of adequate infrastructure affects the choice of technology to be adopted, reduces the cost of transportation, impacts production and level of access to the market. Many regions of the country still suffer from infrastructural impediments that restrict their access to competitive markets. In India, rural primary markets and wholesale markets are the two most prominent types of markets. The concept of terminal market is emerging in India however it is still in the stage of conceptualization and needs more efforts to actualize it on ground.

Rural Primary Markets

Rural Primary Markets (RPMs) constitute the periodic markets known as haats, shandies, painths and fairs which are estimated to be more than 22,500² in the country. Majority of RPMs are owned and managed by private individuals, panchayats and municipalities. The markets are located in rural and interior areas and serve as a focal point for the farmers for marketing of their produce. It is estimated that close to 90% of the total marketable surplus in the remote areas is sold through these markets.

¹ Economic Survey 2014-15, A National Market for Agricultural Commodities – Some Issues and the Way Forward

² Final Report of Committee of States Ministers, In-charge of Agricultural Marketing to Promote Reforms

However, the facilitating infrastructure in such markets is almost negligible. Improved rural market outlets in form of better supporting facilities, storage and handling will facilitate price information; minimize costs and thus improve the efficiency of these primary markets.

Wholesale Markets

The government interventions in agricultural markets started off with the objective of improving efficiency of markets, ensuring remunerative prices for producers and affordable prices for consumers. One of the main interventions by the government was to establish a large number of public wholesale market yards for agricultural products and to regulate these yards through Agricultural Produce Marketing Committee (APMC) Act.

The purpose of APMCs was to protect farmers from exploitation by the intermediaries and to ensure better prices and timely payment for their produce. However, over the years these APMCs became restrictive and monopolistic, providing limited help in direct and free marketing, organized retailing and smooth raw material supplies to agro-industries. Exporters, processors and retailers could not procure directly from the farmers as the produce is required to be channelized through regulated markets and licensed traders. The introduction of the Model APMC Act in 2003 was aimed at allowing private market yards, direct buying and selling and also to promote and regulate contract farming in high value agriculture. Several states have already amended the APMC Act as per provisions of the Model Act while others have undertaken partial amendments.

Presently, the average reach of a single regulated market is around 460 square kms, thus farmers have to travel a long distance to sell their produce. The central and state governments are in the process of creating more regulated markets so that the command area of each market does not extend beyond 80 square kms. Basic facilities such as internal roads, boundary walls, electric lights, loading and unloading facilities and weighing equipments are available in more than 80% of the markets. Farmers' rest houses exist in more than half of the regulated markets. The government is planning to extend infrastructure like auction platforms, drying yards and cold storage units to all regulated markets³.

1.2 Marketing Channels across Various Segments

Agricultural marketing system in India has evolved over the years. The traditional marketing channel that involved a number of intermediaries at each stage is now being overcome by cooperative marketing or producer organizations at some places. The existing marketing system consists of channels viz.

- ✓ Through wholesalers and retailers
- ✓ Through public agencies
- ✓ Through processors
- ✓ Direct marketing e.g. Rythu bazaar in Andhra Pradesh
- ✓ Cooperative marketing e.g. Dairy cooperatives
- ✓ Farmer organizations in marketing e.g. Mahagrapes

³ <http://www.archive.india.gov.in/citizen/agriculture/index.php?id=6>

These channels have direct impact on marketing costs such as transport, commission charges and margins charged by the intermediaries such as trader, commission agent, wholesaler and retailer. An efficient marketing channel provides the produce to the consumer at the cheapest price and ensures high returns to the producer.

Table 1: Production figures of major commodities produced in India:

Commodity	Production in million MT (2013-14)
Rice	106.7
Wheat	95.9
Maize	24.3
Pulses	19.2
Banana	29.7
Mango	18.4
Citrus	11.1
Onion	18.7
Tomato	19.4
Potato	41.5
Milk	137.6
Sugar	25
Mustard	7.9
Soybean	11.9
Cotton (million bales)	25.9
Spices	5.9
Tea	1.2

Source: DACNET, NHB, DAHD, ISMA, INDIA STAT

Marketing channels of major commodities are described below.

1.2.1 Marketing of Grains

India is self sustained in cereal production with annual production touching 246 million MT⁴ (includes wheat, rice & coarse cereals) in 2013-14. It is the second largest producer of wheat and rice in the world. In India, the government is involved in both direct market operations/ interventions, as well as in the development of infrastructure and legal framework for the private marketing system of grains. Private trading of grains takes place through wholesale markets and sub-markets while electronic trading happens through multi-commodity exchanges. Under Public Distribution System, the

⁴ Indiastat

government procures specified commodities at notified procurement prices directly from the producers and distributes among consumers through a network of fair price shops at notified issue prices. The government policy of procurement of food grains has the broad objectives of ensuring Minimum Support Price (MSP) to the farmers and also ensuring availability of food grains to the weaker sections at affordable prices. It also ensures stable market interventions thereby keeping the prices under check and ensuring the overall food security of the country.

Food Corporation of India (FCI), the nodal central agency, along with other state agencies undertake procurement of wheat, paddy and coarse grains under price support scheme and rice under statutory levy scheme. Farmers are free to sell their produce to other buyers in case they get better prices. Rice procurement varies little from the wheat procurement as it also involves rice millers. The two channels used for procuring rice are custom-milling of rice and levy. In the first channel, the government buys paddy directly from farmers at the MSP and gets it milled from private millers; while in the second one, it purchases rice from private millers at a pre-announced levy price thus providing indirect price support to farmers.

The other marketing channel in foodgrain includes mandis where farmers/aggregators sell their produce through auctioning. The largest mandis of wheat include those in Khanna, Karnal, Sirsa, Kanpur, Shahjahanpur, Kota, Indore while those of maize are in Nizamabad, Karimnagar, Davangere, Begusarai, Ratlam, Kota and Chittorgarh. Paddy is harvested by more than ten states with West Bengal, UP, AP, Punjab being the leading provinces.

The commodities that are traded through the mandis are levied with mandi cess and fee and are then auctioned on the mandi platform. Processors, exporters, traders and retailers participate as buyers in the auctioning. The commodities are then moved out for value addition or direct consumption.

Besides this, contract farming and future exchanges are two other marketing channels through which the foodgrains can flow. However, the transactions through both these channels are not very high in volume and are restricted to certain geographies and commodities.

1.2.2 Marketing of Fruits and Vegetables

Fruits and vegetables (F&V) by far dominate the Indian horticulture sector occupying about 69% of the area under horticulture crops and contribute to more than 90% of total horticultural production.⁵ Around 89 million MT of fruits and 163 million MT of vegetables were produced in the country in the year 2013-14.⁶ Marketing of horticultural produce is complex and involves a range of operations. Seasonal production and perishable nature of F&V is one of the major issues faced by producers and traders involved in its marketing. The current markets for F&V lack standardized grading of the produce, proper assaying & weighment facilities, weaker post harvest agri infrastructure such as cold chain including reefer vans, which restricts the flow of quality produce from the producer to consumer. The supply chain bottlenecks present in the marketing of horticultural produce require intervention at both macro and micro level.

Delisting of fruits and vegetables from the APMC Act, which has already been taken up by some states, will give free choice to farmers to sell their produce. The move to restrict intermediaries' role for value

⁵ National Horticulture Board (NHB)

⁶ Indiatat

addition of the produce is seen as an effective tool to increase their participation and check hoarding and price rise. Earlier, farmers were forced to sell their produce at the ruling prices, generally determined by few market functionaries having vested interest. Delisting has allowed buyers and processors to buy directly from the farmers and has helped in fetching better prices. Large wholesale markets for fruits and vegetables are concentrated in major cities of the country like the Azadpur mandi in Delhi and Vashi mandi in Navi Mumbai.

1.2.3 Marketing of Milk and Milk Products

India has been able to maintain its numero uno position in milk production during the past 16 years and milk production during 2013-14 stands at approximately 138 million MT.⁷ Milk is one of the allied agricultural produce and fetches comparatively higher returns, which has been achieved by transparent pricing model (with respect to Fat and SNF content in milk) in the system, especially by the large cooperatives. Some private players have also implemented similar structure in their procurement model. Due to increased focus on quality and traceability of milk procured as well as increased competition, companies are now gradually shifting to direct procurement from farmers. The share of organized procurement is bound to increase in coming years.

Contract farming ecosystem with best technical advisory services to improve the productivity, tripartite arrangements with banks to provide credit to farmers, investments in cold chain infrastructures are all encouraging small farmers to undertake dairying as mainstream activity and strengthening the backend value chain of milk. Marketing of approximately 75-80% of milk happens through the highly fragmented unorganized channel which includes producers and local milk vendors. Milk marketing in organized channel takes place through private companies, cooperatives societies and government players.

The Indian dairy and milk products industry is skewed towards cooperatives; they account for around 60-65% of the industry. Various regional and national private players account for the remaining 35-40%. Cooperative societies play an important role in marketing of milk and milk products. The cooperative system works on a three tier structure including village dairy cooperative societies, district milk cooperative union and state cooperative milk marketing federation. Processors market milk and milk products through a network of wholesalers and retailers including exclusive retail outlets. The milk value chain in India is comparatively much better established than any other value chain in agriculture. A national trading platform for buying and selling of value added milk products like ghee and SMP could be established to facilitate the marketing of milk products across the country.

1.2.4 Marketing of Plantation Crops

Plantation crops are high value commercial crops of greater economic importance and play a vital role in improving Indian economy in view of their export potential as well as employment generation in rural sector. Major plantation crops include tea, coffee, rubber, coconut, cashew, arecanut and the minor plantation include cocoa. India is one of the largest producers of tea in the world with an annual production of 1.2 million MT.⁸ Tea is an essential item of domestic consumption and is a highly consumed beverage in the country. The country also produced around 0.3 million MT of coffee in the

⁷ *Indiastat*

⁸ *Tea Board of India*

year 2013-14 of which around 0.12 million MT was consumed locally and the rest exported.⁹ With 29% of the Indian population aged less than 15 years and coffee becoming popular amidst the younger generation, the Indian coffee market offers tremendous opportunities in the future.

The Indian tea industry has three channels for marketing and distribution of tea in bulk - government auctions (e-auction), private sale outside auctions and direct exports. The Tea Board of India regulates the sales and exports of tea as well as registering and licensing of manufacturers, brokers, tea waste dealers and persons engaged in the business of blending tea. It also notifies a Price Sharing Formula (PSF) for ensuring an equitable sharing of sale price of made tea between the growers and the manufacturers. As per this formula, sale price of made tea has to be shared between the growers and the factories in the ratio prescribed for each tea growing state. Coffee beans are sold either at farm gates or at auction centres. Only about 5-10% of the production is sold through auction sales and rest is sold through farm gates (primarily to branded players)¹⁰. Clean coffee may also be purchased from Coffee Board auction, private auction and traders.

For both coffee and tea, planters primarily sell their produce at farm gates or through auctions. Integrated players for both commodities are present throughout the value chain including marketing and selling of final product in the domestic retail or export markets. Non integrated players do not own tea or coffee plantations and procure raw material from agents, cooperatives and auctions for processing and sale of final product.

1.2.5 Marketing of Sugar

India is one of the largest producers and consumers of sugar in the world. Sugar production during 2013-14 stands at 25 million MT¹¹ with Maharashtra, Uttar Pradesh and Karnataka being the top producers. The industry is largely dominated by co-operative mills operating in Maharashtra and Gujarat and private players in Uttar Pradesh and Karnataka. Sugar sale, being a commodity controlled under the Essential Commodities Act, is controlled by the central government. The Fair & Remunerative Price (FRP) is decided by central governments every year at the beginning of Sugar Season¹²; which is the minimum price the sugar mills have to pay to the farmers for procuring sugarcane. Furthermore, some state governments also announce State Advised Price (SAP) that mills have to pay for procurement. Growers can also sell to private crushers however, the same price will not be guaranteed. Free sale of sugar follows the traditional channel of wholesaler, retailer and consumer.

The government of India has partially deregulated the sugar industry in June 2013 by eliminating the monthly release mechanism of non-levy sugar. Moreover, central government has removed the compulsory supply of 10% of mill's production as levy sugar at subsidised rate meant for the public distribution system.¹³ These reforms have helped the mills to reduce their working capital requirement and improve average sales realisation. Sugar mills are now free to sell their entire production as per their commercial prudence. However, to make sugar available in the PDS, the State Governments/UT

⁹ Coffee Board, Ministry of Commerce and Industry

¹⁰ Crisil Research

¹¹ Department of Food and Public Distribution

¹² Sugar Season; refers to the period from October 01 to September 30

¹³ Department of Food and Public Distribution

will procure it from the open market through a transparent system and the central government will reimburse the states/UTs based on their existing allocations.

1.3 Regulatory Framework and Reforms in Agricultural Marketing

Presently, agricultural markets are regulated under the APMC Act which was enacted with an objective of providing genuine markets to the farmers/growers for selling their produce at a competitive price. This mechanism envisaged fair auctioning of the produce supported by marketing infrastructure and higher returns to the farmers. The Act notifies agricultural commodities such as cereals, pulses, edible oilseed, fruits and vegetables, poultry, meat and fish and provides that first sale in these commodities can be conducted only under the aegis of the APMC through the licensed commission agents.



Various taxes, fees/charges and cess levied on the trades conducted in the mandis are also notified under the Act. The commission agents present in the market, charge commission for facilitating the transaction between buyers and farmers. States also levy various taxes on specific commodities depending upon the nature of production and demand.

The market committees which manage the market and regulate the trade are known as Krishi Upaj Mandi Samities (KUMS). They are also responsible for the general development of market yards by way of providing necessary amenities and facilities and are also empowered to issue licenses to the traders. For providing all these services, they collect mandi fee from the buyers which is a major contributor of mandi income. The mandis are classified basis the annual income from mandi fee.

Basis the market class, marketing committees share a fixed proportion of total fee income with the State Agricultural Marketing Board (SAMB). This proportion is used for the various development works of mandi areas and providing basic amenities to farmers in order to facilitate better post harvest management.

Even though APMC Act was enacted for the well being of the producers, some structural and political challenges affected the trade. In several cases commission agents, traders and buyers formed cartel and indulged in hoarding for taking price advantages. Sometimes in a transaction, farmers do not even get the Minimum Support Price (MSP) of the produce due to compulsion of selling the produce through APMC only. Also, at some places, obtaining license for buying was quite difficult. Moreover, though the market fee is collected just like a tax, the revenue earned by the APMCs does not go to the state exchequer and hence does not require the approval of state legislature to utilize the funds so collected. Thus, APMC operations are generally hidden from scrutiny. Multiplicity of the fee and variations in taxes on the commodities in different states has also posed several challenges with respect to the Act, creating a huge difference in the final prices and returns to the farmers.

Model APMC Act

In order to address these challenges, Model APMC Act, 2003 was introduced with amendments in the APMC Act by the Ministry of Agriculture. The Model APMC Act provides better marketing opportunities to the farmers by allowing them to sell their produce directly to the contract-sponsors or in the market set up by private individuals, consumers or producers. It also increases the competitiveness of the agricultural produce markets by allowing common registration of market intermediaries.

Table 2: Important Features of Model APMC Act

Important Features of Model APMC Act	Direct sale of produce in contract farming arrangement
	Provision for commodity specific agricultural markets (specially perishables)
	Private sector participation by establishing new markets in any area
	Single levy of market fee on the sale of notified commodity in any market area
	Replacing licensing with registration of market functionaries so that they can operate in any market
	Provision for establishment of consumers' and farmers' markets to facilitate direct marketing of the produce
	Provision for establishment of marketing infrastructure from the revenue earned by the APMC

Table 3: Current status of APMC reform *(Several states have already amended the APMC Act as per provision of the Model Act while others have partially implemented it)*

Stage of Reform	State/Union Territories
Reforms done for private market, direct marketing, contract farming, e-trading and farmer markets	Gujarat, Goa, Himachal Pradesh, Jharkhand, Karnataka, Maharashtra, Mizoram, Rajasthan, Sikkim, Tamil Nadu
Partial Reforms	Andhra Pradesh, Arunachal Pradesh, Assam, Chhattisgarh, Delhi, Haryana, Madhya Pradesh, Nagaland, Odisha, Punjab, Tripura
Applicability of single point levy	Andhra Pradesh, Chhattisgarh, Goa, Gujarat, Himachal Pradesh, Jharkhand, Karnataka, Madhya Pradesh, Mizoram, Nagaland, Punjab, Rajasthan, Sikkim, Tamil Nadu
Reform done for unified license	Andhra Pradesh, Goa, Gujarat, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Mizoram, Nagaland, Rajasthan, Sikkim, Tamil Nadu
Deregulation/exemption of market fee on F&V	Assam, Chhattisgarh, Delhi, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Meghalaya, Nagaland, Odisha, West Bengal
States where APMC Act does not exist or has been repealed	Bihar, Kerala, Manipur
States where APMC act not reformed	Jammu & Kashmir, Meghalaya

Source: Small Farmers' Agri-business Consortium (SFAC)

Model APMC Act provided remedy for several important bottlenecks in the earlier APMC act such as some freedom to farmers for selling their produce directly through contract farming or specialized markets, common registration of all the market functionaries etc. However, adoption of the act was left at the discretion of the state governments and it also possessed some inadequacies such as levy of market fee even if the produce is sold directly outside the APMC area, level of commission charged by different functionaries, market fee to be shared with APMC in case of private market establishment etc. To address these challenges, structural reforms are need of the hour which will make the marketing system more transparent, competitive and efficient.

1.4 Current Status of Regulated Markets in India

The number of regulated agricultural markets currently stands at approximately 7,500 in number as compared to just 286 in 1950. The average area served by these regulated markets comes close to 459 sq km which is considerably higher than 80 sq km of command area as targeted by the government. Accordingly there is a huge deficit of regulated markets in India which can efficiently handle the marketable surplus¹⁴.

There exists an uneven spread of these regulated markets within states and also within districts of each state. For example, average area served by each regulated market varies from 118 sq km per market in Punjab, 130 sq km in West Bengal, 156 sq km in Haryana, 304 sq km in Andhra Pradesh, 347 sq km in Assam, 349 sq km in Maharashtra, 378 sq km in Karnataka and 389 sq km in Uttar Pradesh. States like Himachal Pradesh, Meghalaya and Sikkim, are among those where the average area served by a regulated market is more than 1,000 sq km.

Table 4: Status of Agricultural Produce Markets in India (as on March 2012)

Name of the State/UT	Total Markets (Wholesale + Rural Primary)	Total Regulated Markets (Principal + Submarket Yards)	Area Covered by Regulated Markets (sq km)
Maharashtra	4,381	881	349
Uttar Pradesh	4,048	613	389
West Bengal	3,204	685	130
Bihar	1,794	Act Repealed	
Punjab	1,771	425	118
Madhya Pradesh	1,567	521	592
Odisha	1,548	314	496
Kerala	1,362	Act not enacted	
Karnataka	1,237	507	378
Assam	1,140	226	347
Chhattisgarh	1,134	185	730

¹⁴ <http://www.archive.india.gov.in/citizen/agriculture/index.php?id=6>

Name of the State/UT	Total Markets (Wholesale + Rural Primary)	Total Regulated Markets (Principal + Submarket Yards)	Area Covered by Regulated Markets (sq km)
Tamil Nadu	977	292	445
Andhra Pradesh	905	905	304
Jharkhand	804	201	397
Rajasthan	746	434	789
Tripura	638	21	499
Haryana	478	284	156
Gujarat	334	400	490
Nagaland	193	18	921
Meghalaya	123	2	11,215
Manipur	118	Act not enacted	
Mizoram	115	-	
Arunachal Pradesh	85	131	639
Himachal Pradesh	77	50	1,113
Uttarakhand	66	58	963
Delhi	30	18	82
A&N Islands	28	0	
Goa	28	8	463
Jammu & Kashmir	24	-	
Sikkim	19	1	
Puducherry	9	9	55
Dadar & Nagar Haveli	8	Act not enacted	
Daman and Diu	2	Act not enacted	
Chandigarh	1	1	114

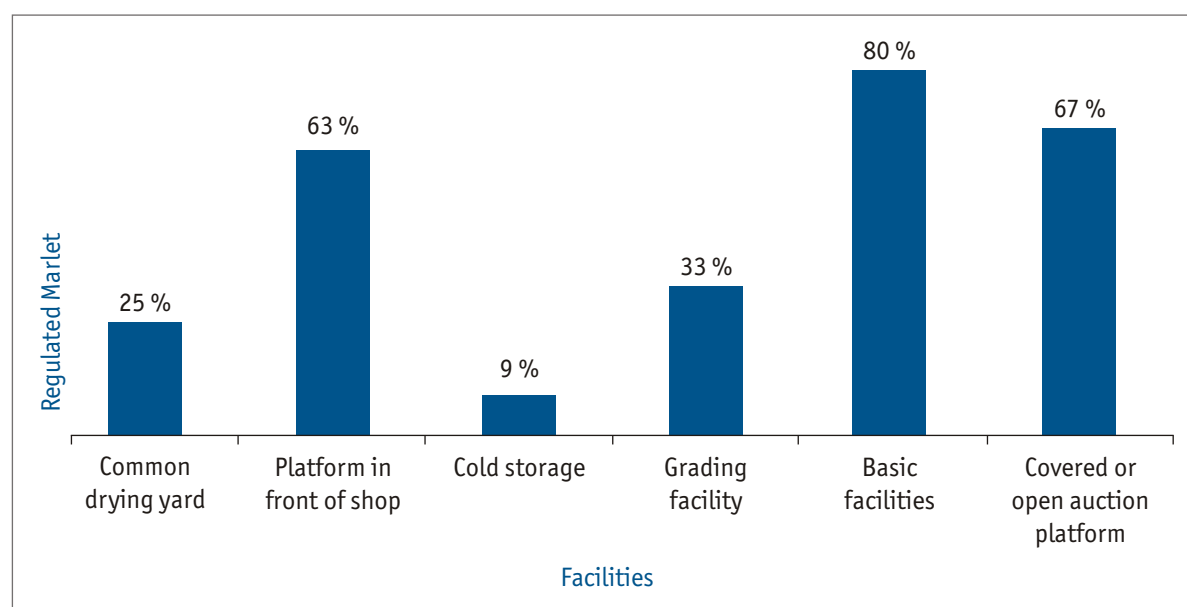
Source: Final Report of Committee of State Ministers, In-charge of Agriculture Marketing to Promote Reforms, Agricultural Marketing Infrastructural Facilities in India, M.S.Jairath, Director NIAM

Status of Infrastructure in Regulated Markets

There exists a considerable gap in the essential facilities available in the market yards for the producers. Auction platforms are needed for the settlement of price of the produce between buyers and sellers. Both covered and open auction platforms exist only in 67% of the regulated markets. Drying yards are also an essential feature of regulated markets because some commodities when brought for sale contain higher moisture than desired level and hence require drying. Such drying space is available only in 25% of the markets. Shops, godowns and platform in front of shops exist in 63% of the markets. Cold storage units are needed in the markets where perishable commodities are

brought for sale. The cold storage units exist only in 9% of the markets and grading facilities exist in less than 33% of the markets. The basic facilities such as internal roads, boundary walls, electricity, loading and unloading facilities and weighing equipments are available in more than 80% of the markets.

Figure 1: Status of Facilities in Regulated Market



Source: National Council of Applied Economic Research (NCAER)

Grading Facility in Market Yards

Grading facility is classified as functional infrastructure that helps to segregate different qualities of a produce. Grading may be done on the basis of size, shape or color. Technology has evolved and solutions are available to grade and sort produce into multiple categories. Grading and sorting has gained prominence with the development of the food processing industry in the country. However, the existing grading facilities available in the country are largely inadequate. Only 7% of the farm produce is graded before sale by the farmers. The number of grading labs in each state also varies drastically. While Rajasthan has more than 200 grading units, others like Jharkhand, Odisha, Uttarakhand and Chhattisgarh have less than 10 grading units in the entire state.¹⁵

Besides unavailability of infrastructure, another major reason for limited grading of the produce is unavailability of remunerative prices for superior quality. The aggregation at farm level by the middle men is for ungraded produce and the entire lot is transported to the mandi. Thus, the farmer producing better quality gets no incentive for his produce.

¹⁵ Directorate of Marketing and Inspection (DMI)

2

New Paradigms in Agricultural Marketing





2 | New Paradigms in Agricultural Marketing

In the prevailing agricultural market system, information asymmetry, lack of transparency in price discovery and collusive behavior of agents are common problems. The current monopolistic environment in APMCs has led to dichotomous scenarios of low realization for farmers and high prices for consumers. The overall infrastructure in many of the existing mandis is also inadequate and existing facilities have deteriorated in the absence of a strong institutional mechanism. Furthermore, instances of sudden exponential hike in prices of onion is a case in point that has amply proven that if adequate supply chain investments are not made for the storage and preservation of essentials, it shall have catastrophic inflationary consequences. To overcome all these issues various alternative non conventional marketing channels have evolved over the past few years. A few are success stories which need to be replicated, while others have faced failure and taught lessons.

A number of action steps have been initiated by the central government, few state governments, private players and regulatory bodies to bring in new dimension to agri marketing. States are in the process of bringing perishables out of the ambit of APMC which shall lead to better price discovery. Private initiatives and incentives are building up to facilitate superior infrastructure which will go a long way in bringing in efficiencies and structural changes in the agri marketing system of India.

Figure 2: Recent Developments in Agricultural Marketing

Agri-Tech Infrastructure Fund (ATIF) of INR 200 crores has been approved for development of a common national market. The fund is proposed to be utilized for migrating towards a national market through implementation of a common e-platform for agri-marketing across all states.

Many states have exempted the marketing of fruits and vegetables from the purview of the APMC Act.

The Small Farmers Agribusiness Consortium (SFAC) is planning to develop a kisan mandi in Delhi with a view to providing a platform to FPOs for direct sale of their produce to buyers eliminating the intermediaries. They will adopt this model for other states also depending on their success in Delhi.

The Department of Agriculture (DAC) has issued an advisory to states to declare the entire state a single market with one license valid across the state and removing all restrictions on movement of agricultural produce within the state.

Global Experience

2.1 Rungis International Market

Rungis is the world's largest wholesale market for fresh produce, fish, meat, fruits, vegetables, cheese and fresh flowers. It is spread over an area of 232 ha and is located around 15 km from the Paris city centre. It employs more than 11,000 people to facilitate the flow of millions of tonnes of produce.¹⁶

Rungis is a distribution point of food not only for France but for many other European countries as well. The market supplies products to over 18 million people.¹⁷ The market is divided into five sections viz., fruits & vegetables, dairy products, meat products, delicatessen products and seafood & fresh water produce.

A group of around 1200 companies including retailers, caterers and supermarkets operate in the market which gives an occupancy of around 95% to the market.¹⁸

Overview of Rungis Market



¹⁶ Rungis Market Website

¹⁷ Rungis Market Website

¹⁸ Rungis Market Website

Price formation and discovery

Prices on the Wholesale Markets act as a basis for establishing the market price lists used daily by the professionals. Assembly markets in rural areas have been traditionally built so as to encourage the delivery of fair prices to farmers. The products on these markets are generally sold through an auction system which is the most transparent way of trading in a free market.

Food safety and traceability

The fresh produce wholesale market demonstrates high standards in terms of food hygiene. The animal health and veterinary services operate in the market on a permanent basis and monitor product quality. The veterinary services have daily checks of the produce on the companies' premises. This is in addition to the health approvals delivered to the companies working there. There has also been significant investment in the buildings to eliminate any risk of interruption in the cold chain thus ensuring good quality, and safe fresh produce.

The fruit and vegetables pavilion, has different requirements to those governing animal produce, and has been designed to present the produce under optimal conditions, sheltered from the adverse effects of weather.

Each company operating in the market undertakes to comply that the premises are in line with the standards that include drawing up a cleaning schedule and purchasing efficient cleaning equipment. They comply with the hygiene standards for cold chain including a temperature recorder in each refrigerated room, temperature monitoring procedure on reception and management of non-conformities, promoting staff awareness through relevant training, thermal insulation, reinforcing cold production, refrigerating platforms used for receiving or shipping animal produce.

2.2 Sydney Markets Limited

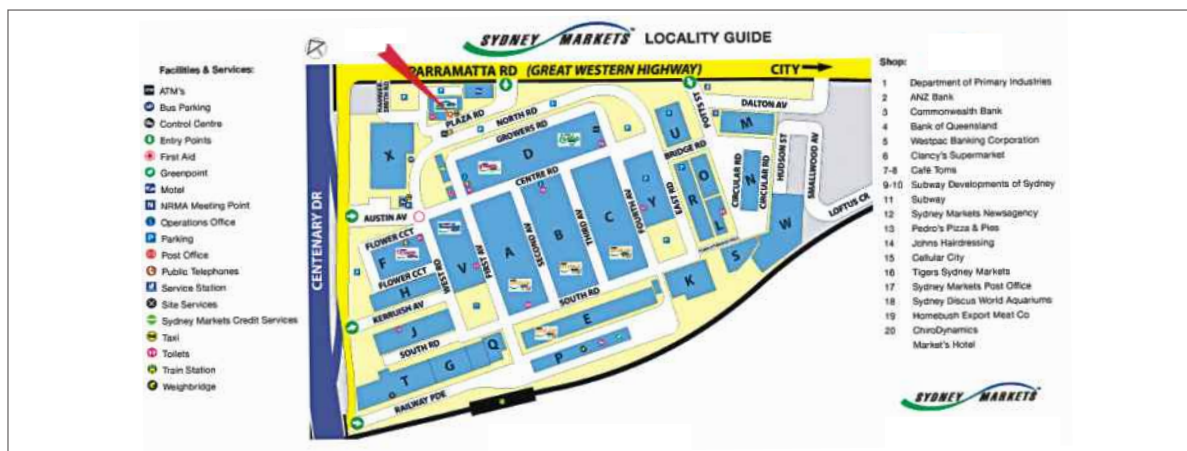
Sydney Markets Limited owns and operates Australia's largest markets, and is recognised as a world leader in fresh produce and community market management. It offers an extensive range of services that add value for shareholders, tenants, their suppliers and customers. The company aims to achieve operational excellence; innovation and business development, together with strong leadership, management and teamwork.

Sydney Markets has undergone remarkable transformation since its humble beginning over 200 years ago. Today it is recognised internationally for its world-class fresh produce and community markets. These markets play a significant role in the horticultural industry, and the economy of New South Wales and Australia.

Sydney Markets is a "one-stop-shop" with produce, packaging, exporters, food processors, warehouses, and agricultural supplies all on site.

Sydney Market offers choice, with an extensive range of produce and merchandise variety, quality and price. It has the infrastructure to maximise time efficiencies and minimise cost for trading and distribution. Industry associations, banks, shops, a post office, commercial offices and other goods and services are also available in the Sydney Markets Plaza.

Figure 3: Sydney Markets Locality Guide



Disclaimer: The MAP above is only a pictorial representation and does not purport to be a political map and is not drawn to scale

Sydney Produce Market, Sydney Flower Market and Sydney Growers Market comprise more than 700 businesses that sell fresh fruit, vegetables and cut flowers supplied by over 20,000 local and interstate growers. All grades of produce are sold at the markets, offering the best deal possible on fresh produce and cut flowers for a wide variety of uses. As Australia's leading produce markets, they have become the price barometer for fruit, vegetables and flowers in Australia.

Over \$150 million of fresh flowers are sold through the Sydney Flower Market annually. An estimated 2,500,000 tonnes of fresh fruit and vegetables, valued at \$3.0 billion, are sold through Sydney Produce Market and Sydney Growers Market and approximately \$100 million of fresh produce is exported from Sydney Markets annually.¹⁹

National Experience

2.3 Terminal Market Complex (TMC)

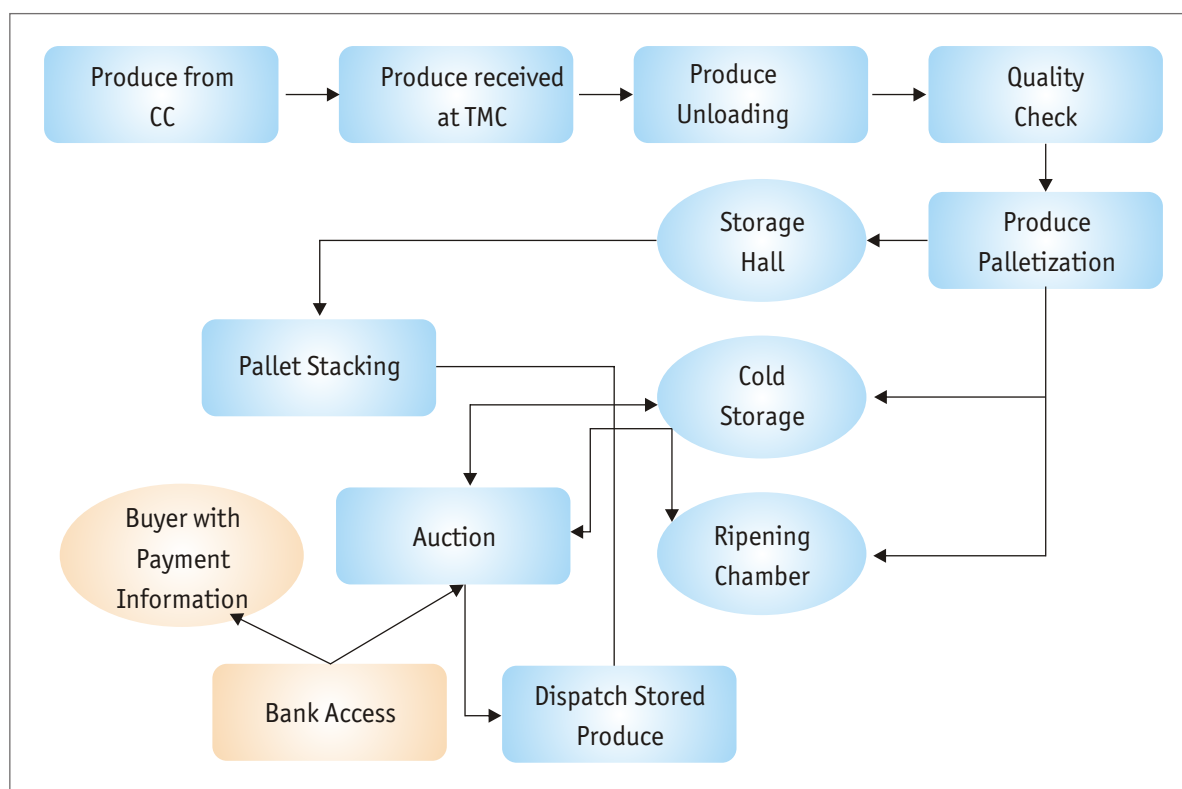
The scheme of Terminal Markets Complex (TMC) was conceptualized and introduced under NHM with the aim of creating an efficient marketing mechanism that would lead to reduced wastages, prevent quality deterioration, provide adequate storage and other value added services, provide a fair share of consumer price to the producers and maximize returns to all key stakeholders. This model was envisaged on a PPP mode so that the efficient managerial skills and capital investment could be brought in by the private player and the state governments would facilitate in provision of land and help in getting clearances and licensing requirements for operations.

The Terminal Market Complex operates on a Hub-and-Spoke format wherein the central market (the hub) is linked to a number of collection centres (CCs). The spokes are conveniently located at key production centres to allow easy farmer access and the catchment area of each spoke would be based on meeting the convenience needs of farmers, operational efficiency and effective capital utilization of the investment.

Although many states had envisaged setting up Terminal Market Complexes in their states (Rajasthan, Odisha, Andhra Pradesh, Punjab, Bihar, Nagaland), the concept could not take off due to challenges like shifting of trade from existing markets, land acquisition & transfer issues, APMC act etc. Some traction has been seen in Tamil Nadu and Maharashtra.

¹⁹ All data has been taken from the official website of Sydney Markets

Figure 4: Flow of Produce in a Terminal Market Complex



Source: YES BANK Analysis

2.4 Electronic- Spot & Futures Markets

The setting up of electronic exchanges in India has given a new dimension to trade for farmers as well as processors as it brings large number of buyers and sellers to a single platform and offers a transparent price discovery mechanism to trading. The electronic trading system has put forth an alternate marketing medium for producers which eliminates unnecessary intermediation and enhances the price realization.

2.4.1 Spot Markets

Spot exchange is an electronic platform, where buying or selling is done electronically through competitive online bidding/auctioning. Spot exchange is a compulsory delivery based transaction platform, which enables the farmers and traders to sell their produce electronically and to realize the best possible price. Currently these spot exchanges are dependent on the state APMC Acts for commencing operations. At present only one spot exchange is working actively in the country- the NCDEX Spot Exchange (NSPOT) (now known as NCDEX e Markets Limited). NeML aims to encompass the entire spectrum of commodities across the country to bring home the advantages of an electronic spot trading platform to all market participants in the agricultural and non-agricultural segments. The exchange has enabled the market participants to trade seamlessly on the platform.

Spot exchanges aim to provide a transparent and consistent spot price discovery to both buyers and sellers. The electronic spot exchanges also help the futures exchanges to develop proper linkage between spot and future prices. Moreover, spot exchanges have implemented transparent auction

models for Government companies as well, which may have resulted into higher price realization and greater efficiency in auction. Some examples include usage of spot exchange by Food Corporation of India for auction of wheat in Delhi NCR and Andhra Pradesh, by MMTC, STC, PEC for auctioning imported pulses, by NAFED, HAFED, APMARKFED, RAJFED for auctioning of various commodities and by Cotton Corporation of India for auctioning cotton bales.

2.4.2 *Futures Markets*

History of organized commodity derivatives in India goes back to 19th century when Cotton Trade Association started futures trading in 1875. With several ups and downs in commodity derivatives market, the government initiated futures trading in Potato during the latter half of 1980 in some markets in Punjab and Uttar Pradesh on Khusro Committee (June 1980) recommendations. The Government of India appointed one more committee on Forward Markets under Chairmanship of Prof. K.N. Kabra in June 1993 and the Committee submitted its report in September 1994. Basis these recommendations, the government of India issued notifications on April 1, 2003 permitting futures trading in commodities.

Futures market performs two important functions of price discovery and price risk management with respect to a commodity. The futures markets give farmers an indicative idea of commodity price behavior in a future date through which he can choose which crop to grow and decide when to sell and what prices to expect. Futures contracts enable the actual users to hedge their price risk by taking an offsetting position on futures exchanges against their physical inventory or future raw material requirement.²⁰ Moreover futures trading has given way to better infrastructure facilities like professionally managed warehouses, electronic weighments, grading facilities and quality certifications. However a few major drawbacks of the futures markets include its limited outreach to benefit large number of farmers in the rural hinterlands and payment scheduled at the maturity of contract period which leads to cash crunch for the farmer. The success of the potato futures contracts in India is a case wherein a good mix of healthy market participation, efficient regulation and practical product design has actually helped to contain prices of the commodity, unlike the onion story. NCDEX, MCX, NMCE and Ace Derivatives and Commodity Exchange Ltd. are the key national level multi commodity exchanges operating in India.

Seamless integration of spot markets with futures markets offers a complete range of price risk management solutions to the farmer.

2.4.3 *National Spot Exchange Limited*

National Spot Exchange Ltd (NSEL) was a national level spot exchange in India which provided a platform to trade in bullions, agri commodities and metals. The company was a joint venture of Financial Technologies India Ltd. and the National Agricultural Cooperative Marketing Federation of India (NAFED). The spot exchange was set up with a mission of developing a common Indian market by setting up a nationwide electronic spot market and providing state of art trading, delivery, and settlement facilities in various commodities. However, long before the exchange could do a great deal, it has been alleged of a fraud of INR 5600 crores.²¹

²⁰ Planning commission

²¹ http://www.mca.gov.in/Ministry/pdf/Draft_Order_of_Merger.pdf

NSEL was promoted as a spot commodity exchange and was given a specific exemption from the Forward Contracts Regulation Act (FCRA) 1952 by Ministry of Consumer Affairs in 2007. This exemption was only for all one day forward contracts up to 11 days. However, NSEL had started offering products where the settlement cycle was much more than what is allowed in the spot market. Such products gained huge popularity as returns were good and transactions were non cumbersome. These were fraudulent 'paired contracts' where investors could buy short duration contract and sell a long duration contract at the same time. Later in 2010, NSEL applied to FMC for registration of these NTSD (Non Transferable Specific Delivery) paired contracts exceeding 11 days but did not get the approval. Without waiting for the FMC regulation approval or registration, NSEL went ahead and sold these contracts rampantly through brokers. The Rs 5,600 crores scam affected around 13,000 investors. It was discovered that most of the underlying commodities did not exist and the buying and the selling of commodities like steel, paddy, sugar, ferrochrome etc. was being only conducted only on paper.

The National Spot Exchange Ltd (NSEL) episode emphasises on the need to have a strong regulatory framework in place and the need for ensuring that no single shareholder or a group of shareholders dominates the functioning of an exchange or exercises management control.

2.5 SAFAL National Exchange

SAFAL National Exchange of India Limited (SNX), a joint venture between Mother Dairy Foods Processing Limited, a wholly owned subsidiary of National Dairy Development Board (NDDB), Multi Commodity Exchange (MCX) and Financial Technologies Ltd (FT) was incorporated in the year 2006 in Bengaluru for the purpose of spot trading in horticulture, floriculture, dairy and allied products. This was the first spot exchange established in India. SNX aimed at providing a platform where seller could sell at the best possible rate and the buyers could buy at the most competitive rates. SNX provided counter party guarantee in respect of all trades and facilitated provision of services like quality certification, warehousing, logistics and other customized value added services.²² SNX provided a technology based competitive market place which had members located in different states across the country trading in different fruits and vegetables. The high end data center at the exchange brought all the members live for trading. The pilot for this project was done on mango and after receiving a good response the spot exchange went forward to trade other commodities as well.

Unfortunately SNX could not survive long and was shut down in 2009. The reasons quoted for the sudden shutdown included differences between the partners and lack of agreement between buyers and sellers on quality and pricing.

2.6 Rashtriya eMarket Services (ReMS)

Rashtriya e Market Services Private Limited (ReMS) is a joint venture company, promoted by Government of Karnataka and the NCDEX Spot Exchange Limited, having equal shareholding. The aim of this venture is to bring in efficiency and transparency in the agricultural marketing system for efficient price discovery to benefit farmers and other market participants. The project made a modest beginning in Gulbarga in 2011 and has covered more than 51²³ markets in Karnataka. This unified market provides an electronic auction system across the state for transparent price determination. Access to online trading has been provided to all APMC market functionaries holding the unified

²² <http://www.nsaindia.in>

²³ <http://www.remsl.in/about.html#>

market license from the state government. Through this system farmers have the choice to sell in any regulated or private market in the state and receive timely online payment. Besides providing a single licencing system, increased competition, easy and fast trading, better price discovery mechanism, the platform also provides value added services including assaying and grading pledge loan facilitation to farmers. ReMS charges 0.2% of the gross sale amount from the buyer besides the applicable market fee, transaction charges and other charges.²⁴ ReMS is one successful model that needs to be replicated to other states to provide the benefits of a well defined market to a wide range of farmers.

2.7 Private Mandis

The establishment of private mandis was expected to usher a new era of modernization in the marketing channels on agri commodities. However, private mandis in India have not been able to make it big- the prime reason being the APMC act and resistance from traders to shift over to new trading platform. However few players like Staragri and Rayfam Infrastructure Private Limited are under the process of establishing private market yards. StarAgri aims to create 50 agri trade markets licensed by the Agricultural Produce Marketing Committees (APMCs) that serve as information, innovation and trade centres for agri produce.²⁵

Previously a few mandis like Premium Farm Fresh had commenced operations and were doing well. Due to internal policy reasons the mandi had to shut down its operations.

Private interest has been seen in marketing operations, however an equivalent support is required from the state governments to support the interest and provide them congenial policy and administrative atmosphere. Reforms in APMCs Act regarding establishment of private mandis has been seen in Gujarat, Himachal Pradesh, Goa, Jharkhand, Karnataka, Rajasthan, Maharashtra, Mizoram, Sikkim and Tamil Nadu.

2.8 Others

2.8.1 Rythu bazaar

The Rythu Bazar or the “Farmers’ Market” is one of the farmers’ friendly direct marketing systems operational in the country. Rythu Bazaar as a concept was initiated by the Andhra Pradesh Government to provide essential commodities, especially vegetables, to the common man at cheaper rates and also to benefit the farmers by eliminating the middlemen. The bazars lie out of the purview of the Agriculture Market Committees and are managed by estate officers under the control of Revenue Department of the State Government. The producers/farmers are supplied properly calibrated weighing scales with weights for selling their produce. Studies conducted on rythu bazars have clearly indicated that these markets have led to increased earnings for farmers on account of higher rates for their vegetables, assurance of fixed income and immediate cash realization.²⁶

2.8.2 The Horticultural Producers’ Co-operative Marketing and Processing Society Ltd. (HOPCOMS)

The Horticultural Producers’ Co-operative Marketing and Processing Society Ltd. or HOPCOMS was

²⁴ ReMS website – Operations Manual

²⁵ Stargari Website

²⁶ Asian Journal of Management research

established with the objective of establishing a proper marketing system for fruits and vegetables so that the benefits reach both- the farming community and the consumers. Prior to the establishment of HOPCOMS, no proper system existed in Karnataka for the marketing of horticultural produce and the entire value chain was dominated by the middlemen. Presently, HOPCOMS handles around 100 MT of fruits and vegetables every day. The member farmers bring their produce to the society, where the produce is graded, weighed and the payment is made to the farmers immediately. The fruits and vegetables are then supplied to consumers through more than 250 society's retail outlets in Bangalore and Kolar.

2.8.3 Taaza Plaza

Taaza Plaza is a retail store on wheels established in a PPP mode by Star Agri Warehousing & Collateral Management Ltd along with Fuzion Inc Pvt. Ltd. and the Maharashtra State Agriculture Marketing Board (MSAMB). It is built on the model of sourcing directly from farmer groups and making fresh produce available to the end consumer by bypassing intermediaries.

Collection centres have been set up in close proximity of farms where farmers bring their fresh produce to be cleaned, sorted and graded. From collection centres, the produce is transported in air-controlled trucks to distribution centres where it is packed and loaded onto mobile vans. These mobile vans are then parked inside society premises for providing fresh fruits and vegetables at the doorsteps of the consumers.

3

National Agriculture Market



3 | National Agriculture Market

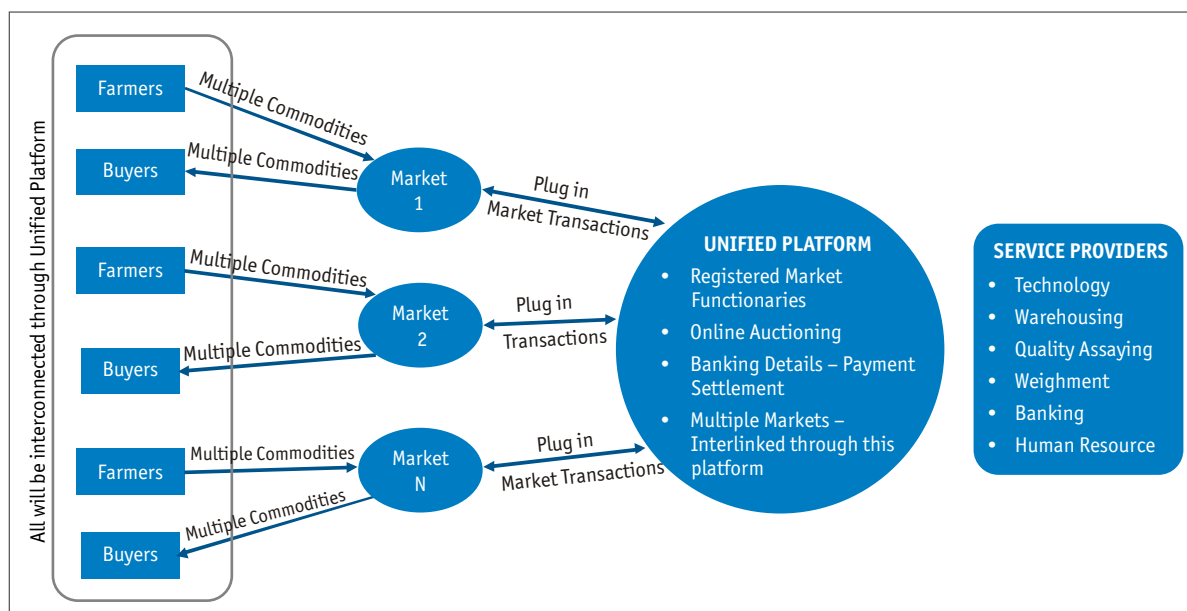
3.1 Concept of National Agriculture Market

In the current agricultural marketing ecosystem, the farmers get a comparatively low share of the consumer rupee due to long chain of intermediaries, which adds two major costs – the intermediaries' margins and the handling costs. The studies conducted by Directorate of Marketing and Inspection (DMI) reveal that Costs and Margins account for 30 to 35 per cent of consumer's price in foodgrains, 45 to 55 per cent in fruit and vegetables and 12 to 36 per cent in oilseed crops. The current framework of APMC faces several limitations related to direct marketing of produce, multiple tax levies & licensing system, inadequate logistics and infrastructure. These limitations and considerably low returns to farmers, incited the union government to visualize the creation of a unified National Agriculture Market (NAM). The proposed unified NAM will be conceptualized by creating an electronic trading platform which will link multiple markets. It has been proposed to induce transparency in the existing marketing system through direct participation of relevant stakeholders including farmers, buyers, financial institutions (FIs) and service providers (technology service providers, warehousing service providers, others activities – assaying, weighing) through technological interventions.

The proposed framework of NAM envisages electronic auctioning of the commodities integrated with assaying, weighing, storage and payment systems. It also proposes issuing of a single licence to a buyer for trading across the state for promoting participation of multiple buyers from different locations and efficient price discovery. Assaying and weighing will be integrated with auctioning in such a manner that all these details are captured against a market functionary's account in the electronic platform. The database would also be having banking details of the market functionaries for direct payment transfers to respective accounts on trade settlement. *The Prime Minister's Jan Dhan Yojna* will be a great enabler towards payment facilitation, specially for marginal and small farmers. For enhancing scope of participation and widening market access, warehouses will be created in the vicinity of major production clusters. These warehouses will be equipped with advance technology for

weighing and assaying of goods received from individual producers. These details will be furnished on the unified electronic platform in the nearest market basis pre-determined quality parameters, which will provide dual benefit to the producers in terms of averting the need of bringing produce to the market physically and availing funding against the commodities stored in the warehouse.

Figure 5: Indicative Operational Model of NAM



Source: YES BANK Analysis

All the existing APMC and private markets will be able to 'plug in' through electronic platform for trading. The concept envisages reforming the existing market, in order to usher more transparency, and leverage state of the art technology for a well regulated market. Apart from that, imposition of Goods and Services Tax (GST) will also vigorously facilitate unification of the markets by integrating the tax regime. The framework of NAM shall go a long way in encouraging private sector participation in agricultural marketing arena. The framework also provides a wide scope for addressing infrastructure gaps in terms of logistics and warehousing along with technological support. Through unified platform, it will directly connect buyers and sellers in the marketing space, shunning the intermediaries and associated costs and creating a win-win situation for all.

3.2 Definition

National Agriculture Market (NAM) is a framework for creating and integrating all the services including assaying, auctioning platform, weighment, direct storage and instant payment solutions to the market functionaries. All these marketing operations and proposed services shall be integrated with the existing market infrastructure on an electronic platform through technological interventions.

For effective implementation of the framework, private sector participation is of utmost importance. Along with the efficient market regulation, the framework also encourages private sector participation across variety of services including technology, assaying, weighing, warehousing etc. The government shall modernize the existing infrastructure in line with the requirement of the NAM framework to work integrally with the private sector as well.

3.3 Elements and Ecosystem

The unified NAM will function under the existing ecosystem of regulated markets with pragmatic reforms to induce transparency and encourage competitive participation of market functionaries. It will be having the flavor and elements of existing market but approach and functioning would be highly efficient.

Liquidity

One of the critical elements in ensuring that the market participants are able to maximize utilization of the marketplace for efficient price discovery as well as robust transactions, is to have the desired liquidity built into the trading platform. A strong intent from the policy makers shall be required to ensure that the platform is positioned and operationalised as the platform of choice to potential users in order to ensure that the benefits of technology and infrastructure created actually reach the beneficiaries that they are meant for. Standalone operation of APMCs coexisting with the National Agriculture Market platform may be avoided in order to ensure the above as well.

Electronic Auctioning

The APMC act had been introduced with an idea of encouraging competition among buyers and undertaking fair auction of the produce brought by the farmers. Historically, farmers themselves use to carry auction for their produce in the market. The interested buyers would come to the farmer, negotiate and directly purchase the produce from the farmer. This method was inefficient and highly unorganized as there were no set mechanisms for standardizing pricing and quality of the produce. Over the time, auctioning has evolved through various phases. With advent of APMC act, the marketing of the produce became organized with presence of various intermediaries in the process. As per the act, produce shall be largely sold through APMC yard where Adhathiya/Commission Agents will facilitate the trade by connecting the sellers and buyers along with auctioning of the produce. The transaction is generally limited to a single market having limited outreach. The commission adds up in the cost of procurement of the produce for buyers.

Under the proposed NAM framework, the auctioning will be carried out on electronic platform unlike traditional methods. Both quantitative and qualitative aspects of the produce will be available on unified platform for market functionaries to assess their volume and value requirement from multiple markets at the same time. The sellers will be able to auction the produce in market of their choice and likewise buyers will be able to access the commodity and market of their choice. This will provide multiple advantages to both buyers and sellers in terms of efficient price discovery, assaying and availing standard storage facility.

Assaying

Our country is bestowed with varied agro-climatic conditions, supporting production of almost all the major agri commodities. Within the commodities, there are multiple quality grades and morphology basis variety of seeds, nature of cultivation and local climatic conditions. Due to fragmented supply chain and handling by multiple intermediaries, the quality of the commodities gets affected. For

efficient market operations, these characteristics have also been standardized traditionally as grades across the markets, in relation to superior quality, nutritional benefits, better processing and relevant market demand. Assaying of commodities is largely undertaken on various parameters including moisture content, foreign material, grain colour, oil content, fiber content, aroma etc. which is important for segregation of various grades. In the current agricultural marketing system, quality testing is largely passive and is not done through proper testing measures due to unavailability of standard labs and costs incurred. It is generally done by the traders and buyers basis physical appearance, touching and smell perceptions.

Under the proposed framework, assaying will be integrated with the market operations on real time basis by encouraging private sector participation and use of advance testing techniques. The produce brought by the farmers to the market will be assayed prior to auctioning and storage, to ascertain quality and grade. These details along with the quantity of produce will be fed into the electronic system on unified platform, against the account of market functionary. This interface will be linked with all the markets for participation of buyers, processors and traders from all across the country.

Weighment

Currently, most of the APMC markets in the country lack basic infrastructure such as weighbridges, storage infrastructure, auctioning platform etc. Even in large market yards, weighing is generally undertaken after auctioning and bagging of the produce. Under this system, the buyer is mostly uncertain about the exact quantity and quality of the produce during the transaction. The seller is also at a disadvantage in most of the transactions where produce of same quality fetches better prices in other markets, resulting in low returns.

With advent of NAM, the weighment will be integrated with the market operations. The produce brought to the market will be weighed and assayed before auctioning to ascertain overall quantity which will be recorded against the market functionary's account on unified platform. Before buying, the buyer and/or processors will be able to assess the quality and quantity of a particular lot for decision making.

Warehousing

Warehousing is an indispensable part of the overall agricultural marketing system. It is important for stocking both dry as well as perishable produce brought in the market. In the current system, majority of the APMC markets are not having integrated warehousing and cold storage facilities. A significant amount of produce gets wasted during auctioning process, specially in case of the perishable produce. Generally, storage facilities are available outside the market for pre and post-auctioning storage, but majority of these facilities are not scientifically upgraded and accredited. During harvesting period and voluminous arrivals at market, the availability of storage facilities and transportation becomes a challenge, resulting in huge losses.

In the purview of NAM, the storage facilities will be integrated with the market operations. The storage facilities will be accredited for standardizing storage of the commodities. After weighing and assaying, the sellers will be directly able to access storage facilities. The market Management Information System (MIS) portal will be linked with the warehouse service provider's MIS. All the lots

and produce going in and out will be recorded and updated on the portal against the account of the registered market functionary. The produce intended to be stored in the storage facility will be assayed and proper marking will be done to separate it from other lots. Every transaction and delivery will be recorded on real time basis for transparent and fair operations. Additionally, storage infrastructure will be created at the farm gate for avoiding the requirement of bringing the produce to the markets physically.

Payment Mechanism

In the current agricultural marketing system, most of the payments and transaction are generally carried out in cash. While it is difficult to handle large cash in a various transactions, a lot of risk is also involved. Payment solution through financial institutions (FIs) is one of the critical elements of the agricultural marketing system. But FI participation is quite low in the current markets as some of the transactions are not captured and some market functionaries, specially farmers, are not registered in the system.

For spearheading a successful unified NAM, all the market functionaries operating, in a particular market area, will be registered along with their banking details for direct transactions. Payment instructions will be given basis real time transactions in the market. Payments made by the buyer will be credited to the sellers' account after deducting the market charges such as market fee, handling costs, service provider's commission etc.

Funding/Financing

In the current agricultural marketing system, most of the market functionaries can access financing against negotiable warehouse receipt (NWR), issued by accredited warehouses. Generally, farmers do not have much access to warehouse receipt financing due to non availability of scientific storage facilities in the vicinity and low level of awareness.

Under NAM framework, all the registered market functionaries including farmers will have direct access to storage facilities and will be able to avail financing options. After weighing and assaying, the warehouse service provider will issue a receipt depicting all the details about quality and quantity of the produce. This receipt would be used as an instrument for availing finance. If the seller intends to sell the stored produce, the payments will be adjusted accordingly. The NAM will widen the financing avenues for farming community.

The Integrated Infrastructure- Regulatory Enablement- Operations efficiency approach

A successful pan Indian electronic marketplace for agricultural commodities needs to have the right mix of superior infrastructure (hard & soft), the right regulatory enablers (GST, APMC alignment amongst others) as well as a adept service provider with the right credentials and experience in the Indian agricultural commodities space so as to be able to offer a practical and robust operational platform. Any of the three elements missing from the service proposition will make this initiative a non starter. Furthermore, a number of initiatives on similar lines in the past, though in different contexts and on a much smaller scale, have had elements of limited participation, vested interest of a small group of buyers/ sellers or infrastructure play as the primary business model, or were/ are

infrastructure projects that have failed to live up to the expectations of a market transforming initiative. The idea is to be able to create a marketplace and not standalone platforms providing infrastructure, access or technology to a limited few participants. Furthermore, policy is surely a big enabler though not the only panacea for the challenges plaguing the initiation of such an ambitious initiative.

3.4 Evolutionary Approach

The union government has taken a landmark decision for creating a common marketplace for all by unification of the agricultural markets. Now, for successful implementation of NAM, the centre will have to actively persuade the respective state/UT governments, unlike model APMC act. In case of deviation, the centre may exercise constitutional provisions for implementing the same. Respective APMCs shall implement the envisaged NAM framework in phased manner. The central government will develop an electronic platform with the help of technology service provider. This electronic platform will be leveraged for connecting all the existing markets across the country in phased manner.

During initial phases, the APMCs shall streamline the existing database such as daily arrivals of commodities, value of transactions taking place and number of traders, buyers and processors in their respective areas. The market committees need to register all the market functionaries operating in their geographies along with the data pertaining to daily arrivals, quality parameters, auction prices and overall traded volume of major commodities against individual account. This will be undertaken for connecting the market functionaries, operating in different areas through the platform, in order to induce competition and efficient price discovery.

In subsequent phases, real time data and information need to be disseminated to various stakeholders on daily basis for inducing transparency in the system. At the same time, markets shall have to build enabling infrastructure for integrating pre and post auctioning activities including primary processing, auctioning, weighing and storage facilities. Further, extension activities need to be strengthened for creating awareness among producers and understanding the nitty gritty of real time assaying and electronic auctioning system. Then, markets should promote online bidding of commodities to encourage participation of all the stakeholders even from the distant places. Sellers should be able to directly connect with the buyers of their choice and buyers should be able to access the storage and financing options after buying. This would induce active participation of the major stakeholders, enhance healthy competition and provide fair returns to the farmers through direct marketing.

3.5 Stakeholders' Role

Proposed NAM will have multiple stakeholders who are going to undertake various market related operations. All the operations will be linked within the market as well as across the markets through unified platform.

Market Functionaries – Farmers, Commission Agents/Traders, Buyers/Processors

All the market functionaries operating in a particular geography will be registered along with their bank details on the unified platform for maintaining data and capturing day-to-day transactions in

the market. The unified platform will facilitate the overall trade and payment mechanism across the markets in different geographies. Like current system, the farmers will bring the produce to the markets of their choice. The produce shall be weighed and assayed prior to auctioning for ascertaining the prevailing market price. Registered commission agents and traders shall facilitate trade on behalf of sellers and buyers, charging a pre-decided standard commission (as a percent of the total trade value). Registered buyers and processors shall submit their bids for buying the produce/commodity of specified quality and quantity in the market.

Service Providers – Technology, Warehousing, Other Services (Weighing, Assaying)

The most important role in the NAM framework would be played by the Service Providers (SPs). For various services in the market pertaining to unified platform technology, warehousing, payment solutions, weighing and assaying, relevant SPs shall be appointed. These SPs will be responsible for facilitating market functionaries in trade and other related services.

Unified Platform Technology Service Provider

The role of Technology Service Provider (TSP) will provide the unified platform portal for hassle free operations of the market. The platform will have an updated data of all the registered market functionaries for keeping business traction and information symmetry. The TSP shall ensure that all the market operations including weighing, assaying, storage, auctioning are captured in the system. The platform will be directly connected with warehouse service provider and bank accounts of all the registered market functionaries. Right from the beginning of trade, when registered market functionaries bring their produce in the market, the unified platform will capture the quantity and quality details of the produce against their account. With interlinked platform, the database will also have the segregated details about the quantity of produce available for auctioning and quantity available for storage. These auctioning details will be furnished on the online unified platform, provided by TSP. The platform will also facilitate the trade by accepting online competitive bids from the prospective buyers. Further, it will coordinate the tendering and bidding process for the overall trade and will also direct warehousing SP for delivery and FIs for timely release of payments.

Warehousing Service Provider (WSP)

WSP will have the primary responsibility of getting all the warehouses accredited and providing scientific storage solutions to the market functionaries. WSP, in coordination with TSP, will also have a linked MIS platform, capturing the quality and quantity information about each and every stored lot against the registered market functionary. On receiving instructions from the unified platform, the WSP will deliver the produce to the respective market functionary. The payment towards storage charges will be directly settled through unified platform.

Other Service Providers

Quality assayers will work in close coordination with TSP, providing quick assaying solution for a variety of agri commodities. The produce brought by the market functionaries shall be assayed prior to storage for marking quality parameters on the lot and easy identification. The quality certification will be valid for a specific period after which the produce may be assayed again basis market requirement.

Payment solutions by the FIs will be an integral part of the overall unified marketing system. All the market functionaries will be registered along with their bank account details. Majority of the transactions for payments will be settled directly into the bank accounts of market functionaries and cash handling will be minimized.

3.6 Regulatory Matters

Currently, the markets are regulated under respective state APMC acts. On persuasion of the central government, the states shall amend their respective act but still many states have partially or even not amended it. The constitution empowers states to enact APMC act under List II of seventh schedule (of state list). But, in the national interest, the central government may direct state governments for adoption of the measures required for unification of markets and creation of NAM. In case, the persuasion fails, the central government may exercise constitutional control either by amendment or by using provisions/entries in List III of the seventh schedule (of concurrent list) for setting up of a national common market for specified agricultural commodities.²⁷

The overall implementation and regulation of the proposed NAM framework will be undertaken by the central government through Ministry of Agriculture (MoA). The Department of Agriculture and Cooperation (DAC), MoA has mandated Small Farmers Agribusiness Consortium (SFAC) as the lead promoter for setting up NAM. They shall be appointing the service providers (technology, warehousing, quality assaying etc.) in consultation with the major stakeholders. Further, the procedures for operational and regulatory framework for all the market functionaries shall be laid down by the MoA. Respective state APMCs, under the ambit of MoA, shall maneuver to facilitate the seamless operations of the unified electronic platform for NAM.

3.7 Key Challenges

Agricultural marketing in India has evolved through various phases during last few decades. APMC act played a pivotal role in reforming the unorganized and inefficient marketing system up to a great extent but it also suffered several limitations with respect to seamless movement of the commodities and low returns to the producers. The act was amended by a large number of states in view of its important role in assuring remunerative returns to the producers and meeting the consumer demand. With rising production and introduction of advance farming technologies, the role of agricultural marketing systems for handling large volumes and active participation of market functionaries have become all the more important. Further, adequate supply chain infrastructure and efficient regulatory framework is required for seamless functioning of the market, proposed under the framework of NAM. It may face several critical challenges in relation to operational and regulatory framework.

Operational Challenges

Technology and Database Management

For unifying the existing trade, enhancing participation and efficient operations, the markets will have to capture the database of all the market functionaries in their respective regions. Each registered market functionary will have an account against which the entries will be made pertaining

²⁷ *Economic Survey of India 2014-15*

to trading activities. In effect, it will be a huge exercise for market regulators, unlike existing operations. With the current skill set of human resource and inadequate level of infrastructure in the market yards, it would be complicate to integrate the technology with existing market operations.

Material Handling, Testing and Delivery

Integration of technology with the marketing operations, such as handling of produce, quality assaying, e-auctioning and physical delivery will be a gigantic task. In absence of the skilled manpower, it would pose a great challenge for streamlining all the marketing processes. Apart from that, proper quality assaying and physical delivery of the produce would be a challenge on the part of seller, buyer as well as the service provider.

Supply Chain Infrastructure

A significant amount of the produce gets wasted during transit and market transactions due to lack of adequate infrastructure for logistics and storage facilities. Even today, most of the regulated markets lack proper infrastructure for weighment, auctioning and storage facilities. The available infrastructure facilities are largely utilized by commission agents and buyers as the farmers are not having direct access. Although, NAM envisages establishing storage infrastructure at the farm gate for major production clusters, it will be a critical challenge to provide storage and transportation requirements to all the producers and other market functionaries as and when required.

Other Associated Challenges – Level of awareness, market functionary resistance

The proposed NAM framework will involve a lot of technological interventions. While the farming community is the one of the prime stakeholders under NAM, they will not be adept about the technical know-how of the overall functioning of the system. Initially, the market functionaries will have to be educated about the technical operations of the unified platform, which will be a huge challenge for market regulators.

NAM envisages fair and transparent processing across all the marketing operations including weighment, quality assaying, auctioning, storage and physical delivery of the produce. In the current marketing system, some market functionaries try to take undue monetary advantage, by either concealing the market information or by using unfair means including unauthorized hoarding, black marketing, cartelization and rumor mongering. These market functionaries may not accept the NAM in its proposed form and inflict resistance from the inception.

Regulatory Challenges

State APMCs

Agricultural marketing is largely a state subject. Generally, states may decide on adoption of the directives issued in this regard by the central government as per their demand-supply equations and production of commodities. Still most of the states have not amended their APMC acts, even after several recommendations by the central government. This may emerge as a substantial threat to unification of the markets as some states may not favour its adoption.

Taxation Structure

The current marketing system for agricultural commodities suffers several limitations with respect to taxation structure. Multiple taxes are levied on different commodities in different states in the form of market fee, sales tax, octroi etc. Unification of the markets under NAM proposition envisages removing multiple tax barriers on marketing transactions. Further, the proposed Goods and Services Tax (GST) bill, if implemented, will also be a significant step towards this proposition as it will amalgamate multiple central and state taxes and would also mitigate the cascading or double taxation, paving the way for common national market. Consumers will also be getting benefitted in terms of reduction in the overall tax burden on the goods, which is currently estimated at 25% to 30%.²⁸ But, it is still not clear whether all the state governments will endorse this proposition, in view of their tax revenues getting affected.

3.8 Roadmap

The government has been undertaking critical measures to streamline marketing of agricultural commodities through regulated markets. Earlier, physical markets were established to encourage active participation of market functionaries in order to balance supply-demand forces, induce transparency in the system and provide significant returns to the producers. With rising production, the number of regulated markets has also increased in the major production clusters across the country. These markets are operating in their respective geographies with transactions and operations of majority of the market functionaries limited to their specific region only. Further, the existing regulations have not been able to encourage significant participation of small and marginal farmers in the marketing system as most of them cannot afford logistics and storage costs for bringing their produce to the markets. The NAM, which envisages unification of the markets across geography, would encourage participation of multiple stakeholders in the system on a real time basis through advanced technological interventions. Creation of support infrastructure, such as warehouses near farm gate, will also encourage direct participation of all the farmers in the trade.

The task of creating the national agriculture market is huge and requires inclusive efforts from the central as well as state governments along with active participation of all the market functionaries. The service provider will play a critical role in interlinking operations and executing transactions efficiently. Pragmatic measures including the following will be required for successful implementation of the NAM.

Infrastructural

- ✓ Specific production hubs to be identified for creation of supply chain infrastructure including warehouses, collection centers and primary processing units. This infrastructure shall be integrated with unified platform in order to shun the requirement of bringing whole produce to the physical market
- ✓ All the service providers including technology, warehousing, assaying to be interlinked through unified platform for information symmetry and effective monitoring of the transactions

²⁸ Department of Economic Affairs, Ministry of Finance

Operational

- ✓ Respective state APMCs shall be engaged actively in registering the market functionaries in their geographies to encourage overall participation and induce competitive marketing
- ✓ Code of conduct to be devised for operating in the market which will lay the procedures for fair transaction practices, right from the arrival of produce to its physical delivery to the concerned buyer
- ✓ Targeted extension programmes and activities to be undertaken for creating awareness about NAM among market functionaries, specifically farmers, for active participation and understanding respective roles and responsibilities

Regulatory

- ✓ Single licencing structure to be introduced for market functionaries where single licence would be valid for trading across the state, unlike current system of multiple licences in multiple markets
- ✓ Taxation structure to be streamlined (preferably with adoption of GST by all the states) as single point levy in order to facilitate seamless movement of commodities and participation of multiple market functionaries across the geographies without any tax barriers
- ✓ Considering the federal structure of our system respective state governments to be urged for participation in unification of the agricultural marketing systems across the country. Though the central government may exercise constitutional provisions in case the state governments impose resistance but participatory approach to change the current marketing system may yield better results.

Initially, it may face several impediments in form of operational and regulatory roadblocks, but once implemented, it will be a significant milestone in the history of agricultural marketing. Due to a large number of intermediaries in the current marketing system, the handling time and cost associated with each transaction escalates exponentially. Direct participation of the market functionaries will bring down the transaction costs associated with marketing. Unlike current unsecure transactions in cash, all the payments will be settled directly into the accounts of the market functionaries. The financial inclusion plan as per *Prime Minister's Jan Dhan Yojana* will be a pivotal step for facilitating these payments. Further, market functionaries will be able to access financing options against their lot in the market designated warehouses. These structural transformations are essential for providing a barrier free unified market to the market functionaries which will strengthen the rural economy, in turn, empowering the farmers. The pragmatic measures to adopt technological interventions for enabling information symmetry, real time quality testing, fair weighment & auctioning, scientific storage would categorically help in restraining the hoarding and prices of essential commodities and eventually moderating the food inflation.



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