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Since 1951

NATIONAL AGRICULTURE MARKET - A GAME CHANGER

Dr. G.Veerakumaran

Associate Professor, Department of Cooperative Management, College of Cooperation,
Banking and Management, Kerala Agricultural University, Thrissur

Abstract

Government of India has come out with a strong declaration to establish the National Agriculture Market (NAM) in India as a game changer in the domain of agribusiness. This is therefore an attempt to bring out the uniqueness of the National Agriculture Market and its likelihood effect in the agribusiness. The present structures and systems of agricultural market hitherto failed to ensure better price to the farmers and supply of good quality products to the consumers and manufacturers for sustainable development. National Agriculture Market seeks to address and reverse the process of fragmentation of markets, ultimately lowering intermediation costs, wastage and prices for the final consumer. NAM is envisaged as a pan-India electronic trading portal which seeks to network the existing Agriculture Produce Marketing Committees (APMC), and other market yards to create a unified national market for agricultural commodities. Ministry of Agriculture, Department of Agriculture & Cooperation (DAC) has mandated Small Farmers' Agribusiness Consortium (SFAC) to act as the Lead Promoter of NAM. The NAM trading software will be developed and tested and the full launch is expected by December, 2015. The national level platform is being developed by the Ministry of Agriculture, which will also bear the maintenance costs. NAM is envisaged as a win-win solution for all stakeholders such as farmers, traders, manufacturers and consumers.

Key words: National Agriculture Market, Agriculture Produce Marketing Committees, fragmentation of markets, intermediation costs, farmers.

Prologue

The land use statistics 2011-12 reveals that the total geographical area of Indian nation is 328.7 million hectares, of which 140.8 million hectares is the reported net sown area and 195.2 million hectares is the gross cropped area with a cropping intensity of 138.7%. However, the net irrigated area is only 65.3 million hectares. Agriculture and Allied Sector has contributed 13.9% of India's GDP (at constant 2004-05 prices) during the year 2013-14. As per the Directorate of Economics and Statistics 3rd Advance Estimates for the year 2014-15, the total Food grains production in the country would be at 251.12 million tonnes which is less than that of 265.57 million tons in 2013-14. Production of sugarcane during the same period is estimated at 356.56 million tonnes is higher than its production of 352.14 million tonnes during 2013-14. Production of cotton estimated at 35.32 million bales (of 170 kg each) is also higher than its production of 35.21 million bales during 2013-14.

National Policy for Farmers (NPF) was approved by the Government of India in the year 2007. The 'Policy provisions, inter alia, include asset reforms in respect of land, water, livestock, fisheries, and bio-resources; support services and inputs like application of frontier technologies; agricultural bio-security systems; supply of good quality seeds and disease-free planting material, improving soil fertility and health, and integrated pest management systems; support services for women like crèches, child care centres, nutrition,

health and training; timely, adequate, and easy reach of institutional credit at reasonable interest rates, and farmer-friendly insurance instruments; use of Information and Communication Technology (ICT) and setting up of farmers' schools to revitalize agricultural extension; effective implementation of Minimum Support Price (MSP) across the country, development of agricultural market infrastructure, and rural non-farm employment initiatives for farm households; integrated approach for rural energy, etc.' Many of the provisions of the NPF are being translated in to various schemes and programmes which are being implemented by different Central Government Departments and Ministries. In addition to the existing Missions/ Schemes, following four new schemes have been introduced in the year 2014-15 by the new government:

Soil Health Card Scheme – The Scheme has been approved for issue of Soil Health Cards to every farmers of the country during the remaining three years of 12th Five Year Plan (2014-15 to 2016-17). Total outlay of Rs.568.54 crore has been approved for the scheme. State-wise allocation has also been made for establishing 100 mobile soil testing laboratories in 2014-15.

Pradhan Mantri Krishi Sinchai Yojana – The Scheme is being formulated with a view to take irrigation water to each and every agricultural field in the country.

Price Stabilization fund for Cereals and Vegetables – Government has established a Price Stabilization Fund of Rs.500 crore in order to reduce price volatility in

perishable agricultural commodities (onions, potatoes & tomatoes etc.). With the setting up of this Price Stabilization Fund, farmers will be able to get fair price for their produce while consumer would be able to purchase the same at affordable prices.

National Agri-tech Infrastructure: An Agri-Tech infrastructure Fund has been proposed to create a common e-marketing platform for agri-commodities in the Agriculture Produce Marketing Committees (APMCs) in the State, as a first step towards creation of a national market. A committee has been set up under the Chairmanship of Prof. Ashok Gulati to suggest a roadmap for the implementation of the model Act/report of State Marketing Ministers.

Based on these policy initiatives the Government of India has come out with a strong declaration to establish the National Agriculture Market in India as a game changer in the domain of agribusiness. This is therefore an attempt to bring out the uniqueness of the National Agriculture Market and its likelihood effect in the agribusiness. It is an exploratory review paper and heavily depending on the original sources of information mentioned in the selected references.

Agriculture Market Structure in India

Agricultural Marketing denotes movement of agricultural produce from farm where it is produced to the consumers or manufacturers. Agricultural marketing includes the following activities such as physical handling and transportation, initial processing like sun drying and packing to simplify handling and reduce wastage, grading and quality control to simplify sales transactions and meet different consumers' requirements, and holding over time to match concentrated harvest seasons with the continuing demands of consumers throughout the year. 'For the farmer, the strategic function of the marketing system is to offer him a convenient outlet for his produce at a remunerative price. To the consumers and the manufacturers of agricultural raw materials, assurance of a steady supply at a reasonable price is the vital service. Prices are determined through free market process by negotiations at rural purchasing, wholesale and retail stages, and represent a balance between the consumers' ability to pay and the farmers' need for incentive to produce. An effective marketing system will be geared toward expanding the range and types of consumer service, and will thus offer producers expanding outlets'. Agricultural marketing also includes input marketing such as fertilizers, pesticides and other agricultural chemicals; livestock feed; and farm machinery, tools and equipment, credit and extension.

An efficient marketing system should satisfy

both the farmers and customers while accelerating the agricultural and allied sector of the nation. After liberalization, agricultural market in India has got more actors than during the license raj. The following paragraphs highlight the major players in the Indian agricultural market.

Predominant Public Sector: From the first five year plan, government of India gave much importance for the development of physical markets, on farm and off farm storage structures, facilities for standardization and grading, packaging, transportation. Central Warehousing Corporation, Food Corporation of India, Agricultural Prices Commission (later renamed as Commission for Agricultural Costs and Prices) and several other organizations were established in the year 1965. Besides number of organizations under the aegis of Ministry of Agriculture, Consumer Affairs and Commerce were set up in the form of *commodity boards, cooperative federations and export promotion councils* for monitoring and boosting the production, consumption, marketing and export of various agricultural commodities.

Free Market Forces: Based on the local marketing practices, different Private Traders, and Corporate Firms are operating along with the public and cooperative marketing net work. Most agricultural commodity markets generally operate under the normal forces of demand and supply. However, with a view to protecting farmers' interest and to encourage them to increase production, the Government also fixes *minimum support/statutory prices* for some crops and makes arrangements for their purchase on state account whenever their price falls below the support level. The role of Government normally is limited to protecting the interests of producers and consumers, only in respect of wage goods, mass consumption goods and essential goods. It is promoting organized marketing of agricultural commodities in the country through a network of *regulated markets*.

APMC and Boards: Agricultural Produce Marketing Committees (APMC) are corporate bodies established under the respective State Agricultural Produce Marketing Regulations Acts. They are either elected or nominated by the Government from amongst representatives of agriculturists, traders and other functionaries and local representatives. All the State Acts provide for constitution of separate market committees for individual market except in Tamil Nadu where it is constituted at the district level to administer all the regulated markets in the district. Interestingly in the state of Kerala, there is no APMC.

Producer Companies: The Producer Companies Bill

was introduced in the Parliament and became law on 6th February, 2003 as Part IXA - Producer Companies in the Companies Act, 1956. Based on the cooperative principles of mutual assistance, it provides an alternative to the institutional form that is presently available to cooperative enterprises. Producers Company is to offer a statutory and regulatory framework that creates the potential for producer-owned enterprises to compete with other enterprises on a competitive footing. And also to provide for the method of formation and registration of "Producer Companies" which, inter alia carries the principles of "mutual assistance" and "Co-operation" within the more liberal regulatory framework afforded by the company law with suitable adaptation.

All the above said structures and systems hitherto failed to ensure better price to the farmers and supply of good quality products to the consumers and manufactures for sustainable development.

Need for National Agriculture Market

Hence, it is necessary to create NAM to facilitate the emergence of a common national market for agricultural commodities.

1. Current APMC regulated market yards limit the scope of trading in agricultural commodities at the first point of sale (i.e. when farmers offer produce after the harvest) in the local mandi, typically at the level of Taluka / Tahsil or at best the district.
2. Even one State is not a unified agricultural market and there are transaction costs on moving produce from one market area to another within the same State.
3. Multiple licences are necessary to trade in different market areas in the same State.
4. All this has led to a highly fragmented and high-cost agricultural economy, which prevents economies of scale and seamless movement of agri goods across district and State borders.

NAM seeks to address and reverse this process of fragmentation of markets, ultimately lowering intermediation costs, wastage and prices for the final consumer. It builds on the strength of the local mandi and allows it to offer its produce at the national level.

National Agriculture Market-A Game Changer

NAM is envisaged as a pan-India electronic trading portal which seeks to network the existing APMC and other market yards to create a unified national market for agricultural commodities. NAM is a "virtual" market but it has a physical market (mandi) at the back end. NAM is being set up as part of an

administrative arrangement and requires no enabling legislation as an electronic trading platform.

Government of India has approved a scheme for Promotion of a *National Agriculture Market through Agritech Infrastructure Fund*.

The main objectives of the scheme are

- (a) reform the existing marketing system by redesigning the market structure, ushering in transparency, leveraging technology in operations, providing a well-functioning regulatory framework, encouraging private participation along with regulated markets so that the seller has a real choice and make banking an inherent part of the marketing function by collecting the sale consideration from the buyer and remitting the same to the bank account of the seller which would put an end to payment related issues faced by the seller.
- (b) resolve issues of information asymmetry by encouraging assaying of the commodity and display quality parameters of the commodity to benefit buyers and provide price details to the seller to enable him to decide the time and price of sale.
- (c) Have a more transparent auction process through leveraging of technology by providing a well-designed electronic auction platform and redefine rules of auction to improve transparency.
- (d) Promote increased participation by buyers by reforming conditions of grant of trader licence and open up licences to any person in the state/country. This would encourage participation from other locations and improve price discovery.
- (e) Resolve post-auction difficulties by integrating weighing of produce with the auction process and communicate details of the weight recorded and the amount payable/receivable to the buyer/seller.
- (f) Increase market access by creating warehouses proximate to the farm to receive the goods, account it against individual producers, test the same for predetermined quality parameters and making available all details to the electronic platform of the nearby market, thereby obviating the need to reach the market physically. Funding of commodities stored in warehouses would increase the holding power of the farmer.

Difference between NAM and the existing Mandi System

NAM is not a parallel marketing structure but rather a device to create a national network of physical mandis which can be accessed online. It seeks to leverage

the physical infrastructure of the mandis through an online trading portal, enabling buyers situated even outside the State to participate in trading at the local level.

Mode of Operandi

The NAM electronic trading platform will be created with an investment by the Government of India (through the Ministry of Agriculture). It will offer a "plug-in" to any market yard existing in a State (whether regulated or private). The special software to be developed for NAM will be offered to each mandi which agrees to join the national network free of cost and necessary customization will be undertaken to conform to the regulations of each State Mandi Act.

Ministry of Agriculture, Department of Agriculture & Cooperation (DAC) has mandated *Small Farmers' Agribusiness Consortium (SFAC)* to act as the Lead Promoter of NAM. SFAC will select a Strategic Partner (SP) through open tender to develop, operate and maintain the NAM platform. DAC will provide budgetary grant support for this initiative. SFAC will operate the NAM with technical support by the SP.

1. The process of setting up NAM has commenced on 1st June, 2015 with the issue of an EOI by SFAC to select a Transaction Adviser to help it develop detailed bidding documents to select the SP.
2. Another RFP was issued on 12th June, 2015 to invite offers to create a dedicated Project Management Unit (PMU) in SFAC to anchor the roll out of NAM. The PMU will have experts in agribusiness, IT, project management etc. and provide technical and administrative support to the NAM project.
3. It is expected that the selection of the Strategic Partner will be completed by 30th September, 2015 and the process of holding road shows in States to promote the concept will begin in October, 2015.
4. Simultaneously, the NAM trading software will be developed and tested and the full launch is expected by December, 2015

Eligibility Conditions for Joining NAM

There are three basic criteria for a State to propose mandis for "plug-in" to NAM:

- a) The State APMC Act must have a specific provision for electronic trading
- b) The State APMC Act must provide for issue of licences to anyone in India to trade through the NAM in the local mandis.
- c) There must be one single licence for each State to facilitate trading in all the mandis of that State and a single point levy of transaction fee.

Expected Impact on APMC Mandis

- a) The NAM basically increases the choice of the farmer when he brings his produce to the mandi for sale.
- b) Local traders can bid for the produce, as also traders on the electronic platform sitting in other States.
- c) The farmer may chose to accept either the local offer or the online offer. In either case the transaction will be considered a throughput of the local mandi and they will continue to earn the transaction fee. In fact, the volume of business will significantly increase as there will be greater competition for specific produce, resulting in higher transaction fees for the mandi.

Funding for Running the NAM

The national level platform is being developed by the Ministry of Agriculture, which will also bear the maintenance costs. As stated above, the integration costs for local mandis and customization of software, training etc. will also be paid for by the Ministry of Agriculture as a one-time grant at the time of accepting the mandi in the national network. Thereafter, the running costs of the software at the local level, staff costs for quality check etc. will be met from the transaction fee to be generated through the sale of produce. The intention is to avoid any upfront investment by the mandi when it integrates into NAM, and also enable it to support the running cost through additional generation of revenue.

Issues Related to Implementation of NAM

National Agriculture Market is a new initiative of the federal government and it is subject to many criticisms. Some of them are raised here to sensitize the readers.

1. The foremost is that the encroachment of state governments prerogative. Agriculture being a state subject, evolving a national market with the consent of all state governments will be a challenging task to the government of India.
2. The next practical problem that may arise with respect to NAM is taxation. So far the unified national level Goods and Services Tax (GST) system proposed by the GOI to replace the existing tax system sees only pandemonium in the parliament. Under this juncture, breaking the inter-state trade barriers will be a herculean task to the GOI.
3. Preparedness of the present APMC markets in India is also a questionable one, may be with an exception of the Karnataka state. The resistance to change the brick and mortar system of the Mandis and its stakeholders needs to be managed properly.

4. Licensing of Traders and manufacturers to deal with any market in the country may also perceive as a threat to local traders and brokers.
5. The significant role played by many other actors in agriculture value chain namely assemblers, transporters, warehouses, processors, wholesalers and retailers have not been taken in to consideration.
6. The Cooperatives are playing a vital role in the agriculture market system of India. What would be their expected role and how do they sustain and continue their services?
7. The present government seeks investment both from domestic and foreign investors to create best infrastructure for storing and processing. How do they involve in this market and what precaution we have, to prevent the unethical trade practices.

Epilogue

'NAM is envisaged as a win-win solution for all stakeholders. For the farmers, NAM promises more options for sale at his nearest mandi. For the local trader in the mandi, NAM offers the opportunity to access a larger national market for secondary trading. Bulk buyers, processors, exporters etc. benefit from being able to participate directly in trading at the local mandi level through the NAM platform, thereby reducing their intermediation costs. The gradual integration of all the major mandis in the States into NAM will ensure common procedures for issue of licences, levy of fee

and movement of produce. In a period of 5-7 years we can expect significant benefits through higher returns to farmers, lower transaction costs to buyers and stable prices and availability to consumers. The NAM will also facilitate the emergence of integrated value chains in major agricultural commodities across the country and help to promote scientific storage and movement of agri goods.'

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