

MARKETS FOR EFFICIENCY AND INCLUSION

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An efficient agricultural marketing system is essential for development of the agricultural sector as it provides outlets and incentives for increased production and the marketing system contributes greatly to the commercialisation of subsistence farmers. Worldwide, Governments have recognised the importance of liberalised agricultural markets. The competitiveness of agricultural production and market efficiency are becoming more important with the commercialization of agriculture and the growing importance of global market access provided under the WTO. Without efficient markets to sell their crops, the farmers struggle to prosper.

Major constraints in developing efficient Agricultural markets include: market and institutional (market information systems; policies; access to finance and credit); infrastructure (transportation costs and roads); quality issues (grades and standards, food safety); production constraints (natural resource degradation, conflicting rights to resources, land tenure insecurity, farmers' lack of information about or confidence in promising technologies, farmers' resource constraints) and post-harvest technologies (processing, storage, bulking).

Two instruments appear critical to break this deadlock for the small holders: one is physical infrastructure such as information technology, roads, ports, etc. that connects smallholders to markets; and the other is the role of accompanying institutions that can reduce the marketing risk and transaction costs in the process of exchange between producers and consumers and link 'farms to markets', reduce their transaction costs and minimize risk.

Strategic issues and suggestions:

Investment in physical infrastructure: Public infrastructure is essential to reduce marketing and transaction costs and post-harvest losses, and for quick access and dissemination of information. Unfortunately, the public infrastructure in India has remained underdeveloped, leading to a slow growth in private investment in refrigerated transport, cold storages and food processing leading to the low level of value-addition to agricultural produce. The evidence shows a greater concentration of production of high-value agricultural commodities in the areas well-connected with roads and urban centres.

Heavy investments need to be made in establishing cold chains across the country such as cold storage, transport facilities and the like. It can be best accomplished

in a decentralised private sector framework with appropriate policies and supportive financing facilities.

Investment in Market Infrastructure: Efficient marketing infrastructure such as wholesale, retail and assembly markets and storage facilities is essential for cost-effective marketing, to minimise post-harvest losses. It is also not sufficient just to build a market, attention needs to be paid to how that market will be managed, operated and maintained. There is a well structured regulated marketing system in the major states but there is lack of infrastructure and modern marketing facilities including that of primary processing and grading facilities at the market yards. It is essential to modernise these markets and make provisions for essential facilities.

For making provision of a market at the door step of the farmers and to maintain healthy competition with the regulated *mandis* there is a need for opening up new private markets closer to the farmers' field.

With respect to the areas where the access gap to infrastructure is present forging private public partnerships (PPP) seem to be the most efficient way of closing the access gap. There is an urgent need to reinvigorate the design of terminal markets and remove the anomalies in the present structure so that the much desired public private partnership (PPP) model becomes operational. The concept of terminal markets has much scope and if put into practice can solve many problems presently being faced by the producers of perishable crops.

Innovations in agriculture supply chain: Meeting the challenge of fostering inclusive growth appears to be tied closely to easing restrictions on private sector participation in agricultural markets. Reforms are needed to help develop firm-farm linkages, including contract farming, cooperatives, and grower organizations. These activities are needed to permit backward integration to the farm level by private agribusinesses.

Organised retail as the new supply chain arrangements is important since in a demand driven diversification, supermarket/retail chains are the first agent to know the consumers' preferences and act accordingly. Supermarkets have emerged as one of the most important buyers in some developing countries, particularly for the high-value products meeting specific consumer demands related to production process and quality. The Government of India allows 100% FDI in food processing but restricts FDI in retailing. Restricting FDI in food retailing however

may act as barrier to FDI in food processing and thereby to the growth of food processing industry, which is crucial to establish strong backward linkages with agriculture. Supermarkets procure food commodities from independent procurement companies (dedicated suppliers) who often work with farmers or through contract farming. Such market linkages create opportunities for farmers to have a better access to markets for produce, inputs, services and technology. The government should come up with a more conducive FDI Policy in food retailing.

Rural Producer Organizations (RPOs) and Contract Farming as an option to resolve missing markets and market failures to link small holders to markets. To develop contract farming as a pro-poor market institution the central and state governments should create a conducive climate for private investment in agribusiness, promote competition among various market players and facilitate smallholders to organize themselves into cooperatives, growers' associations and self-help groups as to empower them to effectively deal with big business firms.

An effective way of involving smallholders in contract farming is to encourage them to organize themselves into cooperatives, self-help groups and growers associations. Such organizational structures help them improve their bargaining power vis-à-vis agribusiness firms, and also generate scale economies in acquisition of inputs, technology, services and information. Non-governmental organizations (NGOs) can also play an important role by acting as intermediaries between firms and farmers.

The Model Act, 2003 outlines provisions for regulation of contract farming to protect interests of both agribusiness firms and farmers. However, at present a considerable number of contract farming schemes are informal and remain unregistered with the Marketing Committee. Non-registration of contract farming schemes creates a scope for opportunism, breach of contracts and rise in disputes. Thus, there is a need to (i) enforce registration of contract farming schemes, and (ii) establish a judicial or quasi-judicial body for speedy resolution of disputes.

The working of multipurpose co-operatives which provide varied support services to farmers has to improve. The co-operatives have to evolve strategies to strengthen their governance and management. Government has to play a catalytic role in this regard.

There is also an urgent need to develop appropriate quality standards and employ quality assurance systems across the entire value chain.

Use of ICT to increase access to market information: Information is critical for efficient functioning of markets. Information about commodity prices, regulations, and customer preferences enables farmers to compete and get the best price for crops. Up-to-date information on

prices and other market factors enables farmers to negotiate with the traders and also facilitates spatial distribution of products from rural to urban areas and between markets. ICT should be used to reduce information [transaction] costs that can lead to increasing efficiencies in agricultural markets. The use of Internet, mobile messaging, radio and other means to expand public market information systems and the development of commodity exchanges should be strengthened in Public / Private/ PPP mode to empower farmers. Emphasis is required to be given on not only ICT-enabled market information and but also developing trading systems for connecting buyers and sellers. The government should invest in setting up Agriculture Market Information Centres and the primary task of these information centres should be to disseminate all kinds of information about overseas and domestic markets.

Marketing training and Agricultural advisory services: Farmers frequently consider marketing as being their major problem. However, while they are able to identify such problems as poor prices, lack of transport and high post-harvest losses, they are often poorly equipped to identify potential solutions. Extension officers are well trained in production techniques but usually lack knowledge of marketing or post-harvest handling. Concept of Market led extension and Agricultural advisory services should be strengthened in order to be better able to advise farmers about market-oriented Production. A complete value chain approach to advisory services is required which means that the range of clients serviced should go beyond farmers to include input providers, producers, producer organisations and processors and traders. Increasing participation of the private sector in agribusiness offers considerable scope for public-private partnership in agricultural research and extension to effectively address rising (i) consumers' concerns for food variety, safety and quality, and (ii) farmers' requirement of information, technology and services.

Meeting the requirements of Agricultural Finance : There is a need for adoption of inter-linked operations (devoid of any exploitative element) and their principles by formal institutions like co-operatives to help farmers obtain easier access to credit, inputs and marketing and reduce transaction cost and risk involved in such transactions. Government and NGOs should provide the needed support in such adoption.

SHG promoting institutions have to organize SHGs more in poverty stricken and backward areas to help landless and other poor to obtain access to credit. SHGs have to be formed keeping the local socio-economic

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