Restructuring Agriculture Marketing System: Karnataka Experience

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Introduction:

Sizeable amount of work in development economics literature has been devoted to the debate on the role of state as against market as a catalytic institution in the aggregate development process. In case of Agricultural marketing in India, we can observe that it has grown in historical sense, mainly through State regulations than market signals. By the time of independence, about 250 regulated markets existed in different parts of the country. All these initiatives were directed more towards commercial crop markets and in relatively better-off regions. It was during the First plan period that the Planning Commission had directed the state governments to bring agricultural marketing under specifically enacted Regulated Market Act (called as Agricultural Produce Marketing Act) which most of the states complied with, though slowly. The present study is undertaken to examine the functioning of domestic markets in the case of agricultural commodities in Karnataka. The paper aims to examine the prevailing system of marketing of important agricultural commodities in Karnataka.

Agriculture Marketing System at a Primary Level:

Agricultural marketing system at the primary level in Karnataka involves four broad marketing channels, viz., (i) direct to consumers; (ii) through private wholesalers and retailers; (iii) through public agencies (regulated markets) or cooperatives; and (iv) through processors. The share of these channels in total marketed surplus varies from commodity to commodity and across regions. Marketing structure of the agricultural produce differs according to products. Among these channels large quantity of produce is transacted through the regulated market channel. It is necessary to understand the basic functioning of the regulated markets at lower levels before one gets into analysing the reforms in marketing. Foodgrains are mostly marketed at the primary village market or in the regulated market yard. The procurement of grains takes place only in the case of rice and through the processing mills. Oil-seeds are largely sold through the regulated markets and directly to the processors. But other commercial crops like banana, arecanut, coconut, sugarcane and cotton have developed specific marketing channels.

Due to the creation of marketing institutions and the infrastructure quite a few changes have occurred in the agricultural marketing sector. These include: i. Increase in the market

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arrivals as per cent to total output, ii. Reduction in the market inefficiencies in terms of unauthorised charges and irrational grading; iii Dissemination of market information at the regulated market yard; iv. Better storage facilities and place to stay was created for the farmers; marketing charges payable by farmers were either dropped, standardized or liability shifted to the buyers; and v. villagers are not selling major portion of their produce in the village and the proportion of distress sale reduced significantly.

Regulation of Agriculture Markets:

Box 1

Main Components of Agricultural Produce Marketing Act

- **Establishment of Markets**
- **Constitution of Market Committees**
- **Conduct of Business**
- **Staff and Market Committees**
- **Their Functions and Regulation of Trading**
- **Market Funds**
- **State Agricultural Marketing**

Market Regulations can be grouped under two broad categories, viz., regulations governing the functioning of primary agricultural produce markets, including a series of legal instruments and the Market Committees functioning as intermediaries. Regulation and development of primary markets was taken up as an institutional innovation and construction of well laid-out market yards. These regulations provide a design for the conduct of the agricultural market produce committee. The Directorate of Marketing and Inspection (DMI) of Government of India and state level Directorate of Marketing play an important role in functioning of these institutions. In order to remove the components causing market imperfections and to bring the functions of agricultural marketing under a proper legal framework, the State governments passed the Agricultural Produce Marketing Acts. The Acts were passed in most of the states around the mid-sixties and revised subsequently. The Acts incorporated seven major components dealing with the establishment, functioning and conduct of the business (See Box 1).

The important general features of regulated markets include:

(i) Monitoring of marketing practices by Regulated Market Committees;
(ii) Licensing of functionaries;
(iii) Open auction or close-tender system;
(iv) Issue of sale slips showing quantity and price to the farmers;
(v) Well- publicized time and days of sale;
(vi) Correct weighment of the produce by licensed weighman;
(vii) Prescription of rational market charges;
(viii) Provision of payment to farmers within stipulated period;
(ix) Mechanism of dispute settlement;
(x) Dissemination of market related information;
(xi) Provision of amenities to the farmers in market yards; and
(xii) Reduction of physical losses during buying and selling.

In addition to these, the spread of market infrastructure also plays a significant role in the marketing process. The number of regulated markets in the country which was only 286 at the time of independence, has now gone up to 7,062 and out of these, 2,354 places have been developed as main yards and 4,708 as sub-yards. In addition to these, there are 27,294 periodic markets existing in rural areas, most of which are yet to be developed. The National Commission on Agriculture recommended that the density of markets should be increased significantly, but that did not happen in Karnataka.

Five decades of continuous policy intervention has not made any significant change and a lot needs to be done. Even a cursory visit to any regulated market yards suggests that we still have to achieve a lot out of this. Certain practices like late payment to farmers, under-pricing, arbitrary grading, speed money and non-issue of sale slips by the traders continue to dog the performance of markets. There is a considerable congestion and delays in several markets resulting in long waiting periods for the farmers to receive their payments. The traders have organized into informal cartels and these cartels squeeze the farmers. There is also lack of understanding about the market regulations particularly those relating to the sale of produce outside the market yards. Funds collected as cess and market fees are not properly utilised. In the process, APMCs are emerging as some sort of monopolistic centres of sale and purchase with the reigns in the hands of a few.

Apart from the market regulations the Government of India also initiated future or forward trading. The Forward Markets Commission (FMC) was established under Forward Contracts (Regulation) Act, 1952. The forward trading act guards against unhealthy speculative practices and provides a firm price to the farmer. Forward trading in agricultural commodities was suspended during the seventies due to various bottlenecks but resumed again. There are now 20 exchanges registered with FMC undertaking futures trading in agricultural commodities which include cotton lint, raw jute, jute goods, gur, coffee, potato, turmeric, black pepper, rice bran, edible oils, oil-seeds and oil cakes. Recently, sugar has also been permitted for future trading. Future trading provides an inbuilt insurance against price risk and also helps retain a constant relationship with international markets.

Marketing Structure and Market Institutions:

- **Marketing Structure of Agricultural Commodities**

The present regulated marketing System involves five stages. As a first step, the farmer brings the produce at the market during harvest season. These are graded by the graders and then heaped in different places in the market during the second stage. The traders or their representatives enter the market and prepare a list of prices offered to different heaps of commodities marking the third step. The slips are then processed and the heaps of commodities are assigned to the highest bidder, which constitutes the next stage. Finally, the trader settles the transactions and takes away the produce.

- **Market Regulations:**

The Karnataka Agricultural Produce Marketing (Regulation) act was passed by the Karnataka State Legislature to provide for the better regulation of marketing of agricultural produce through establishment and administration of markets for agricultural produce in the State. It called on the State government for the establishment of the markets by declaring the market area and its intention of regulating the marketing of specified agricultural produce. The Act follows the model act given by Government of India and hence not very different in content as against the other States.

The marketing practices in the Regulated markets are governed by the Market Committees that have jurisdiction over the entire market area. The Committee is empowered to implement the provisions of this Act and the rules and byelaws made there under in the market area. It grants or renews the licenses for use of any place in the market area for the sale of the notified agricultural produce or for operating therein as market functionaries in relation to marketing, after making such enquiries as it deems fit. It has the power to levy market fee on the traders and also impose penalty where a trader fails to pay. The Committee is also entrusted with the maintaining of proper checks on all receipts and payments by its officers, proper execution of all works chargeable to the market committee funds, maintaining register of arrivals and fees collected, preparing plans and estimates for works, publishing a statement of assets and liabilities, preparing and adopting budget for the ensuring year and regulating expenditure according to the budget, providing Marketing information and arranging for temporary storage or stocking of notified crops in the market yards.

(i) Sale of Agricultural Produce

As a measure to stop under cover sales, the sale price of agricultural produce sold in the market area, according to the APM(R) Act, should be determined either by tender system or by public auction or by open agreement or in such other manner with the previous approval of the Director of Agricultural Marketing, by the market committees. Present practice incorporates use of sale slips, which are to be issued by every licensed buyer, showing quantity and price, to the farmers as a written agreement of sale in such form as prescribed by the byelaws. The Commission agents can recover his commission only from the buyer at such rates not exceeding two per cent of the price for which the agricultural produce is sold and no market functionary should receive commission, fees, charges or any other form of remuneration except as prescribed by the rules or bye-laws.

The market functionaries as per the APM(R) Act shall make, give or allow no deductions in weight or payment other than those specified in the rules or bye-laws, in respect of any transaction relating to notified agricultural produce. The deductions that are deemed to be permissible are deductions in the weight for the container, dirge of produce, deviation from sample or known standard and deduction in price on account of the detection of adulteration not readily detectable on customary examination. These deductions introduce significant transaction costs in the markets. There were attempts to standardise these but have not succeeded significantly.

The Act makes provisions for the immediate payment in cash to the seller for the goods sold in the market yards or in the sub-market, after making the deductions for fees, market charges and taxes as per the rules or the bye-laws except in the case of a Commission agent agreeing in writing to give delivery to the buyer on credit which shall in no case exceed a maximum period of ten days as prescribed by the bye-laws. Again this stipulation is violated in practice. The Committee appointed by Govt. of Karnataka, under the Chairmanship of Shri. D. R. Patil submitted its report in November 2002. The Committee tried to make the stipulations more stringent.

Every licensed market functionary (trader, commission agent, ginner, presser, processor, warehouseman, importer, exporter, stockiest) operating in the market area shall maintain accounts and submit to the market committees periodical reports and returns. They are also supposed to render assistance in the collection and prevention of the evasion of payment of fees or other amounts due under this Ac

(ii) Provision of infrastructure facilities in the market yards and outside

APMCs are required to provide with the facilities like approach road to the market area, construction of covered auction platform and other infrastructure like drying platforms, drinking water, godowns and common facility centres for hosing machinery for cleaning, grading and other post-harvest operations.

(iii) Provision for Dispute Settlement

To settle the disputes arising between the producers, buyers and sellers or their agents the Act provides a mechanism of dispute settlement by letting the Market Committee of that area to appoint a panel of arbitrators periodically consisting of agriculturists, traders and commission agents and constitute a Disputes Committee. Necessary rules are made for regulating the procedure of settlement and the payment of fees by the parties for the settlement.

(iv) Market Funds

All the money received by the APMCs by way of fees, cess, charges, loans raised and grants and contributions made by the State government become part of the Market funds. These funds are to be utilised for the purposes of making payments on behalf of the State government and the State Agricultural Marketing Board for various activities undertaken. The Market Committees having an income exceeding Rs. 5 lakhs and has the necessary infrastructure facilities may provide short term advances to the producer sellers using the excess funds at specified rates of interest. Preference should be given to small and marginal farmers while advancing and the amount of advance should not exceed 60 per cent of the market value of the produce pledged. The Committee under the chairmanship of Shri. D. R. Patil dealt with the budgeting procedures and maintenance of accounts of the funds.

- **Institutions in Agriculture Marketing Sector:**

As a strong support to the physical infrastructure, an institutional network has been established during the last five decades to help the farmers to partake the advantages of a fair marketing system. The institutions from public sector include:

- Food Corporation of India (FCI);
- Cotton Corporation of India (CCI);
- Jute Corporation of India (JCI);

- Commodity Boards for tea, coffee, tobacco, spices, rubber, cardamom, arecanut, coconut, cashew nut, horticultural products, dairy products, and oil-seeds and vegetables;
- Agricultural and Processed Food Products Export Development Authority (APEDA);
- State Trading Corporation (STC);
- Marine Products Export Development Authority (MPEDA);
- Directorate of Marketing and Inspection (DMI);
- Departments of Food and Civil Supplies at the Centre and state levels;
- Commission for Agricultural Costs and Prices (CACP);
- State Agricultural Marketing Boards; and
- Council of State Agricultural Marketing Boards (COSAMB); and Central and State Warehousing Corporations;

These institutions function at the national level but many of them are the major players at the state level. The Food and Civil Supplies Corporation has a strong link with the Ministry of Food and Civil Supplies, the Co-operative Marketing network, National Agricultural Marketing Federation (NAFED) and the commodity specific institutions are quite active at the state level. Some of these institutions are involved in the process of implementation of MSP at the State level. These include Karnataka Food and Civil Supply Corporation, Karnataka State Co-operative Marketing Federation, Karnataka Oil-Seed Growers Federation and the National Agricultural Co-operatives Marketing Federation (NAFED). The procurement of foodgrains is entirely the responsibility of the Food and Civil Supplies Corporation at the State level. Oilseed growers' Federation deals with oil-seeds whereas; NAFED has the responsibility of procuring other commodities. We give below a brief description of their activities.

Market Infrastructure:

Inadequacy of market infrastructure has been the main reason for market imperfection. A few studies have shown that owing to the new impetus on the infrastructure front, there has been significant increase in horizontal and vertical integration of agricultural markets. It has also been pointed out that now larger share of the marketable surplus reaches the market and most of the markets have the needed basic facilities. However, lot remains to be done in creating adequate marketing infrastructure in rural areas. It is high time now that the investment in this section comes from private sources. Conducive environment for attracting private investment needs to be created.

It has been estimated by the Expert Committee on Agricultural Marketing appointed by the Ministry of Agriculture, Government of India, that to create adequate marketing infrastructure, an investment of Rs. 268 thousand crores would be needed during the next decade (GoI, 1997). It is essential that the private sector participates in this important activity as the gains out of this will, otherwise, go to the undeserving traders due to lack of competition. But the legal framework has to be more conducive for such initiative. In some of the states, steps are taken to create an amalgam of cooperatives and private traders. The scale of these schemes needs considerable expansion to realize the investment potential in agricultural marketing infrastructure.

The agricultural market infrastructure in Karnataka has been inadequate to handle the situation squarely. It comes out from Tables 1 and 2 that it is not only that the infrastructure is inadequate but it also impacts the turnover from the markets. As can be seen from the table, the State has only 1.08 main-markets per lakh hectares of gross cropped area as against 3.7 markets in the country. The density of main and subsidiary markets together works out as 3.74 markets per lakh hectares of ESA. But even that is possibly spread, thinly.

Table 1: Regulated Agricultural Main Markets in Karnataka and India.

Year	Number of Markets			
	Total		Per lakh Ha of GSA	
	Karnataka	India	Karnataka	India
1990-91	116 (1.75)	6,640	0.957	3.572
1991-92	116 (1.72)	6,738	0.986	3.697
1992-93	120 (1.72)	6,772	0.968	3.648
1993-94	122 (1.79)	6,809	0.983	3.653
1994-95	124 (1.81)	6,836	0.997	3.647
1995-96	131 (1.88)	6,968	1.053	3.718
1996-97	135 (1.94)	6,968	1.084	3.718

Note: 1) Figures in parenthesis are % to all India.
2) * Not available, hence/earlier figures taken

Sources: 1. Statistical Abstract of Karnataka for various years, Directorate of Economics and

2. Fertiliser Association of India, New Delhi. 1997.

i. GOI 1997b.

Table 2: Agricultural Marketing Activities in Karnataka: Some Indicators

Year	Main Markets (Nos)	Sub Markets (Nos)	Total Markets (Nos)	Total Markets per Lakh ha. Of GSA	As % of Main Markets in India	Annual Turnover Value for Total Markets (Rs. in Lakhs)
1990-91	116	295	411	3.392	1.747	595.63
1991-92	116	303	419	3.563	1.722	762.46
1992-93	120	304	424	3.421	1.772	745.82
1993-94	122	312	434	3.497	1.792	837.99
1994-95	124	312	436	3.504	1.814	NA
1995-96	131	325	456	3.665	1.880	NA
1996-97	135	331	466	3.745	1.937	NA
1997-98	NA	NA	NA	NA	NA	NA
1998-99	143	NA	NA	NA	NA	6,500.21
1999-00	143	NA	NA	NA	NA	6,647.81
2000-01	143	NA	NA	NA	NA	7,512.21
2001-02	143	NA	NA	NA	NA	7,902.39

Sources: 1. *Statistical Abstract of Karnataka* for Various Years, Directorate of Economics And Statistics, Bangalore.
2. Fertilizer Association of India, 1997.
3. GOI 1997b

Regulated Markets and Market Yards

The Department of Agricultural Marketing is continuously engaged in improving the functioning of the Agricultural Marketing System in the State. The main objective of the Department is to regulate the marketing of agricultural produce and create a competitive marketing environment for price stability of the notified agricultural produce in the State. The Department of Agricultural Marketing has established 141 main markets and 342 sub-markets in the State (see Table 3). These markets handled a turnover of Rs.7, 512 crores of agricultural produce during the year 2000-01. The regulated markets have their own grading centres. The agriculture produce is put to sale after grading into different qualities. But despite the interventions we cannot firmly say that all the imperfections are totally eliminated. These include: (i) post-harvest glut in the market due to low and consequent price collapse; (ii) inter-locking of credit and commodity markets; (iii) inefficiency in grading and packaging; (iv) non-issue of sale-slips to the farmers in some markets; (v) high-handedness of Agricultural Produce Market Committees (APMCs) in providing marketing services; and (vi) creating conditions such that the farmer cannot go back from the market yard without selling the product.

Table 3: Regulated Markets by Districts in the Year 2000-01

Districts	Main Markets	Sub Markets	Total	Turnover (Rs in Crores)
Bangalore (u)	2	6	8	1061.21
Bangalore (R)	3	11	14	45.31
Bagalkot	5	15	20	159.28
Bellary	6	14	20	229.33
Belagam	10	33	43	343.94
Bijapur	3	13	16	176.97
Bidar	5	9	14	117.02
Chamarajanagara	3	4	7	64.21
Chikkamagalur	5	10	15	107.23
Chitradurga	4	10	14	218.91
Davangere	6	8	14	274.56
D Kannada	5	3	8	405.91
Dharwad	5	12	17	207.32
Gadag	5	17	22	166.45
Gulbarga	7	22	29	183.74
Hassan	6	16	22	139.71
Haveri	6	12	18	410.74
Kodagu	3	3	6	109.18
Kolar	8	15	23	150.77
Koppal	4	13	17	587.37
Mandya	4	9	13	159.41
Mysore	7	7	14	315.70
Raichur	4	11	15	540.64
Shimoga	4	15	19	724.28
Tumkur	10	23	33	239.85
Udipi	3	4	7	64.73
U.Kannada	8	27	35	308.44
Total	141	342	483	7,512.21

Note: Data for two markets was not available.

Source: Karnataka State Marketing Board, Bangalore.

Storage Capacity

The State has godowns to store about 3.40 lakh metric tonnes of grains. This is neither sufficient nor well spread in the State (see Table 4). It can be seen from the table that Kodagu and Chamarajanagar districts have the lowest capacity whereas Bangalore, Gulbarga, Tumkur and Shimoga are among the highest capacity districts. Large number of districts has the storage capacity between one to three thousand tonnes and only a few have the capacity exceeding five thousand tonnes.

Table 4: Total Number of Godowns Owned, Hired, Govt. and Private. : 2000-01

(Capacity in MTs)

Districts	Owned by KFCSC		Govt. Godowns		TAPCMS Godowns Hired		Private Godowns Hired		Total Godowns	
	No.	Capacity	No.	Capacity	No.	Capacity	No.	Capacity	No.	Total Capacity
Bagalkot	0	0	0	0	4	1,000	3	750	7	**1,750**
Bangalore	7	7,500	2	500	2	900	6	2,500	17	**11,400**
Belgaum	0	0	5	3,150	0	0	1	250	6	**3,400**
Bellary	0	0	1	1,000	7	2,650	0	0	8	**3,650**
Bidar	2	800	1	350	2	1,650	1	600	6	**3,400**
Bijapur	1	300	2	800	1	300	1	200	5	**1,600**
Chamarajanagar	1	300	0	0	1	300	1	300	3	**900**
Chikmagalur	0	0	2	800	1	600	2	350	5	**1,750**
Chitradurga	0	0	2	460	2	800	0	0	4	**1,260**
D Kannada	0	0	0	0	4	1,200	0	0	4	**1,200**
Davanagere	0	0	1	440	6	2,130	0	0	7	**2,570**
Dharwad	0	0	1	500	4	1,050	0	0	5	**1,550**
Gadag	0	0	0	0	5	1,420	2	600	7	**2,020**
Gulbarga	3	900	4	3,400	3	2,100	1	200	11	**6,600**
Hassan	0	0	0	0	8	3,040	1	400	9	**3,440**
Haveri	0	0	1	600	2	540	2	600	5	**1,740**
Kodagu	0	0	0	0	1	300	1	280	2	**580**
Kolar	0	0	2	900	6	2,300	1	250	9	**3,450**
Koppal	0	0	1	500	3	2,400	0	0	4	**2,900**
Mandya	0	0	1	2,000	0	0	3	1,000	4	**3,000**
Mysore	0	0	0	0	3	780	5	2,700	8	**3,480**
Raichur	0	0	4	3,650	2	500	0	0	6	**4,150**
Shimoga	2	10000	1	400	6	1,600	1	300	10	**12,300**

Tumkur	0	0	2	2,000	3	900	4	3,100	9	**6,000**
U Kannada	1	800	1	1,000	2	850	0	0	4	**2,650**
Total	**17**	**20,600**	**34**	**22,450**	**78**	**29,310**	**36**	**14,380**	**165**	**86,740**

Source: Office of the Karnataka Food and Civil Supplies Corporation, Bangalore.

FCI is the agency to procure major cereals, stock them and release to the public distribution system in the State of Karnataka. These operations require huge capacity godowns. In Karnataka, FCI has about 3.4 lakhs MT capacity of storage. The location of the FCI godowns and their capacity is given in Table 5.

Table 5: District-wise and Location-wise Godown Capacity in Karnataka: 2001

(Quantity in MT)

District	**Food corporation**	**Owned**	**Hired**	**Total**
Bangalore	Bangalore	1,37,090		1,37,090
Kolar	KGF	6,250		6,250
Kodagu	Madikere	13,500		13,500
Mandya	Mandya	9,610		9,610
Mysore	Mysore	13,000		13,000
Tumkur	Tumkur	20,000	3,750	23,750
Chamrajanagar	Chamarajanagar	11,640		11,640
Udupi	Udupi	10,000		10,000
Dharwad	Dharwad	42,400		42,400
Bellary	Bellary	40,000		40,000
Raichur	Raichur		3,700	3,700
Koppal	Koppal	5,000		5,000
Shimoga	Shimoga	19,620	5,000	24,620
Total		3,28,110	12,450	3,40,560

Source: Same as in Table 3

Cost of State Intervention in Market

The price intervention scheme in the form of Minimum Support Price (MSP) was introduced during the mid-sixties. The scheme operated initially to procure grains for the purpose of Public Distribution System (PDS). After the PDS became more reliable the emphasis of MSP shifted to act as price insurance devise. This was to provide the farmers a psychological back up. However, it failed this expectation miserably during the last five years.

There has been a considerable increase in the quantities handled by the agricultural marketing system during the last fifty years owing both to increase in output and increase in the marketed surplus-output ratios of various agricultural commodities. The overall marketed surplus-output ratio is estimated to have gone up from 33.4 per cent in 1950-51 to 64.1 per cent in 1999-00. During this period, the marketed surplus of cereals went up from 11.5 million tonnes to 95.8 million tonnes, pulses 3.9 to 9.5 million tonnes, oilseeds 3.8 to 19.5 million tonnes, fruits and vegetables from 38.2 million tonnes (1980-81) to 118.6 million tonnes and of milk increased from 8.5 million tonnes to 48.6 million tonnes (Acharya, 2000).

A large number of farmers' cooperative marketing organizations have been promoted for undertaking marketing and processing functions. These have played important role in the improvement of the performance of domestic market of farm products and inputs by increasing competition in the market. In addition to APMC, there are various apex level cooperative bodies that work in the marketing sector. The main cooperative organizations include National Agricultural Cooperative Marketing Federation (NAFED), Tribal Cooperative Marketing Federation (TRIFED), National Cooperative Development Corporation (NCDC), State Marketing Federations (general as well as commodity specific), and district level marketing cooperatives and primary cooperative marketing societies (general as well as commodity-specific).

Table 6: Procurement and Quantity Marketed in Regulated Markets – 2000-01

Crops	Procurement (In 000 Tonnes)	Quantity Marketed in Regulated Markets (in 000 Tonnes)	Production (in 000 Tonnes)	Procurement as % of Production	% Produce Marketed in Regulated Markets
Maize	361	909.98	2059	17.53	44.20
Ragi	15	79.18	1736	0.86	4.56
Bajra	4.5	42.02	229	1.97	18.35
Rice	207.36	2198.73	3619	5.73	60.76
Groundnut	609	17.18	1026	0.06	1.67

Source: (1) Karnataka State Agriculture Marketing Board Annual Reports
(2) Karnataka Economic Survey 2000-01
(3) Food and Civil Supply Department

With the 73rd Amendment to the Constitution, now another tier of institutional framework is provided to deal with the problems at the village and taluka levels. We have 2.2 lakh gram panchayats, 4,567 block panchayats and 349 zilla parishads. Their role can be quite significant in the development of primary markets removing the market inadequacies, creating infrastructure marketing extension activities, and dissemination of market information. This source, therefore, can provide a strong institutional platform. However, the panchayats so far, have been trying to provide drinking water, drainage and sanitation facilities, streetlights, laying and repairing roads, repair of some old structures in the village, etc., but not providing marketing facilities in any way. Therefore, their involvement in providing marketing facilities is only recorded on paper, but in real terms not even 1 per cent of these have been moving in that direction.

The credit cooperative societies provide a good back up support to the marketing infrastructure. In fact, in the rural areas, credit cooperatives and market cooperatives work hand in hand. The growth of credit cooperatives in agriculture in most of the states in India as well as Karnataka has not been keeping pace with the marketing cooperatives. The non-agricultural sector is taking a lead over agricultural sector and that creates inequality between the two sectors.

Production, Market Arrivals and Procurement

In the state there is no procurement of agricultural produce on annual basis except rice procured by FCI. Karnataka being a State with highly heterogeneous cropping system, many crops that come under MSP operations are grown in the state and the produce of the crops procured varied from year to year. Several attempts were made to collect time-series data on procurement of produce of crops. But, no reliable data could be obtained from the procurement agencies. Even the state government appointed Agricultural Price Commission (under Chairmanship of Prof Bisaliah) also has its apprehension on the reliability of procurement data. Hence, we have not presented any analysis over time of procurement data except for rice.

The procurement of rice in the state varied from 2.84 per cent of production to 5.73 per cent of production during the period 1997-98 to 2000-01. Across the crops highest procurement was effected for maize and rice. The procurement of other grains was marginal (See Table 7). The quantity marketed in regulated markets ranged from 42 per cent to 61 per cent of production during the four-year period. The trend clearly shows that farmers were increasingly relying on regulated markets.

Table 7: Procurement and Quantity Marketed: 2000-01

Crops	Procurement (In Thousand Tonnes)	Quantity Marketed (In Thousand Tonnes)	Production (In Thousand tonnes)	As Per cent of Production	
				Procurement	Marketed
Maize	361.0	910.0	2059	17.53	44.2
Ragi	15.0	79.2	1736	0.86	4.56
Bajra	4.5	42.0	229	1.97	18.35

Rice	207.6	220.0	3619	5.73	60.76
Groundnut	0.6	17.2	1026	0.06	1.67

Source: (1) Karnataka State Agriculture Marketing Board Annual Reports

(2) Karnataka Economic Survey 2000-01

(3) Food and Civil Supply Department.

Table 8: Procurement and Quantity Marketed in Regulated Markets – Rice

Year	Procurement (in 000 Tonnes)	Quantity Marketed in Regulated Markets (In 000 Tonnes)	Production (In 000 Tonnes)	% Procured	% Marketed In Regulated Markets
1997-98	91.24	1487.00	3213	2.84	46.28
1998-99	100.43	1552.83	3657	2.75	42.46
1999-2000	111.04	1578.53	3635	3.05	43.43
2000-01	207.36	2198.73	3619	5.73	60.76

Source: Same as in Table 7

The grains procured during the year 2000-01 included maize, ragi, bajra, rice and groundnut (Table 7) and other oil-seeds (Table 8). The procurement as a percentage of production was highest for maize (17.5 per cent). The procurement was less than 2 per cent of the production for ragi, bajra and groundnut. The higher procurement for maize was due to bumper production during the year and fall in prices. The production of maize during 1998-99 was 16.7 lakh tonnes and it increased to 20.6 lakh tonnes during 2000-01. The additional production was 3.9 lakh tonnes and the procurement was 3.6 lakh tonnes. It is clear that the procurement helped to absorb the additional production. Direct intervention of the government in the state in marketing of agricultural produce is only when there is bumper production of a crop. In normal production years, there is hardly any direct intervention of the government in the agricultural produce market.

Table 9: Procurement of Oil-seeds

(In Tones)

Commodity	1999-2000	2000-01	20001-02
Groundnut	-	609	-
Sunflower	17,680	23,000	40,000
Safflower	-	2,440	10,650
Soya bean	963	740	-

Source: Food and civil supplies Department

The agricultural produce is mainly marketed in regulated markets (Table 10). In 1998-99, 42.5 per cent of rice production in the state was sold in regulated markets and the percentage sold in the regulated markets increased to 60.8 per cent in the year 2000-01. About 42.6 per cent of foodgrains production, 49.9 per cent of pulses production and 27.2 per cent of oil-seeds production in the state was marketed through regulated markets. The commodities, which had lower dependency on regulated markets, were jowar and ragi. Jowar and ragi are staple food for many people in the state, jowar in northern Karnataka and ragi in southern Karnataka. These crops were mainly grown for domestic consumption and the marketed surplus of these crops is in the local private trade.

Table 10: Percentage of Produce Marketed in Regulated Markets

Crop/Year	1997-98	1998-99	1999-2000	2000-01
Rice	46.28	42.46	43.43	60.76
Wheat	25.54	8.73	16.95	33.79
Jowar	8.56	6.08	5.53	10.97
Bajra	10.83	15.39	17.22	18.35
Ragi	7.24	6.17	7.17	4.56
Maize	38.84	41.53	36.12	44.20
Tur	60.50	23.40	34.67	34.58
Groundnut	49.72	27.26	39.05	28.27
Cotton	50.38	34.32	34.68	41.42
Total Food grains	34.60	30.51	30.67	42.55
Total Pulses	58.42	45.29	41.80	49.89
Total Oil-seeds	40.82	39.35	34.47	27.19

Source: Annual reports of Karnataka State Agricultural Marketing Board

Towards Model Agricultural Produce Marketing Regulations Act (APMC Act):

The monopoly of Government regulated wholesale markets has prevented development of a competitive marketing system in the country, providing no help to farmers in direct marketing, organizing retailing, a smooth raw material supply to agro-processing industries and adoption of innovative marketing system and technologies.

Task Force on Agricultural Marketing Reforms set up by the Ministry has suggested promotion of new and competitive Agricultural Market in private and cooperative sectors to encourage direct marketing and contract farming programmes, facilitate industries and large trading companies to undertake procurement of agricultural commodities directly from the farmer's fields and to establish effective linkages between the farm production and retail chains.

If agricultural markets are to be developed in private and cooperative sectors and to be provided a level competitive environment vis-à-vis regulated markets, the existing framework of State APMC Acts will have to undergo a change. Appropriate legal framework is also required to promote direct marketing and contract farming arrangements as alternative marketing mechanism. Therefore, there is a need to formulate a new model law for agricultural market.

Legal persons, growers and local authorities are permitted to apply for the establishment of new markets for agricultural produce in any area. Under the existing law, markets are set up at the initiative of State Governments alone. Consequently, in a market area, more than one market can be established by private persons, farmers and consumers. (Section-3)

There will be no compulsion on the growers to sell their produce through existing markets administered by the Agricultural Produce Market Committee (APMC). However, agriculturist who does not bring his produce to the market area for sale will not be eligible for election to the APMC. (Section-14)

Separate provision is made for notification of 'Special Markets' or 'Special Commodities Markets' in any market area for specified agricultural commodities to be operated in addition to existing markets. (Section-20)

The APMC have been made specifically responsible for: ensuring complete transparency in pricing system and transactions taking place in market area,

- Providing market-led extension services to farmers;
- Ensuring payment for agricultural produce sold by farmers on the same day;
- Promoting agricultural processing including activities for value addition in agricultural produce; and
- Publicizing data on arrivals and rates of agricultural produce brought into the market area for sale.
- Set up and promote public private partnership in the management of agricultural markets. (Section -26 & 27)

Provision made for the appointment of Chief Executive Officer of the Market Committee from among the professionals drawn from open market. (Section-36)

A new Chapter on 'Contract Farming' added to provide for compulsory registration of all contract farming sponsors, recording of contract farming agreements, resolution of disputes, if any, arising out of such agreement, exemption from levy of market fee on produce covered by contract farming agreements and to provide for indemnity to producers' title/ possession over his land from any claim arising out of the agreement. (Chapter-VII)

Model specification of contract farming agreements provided in the Addendum to the model law.

Provision made for direct sale of farm produce to contract farming sponsor from farmers' field without the necessity of routing it through notified markets. (Chapter-VII)

Provision made for imposition of single point levy of market fee on the sale of notified agricultural commodities in any market area and discretion provided to the State Government to fix graded levy of market fee on different types of sales. (Section-42)

Licensing of market functionaries is dispensed with and a time bound procedure for registration is laid down. Registration for market functionaries provided to operate in one or more than one market areas. (Section-44)

Commission agency in any transaction relating to notified agricultural produce involving an agriculturist is prohibited and there will be no deduction towards commission from the sale precedes payable to agriculturist seller. (Section-44(6))

The State Agricultural Marketing Board made specifically responsible for:
(i) Setting up of a separate marketing extension cell in the Board to provide market-led extension services to farmers;

(ii) Promoting grading, standardization and quality certification of notified agricultural produce and for the purpose to set up a separate Agricultural Produce Marketing Standards Bureau. (Section-73)

Concluding Remarks:

The APMC Act was formed in the context of fragility in self-sufficiency. Prior to establishment of APMC, Indian agricultural markets were unregulated and dominated by the brokers and middlemen. The middlemen used to fix the prices for agriculture produce and market imperfections continued and proliferated. Due to lack of information about prices prevailing in the market the farmers received lower prices, which added to their plight. The APMC Act was enacted to protect the farmer in the market and the act prevailed in the country regulating agricultural markets.

The APMC Act was formed to develop marketing structures in order to ensure remunerative prices to the producers. The Act has contributed significantly in removing imperfections of the market forces and in enhanced procurement of essential commodities. With the establishment of regulated markets, many fraudulent practices of the brokers have disappeared and farmers are able to participate in the process of marketing. Similarly, amenities like rest houses, cold storages etc. are created in the market yards for the benefit of the farmers. In this respect, Government Policy is to have rapid expansion of the regulated markets in the country.

But one cannot forget the fact that the act was enacted under supply stress and hence concentrated more on generating market channels. The focus on stabilising a transparent marketing system was sidelined. In the process the APMC act had put more restrictions on the farmers making difficult their operations in the market.

The monopoly of Government regulated wholesale markets has prevented development of a competitive marketing system in the country, providing no help to farmers in direct marketing, organizing retailing, a smooth raw material supply to agro-processing industries and adoption of innovative marketing system and technologies. The marketing structure was quite conducive to develop oligopsonistic market that slowly but surely went against the interest of the producer. Real prices in quite a few commodities stagnated and so also the net income of the farmers in real terms.

Market-oriented policies and demand driven planning may have added advantages in the present era of liberalisation but the limitations imposed by market operators and operands are not easily over come. After a detailed analysis of South Asian economies, Mrinal Datta-Chaudhuri warns, “Market failures present serious obstacles to the growth process of a backward economy”(1990, pg 37). In this context, a process of market is to be strengthened under the supervision and guidance of the state. Hence it necessitates adoption of the APMC Model Act.

Model act encourages contract farming and provides the proforma for agreements in the annexure to the model law. Small farmers in India are generally capital starved. They cannot make major investment in land improvement and modern inputs. Contract farming can fill this gap by providing the farmers with quality inputs, technical guidance, price assurance and management skills. Also, the provision made for direct sale of the farm produce to the contract-farming sponsor will help to eliminate the chain of middlemen. Inclusion of this component in the model APCM act provides leverage to the state to protect interests of the contractee as against contractor.

The adoption of model act will be the step forward in allowing the entry of other traders in the market. The traders forming trade cartel depressed the market price and farmers are left with no other option than selling the farm produce at comparatively lower price. There is a provision in the model act, which ensures the freedom to farmers to sell any commodity in any market. This saves them from penalties. For example the farmer bringing Jawar to market of cashew nuts will be able to sell his stock without fear of penalty. This will ultimately result in market expansion.