THE INDIAN FARMER, MIDDLEMEN AND THE APMCS

SUBJECT: Law and Poverty

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1. The Agricultural Marketing System in India

Agricultural Markets in most states of India are established and regulated under the State APMC (Agricultural Produce Marketing Committee) Acts. The whole geographical area of the State is divided into smaller market areas wherein the markets are managed by the Market Committees constituted by the State Governments. Once a particular area is declared a market area and falls under the jurisdiction of a Market Committee, no person or agency is allowed freely to carry on wholesale marketing activities.

Introduced mostly in the 1960s the APMC Acts prohibited farmers from dealing directly with retailers and required them to sell their produce to licensed middlemen or 'market functionaries'. According to Arpita Mukherjee, a senior fellow at the Indian Council for Research on International Economic Relations, the aim of such acts was to give the farmers a fair and consistent price for their produce.[1] By creating regulated markets, the price paid to farmers by licensed middlemen for their produce could be monitored, thereby ensuring that they were not exploited. But over the years it grew into a monster, gaining layer upon layer of intermediaries, none of whom added any value to the fruits and vegetables they traded even as they added on their own margins.[2] The result was a grossly inefficient system in which farmers are divorced from market feedback and often must wait months to be paid. Many farmers routinely go into debt to the very traders who buy their produce and then sell them seeds and fertilizers for the next crop.[3]

By giving only licensed market functionaries the right to purchase directly from the farmer, the APMC Acts have created a long chain of intermediaries (or middlemen). Farmers sell their produce to licensed middlemen at the APMC mandis. These middlemen resell the same produce to wholesalers at the APMC market in urban areas. At these urban APMC markets, the produce passes on to retailers and then to the end-consumers at the urban retail markets.

In the absence of market information farmers do not get remunerative prices and the middlemen get the major share in profit.[4] Thus there is wide gap between the wholesale and retail prices with middlemen consuming the best of the pie. The suicide incidence among the farmers is on the increase for reasons of high indebtedness, low productivity, less remunerative agricultural produce prices, fragmentation of land holdings because of population growth, harassment by the middlemen and money lenders and the widening gap between the urban and rural incomes.[5]

The AMPC act has proven to be a deterrent in developing efficient practices both for the retailer as well as the farmer. The Act provides a monopoly status to the state-owned agricultural

1 <http://www.time.com/time/magazine/article/0,9171,1626725,00.html > accessed 10th April 2010.
2 *Ibid.*
3 *Ibid.*
4 <http://pib.nic.in/feature/feyr2000/fjun2000/f130620001.html> accessed 10th April 2010.
5 <http://pib.nic.in/release/rel_print_page1.asp?relid=24929 > accessed 10th April 2010.

Produce Marketing Committees in the purchase of agricultural produce from farmers. As a result, the supply chain is lengthened, farmers are not able to realise high prices due to monopoly and consumers have to pay higher prices since the APMCs are typically cartelized.[6] For retailers it becomes difficult to source directly from farmers. They are forced to rely on intermediaries thus causing systemic inefficiencies.

6 CII and AT Kearney, "Retail in India: Getting Organised to Drive Growth", November 2006, p. 18

2. An APMC Example: Relevant Provisions of the Maharashtra Agricultural Produce Marketing Rules, 1967

- Rule 5 clearly provides that no person shall market declared agricultural produce at areas other than the principal market areas that are established therein.
- Rule 6 desires that any person who desires to operate as a trader in a market area for the marketing of any declared agricultural produce has to submit an application in that regard to the Director of the Marketing Committee of the area in order to obtain a license.

  However, Rule 6 also provides that the Director may authorise any market committee to permit a market functionary to operate anywhere within a market area,
- Under Rule 12, every declared agricultural produce shall be disposed of by public auction.
- Rule 14 provides that the price of declared agricultural produce at the marketing centers shall be settled by public auction.
- Rule 17 makes it mandatory for the commission agent or the trader to issue a bill to the purchaser for every purchase. Bills shall be prepared in triplicate with one copy going to the Marketing Committee for upkeep of its records.
- Rule 19 makes is mandatory for the Market Committee to maintain a regular and proper account of every declared sale of agricultural produce in a market area.
- Rule 20 also prevents difficult to the producer by making instant, on the spot payments mandatory once the articles have been weighed.

3. APMC Markets in Gujarat- A Study

The effect of APMC Legislation on agricultural marketing is evident in a study titled "Fruit and Vegetable Marketing and its Efficiency in India: A Study of Wholesale Markets in the Ahmedabad Area" conducted by Vasant P. Gandhi and NV Namboodri of the Indian Institute of Management, Ahmedabad in June 2002, before reforms were inititated in the APMC Acts of the States.

Coverage- Of Markets and Respondents

The markets covered under the study were the CJ Patel Market, Sardar Patel Market and the Naroda Fruits Market.

The study was reasonably comprehensive in its coverage, with the number of commission agents interviewed account for 19 per cent, 26 per cent and 13.3 per cent of the total commission agents operating in these three markets respectively.

Findings

Existing Market Practices

It was found that for vegetables, 50 per cent of the commission agents purchases were made directly from farmers, whereas about 33 per cent were from traders, and 17 per cent from cold storage points.[7] In fruit marketing, only 31 per cent of the purchases are made directly from farmers, 56 per cent from traders, and 13 per cent from commission agents.[8] This indicates that many farmers part with their produce at the village level itself. This is amply illustrated in the Bihar market study following this.

Mode of Sale at Markets

It indicates that in the CJP Market, about 55 per cent of the transactions took place through secret bidding, about 26 per cent through simple transactions, and only 19 per cent through open auction.[9] In the SP Market, 63 per cent of the transactions occured through simple transactions, 30 per cent through secret bidding, and only 7 per cent through open auction.[10] In Naroda Fruit Market, 54 per cent of the transactions took place through simple transaction, 39 per cent through secret bidding, and 7 per cent through open auction.[11] Thus, the level of open auction was very low in even though under the APMC Act it is required that sale at agricultural markets take place through open auction so that the state of prices can be ascertained by all.

7 Vasant P. Gandhi and N.V. Namboodiri, "Fruit and Vegetable Marketing and its Efficiency in India: A Study of Wholesale Markets in the Ahmedabad Area", June 2002, p. 12
8 *Ibid.*
9 *Ibid.* p. 13
10 *Ibid.*
11 *Ibid.* p. 14

Prices and the Farmer's Share

In the case of onion, based on the weekly average minimum price, the consumers paid Rs.404 per quintal, the farmer received only Rs.158 per quintal. In the case of cauliflower, whereas the customer paid Rs.1475 per quintal, the farmer received only Rs.422 per quintal.[12] Some of the lowest shares are seen in the case of cauliflower at 28.6 per cent, and onion at 39.1 per cent, and some of the highest shares are seen in potato at 59.1 per cent, and green-peas at 73.5 per cent.

The share of the farmer in the price paid by the consumer was frequently very low and varied in the range of about 30 to 70 per cent. Some of the lowest shares were seen in the case of cauliflower at 28.6 per cent, and onion at 39.1 per cent, and some of the highest shares were seen in potato at 59.1 per cent, and green-peas at 73.5 per cent.[13]

In the case of fruits the difference in prices across these three levels was even greater. For example, in case of mango the consumer pays Rs.1260 per quintal, whereas the farmer received only Rs.361 per quintal.[14] In case of apple the consumer paid Rs.6143 per quintal while the farmer received only Rs.1594 per quintal. Thus the share of the farmer in the consumer price was very low and varied from as low as 25.2 per cent in the case of pomegranate to 57.1 per cent in the case of sapota.[15]

Costs Incurred in Agricultural Marketing- an Overview

The cost of marketing of agricultural produce frequently amounted only about to about 10 to 20 percent of the price difference (ie. The difference in prices paid by the consumer to retailer and the price paid by trader to farmer).[16] On an average, the marketing cost hovered around 8 per cent of the consumer price for vegetables and around 11 to 15 per cent for fruits. or onion, the transport cost amounted to 10 per cent of the consumer price, and the commission 3-4 per cent.

However, in case of green peas, while transport cost amounted to only 2 per cent of the consumer price, commission amounted to about 5 per cent of the consumer price. Here the term 'cost' covers costs incurred in transportation of the produce and the commission charged by agents. It must be noted that the 'commission' is not a random rate but has been limited at 5 or 6% by the law. The profit margin, on the other hand, comes out very high and is frequently 80 to 90 percent of the price difference. According to the authors, this was an indicator of the poor level of marketing efficiency in these APMC markets.

12 Vasant P. Gandhi and N.V. Namboodiri, "Fruit and Vegetable Marketing and its Efficiency in India: A Study of Wholesale Markets in the Ahmedabad Area", June 2002, p. 18
13 *Ibid.* p. 19
14 *Ibid.*
15 *Ibid.*
16 *Ibid.* p. 23

Conclusions and Recommendations of the Survey

The study concluded that the share of the farmer in the consumer rupee worked out to only 48 per cent for vegetables and 37 per cent for fruits.[17] Further, the explicit marketing costs such as transportation work out to only a very small percentage of the price difference between the farmer and the consumer, and the profit margin works out frequently to 80 to 90 percent of the price difference.[18] These figures were indicative of relatively poor efficiency of the marketing system despite the presence of the APMC and the regulated markets.

The authors recommended various measures to improve this efficiency of the agricultural marketing system. Recommended measures included the wide and necessary adoption of open auction, increasing the number of buyers and sellers in the market, improvements in market infrastructure such as storage facilities, cold storages, loading and weighing facilities, and improving transparency through supervision, and making available up-to-date market information through various means including internet at the market.

4. The Problem in Bihar

The AN Sinha Institute of Social Studies in Patna conducted a research project titled "Production and Marketing of Vegetables in Bihar" under the research grant scheme of the Ministry of Agriculture. The Principal Investigator in the project was Jagdish Prasad. A total number of 379 farmers comprising 120 marginal, 109 small, 79 medium and 71 large were selected for the study. They were randomly selected and grouped into different categories based on the size of their land holdings. For the purposes of the research, holdings up to the size of 1.0 hectares (ha) were considered marginal, those between 1.0 ha and 2.0 ha small, from 2.0 ha to 4.0 ha medium and above 4.0 ha were considered large land holdings. The vegetables whose prices were surveyed were potato, tomato, brinjal, cabbage, cauliflower and ladyfinger. It may be noted that the study was conducted before the APMC Act was reformed and Jharkhand had not been created. Bihar had not reformed its APMC Act as of 31st January 2007.[19]

17 Vasant P. Gandhi and N.V. Namboodiri, "Fruit and Vegetable Marketing and its Efficiency in India: A Study of Wholesale Markets in the Ahmedabad Area", June 2002, Abstract.

18 *Ibid.*

19 "Status of Market Reforms in Agriculture (APMC Act amendments) as on 31st January, 2007", <www.agmarknet.nic.in> accessed 5th April 2010.

5. Findings

Vegetable Cultivation Pattern

40.62 per cent of the farm households surveyed were found to be illiterate.[20] Illiteracy was found to be highes among households that owned small sized land holdings. As for the land utilization pattern with respect to vegetables, it was found that areawise vegetables accounted for 29.57 per cent on marginal, 16.85 per cent on small, 14.67 per cent on medium and 11.17 per cent on large farms.[21] This meant that the size ofland holdings varied inversely with the proportionate cultivated area under vegetables. The marketable surplus of all the selected vegetables produced by sample farmers of all size groups varied from 89.65 to 98.52 per cent.[22] It seemed that vegetables were the main sources of income for marginal and small farmers.

Marketing of Vegetables.

It was observed by the researchers that marketing system of vegetables across Bihar is very complex. The marketing pattern varied considerably from farmer to farmer depending upon the nature of the vegetables and capacity of the farmers. In the entire marketing process, vegetables changed hands three to four times between producers and consumers. There were multiple intermediaries found to be existing in the vegetable marketing system.[23]

The study further goes on explain that most of the farmers with small and marginal land holdings sold their produce not in the agricultural market yard established under the State APMC Act, but in rural markets or *haats*.[24] Farmers with large agricultural holdings on the other hand mostly sold their produce in the market yards. Commenting upon the state of the *haats*, the report says that they are not developed from the market infrastructure point of view. The regulatory measures are also not enforced. Apart from Nalanda district where most vegetables are sold in the market yard, the practice is not followed on a large scale by producers in other districts.[25] There seemed to be complete control of private intermediaries over the operation of trade in these *haats*.[26]

The study also elaborates on the supply chain that comprises the agricultural marketing system. Agricultural produce flowed through a chain of intermediaries comprising katcha arhatiyas, itinerant traders, brokers, agents of the wholesaler/commission agent, wholesalers/commission agents and retailers.[27] The chain showed minor regional variations in its form. In the rural markets

20 "Production and Marketing of Vegetables in Bihar", ANSISS, <http://agmarknet.nic.in/resproj3.htm#Project4 > acessed 14th April 2010.
21 "Production and Marketing of Vegetables in Bihar", ANSISS, <http://agmarknet.nic.in/resproj3.htm#Project4 > acessed 14th April 2010.
22 *Ibid.*
23 *Ibid.*
24 *Ibid.*
25 *Ibid.*
26 *Ibid.*
27 *Ibid.*

in the plateau districts itinerant traders and agents of the wholesaler / commission agents were prominent whereas in the districts in the plains it were the *katcha arhatiyas or* small itinerant traders who were more prominent.[28] Cooperative institutions operating as market agencies were largely absent, save for Ranchi District.[29]

Conclusion

In its conclusion the study states that based upon its findings there was a large price spread (different between prices paid by consumers and prices paid to the farmer) which was due to various marketing costs and margins of the intermediaries. The margins of intermediaries were not proportionate to the service provided by them. As a result, the producer's share in the price paid by the consumer was very low, to the tune of 40 per cent in some cases.[30] This was mainly on account of presence of a number of intermediaries who operate at various stages of marketing on high margins.[31] Due to monopolistic character of traders the farmer's bargaining power was weakened causing them to sell their vegetables at prices dictated by traders.[32] Regulatory measures were least effective at the rural market level in the *haats*.

Recommendations

The study called for strict enforcement of regulatory measures. Regulatory measures for improving vegetables marketing system are only on paper due to their non-enforcement particularly at the rural / primary market level. The marketing problems of small farmers emanated from their dependence on traders for credit, which puts them in highly unequal trading relationship with the buyers of their vegetables.[33] Therefore, improving the ability of farmers to access the market and strengthening their bargaining position was recommended as the central focus of any market reform policy.

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28 *Ibid.*
29 *Ibid.*
30 "Production and Marketing of Vegetables in Bihar", ANSISS, <http://agmarknet.nic.in/resproj3.htm#Project4 > acessed 14th April 2010.
31 *Ibid.*
32 *Ibid.*
33 *Ibid.*

6. Reforms

The Inter-Ministerial Task Force on Agricultural Marketing Reforms submitted its report in June 2002, making a number of recommendations on making the agricultural marketing system more vibrant and competitive. One of its many recommendations included amending the APMC Acts of the States to facilitate Direct Marketing of Agricultural Produce.

Advantages of Direct Marketing

According to the report, direct marketing encourages farmers to undertake grading of farm produce at the farm gate and eliminates the need to haul produce to regulated markets for sale. It enables farmers and processors and other bulk buyers to economize on transportation costs and to considerably improve price realization. It cites the example of South Korea, where as a consequence of expansion of direct marketing of agricultural products, consumer prices declined by 20 to 30 percent and producer-received prices rose by 10 to 20 percent.[34]

34 Report of the Inter-Ministerial Report on Agricultural Marketing Reforms, May 2002, <http://agmarknet.nic.in/taskrep.htm > accessed 14th April 2010.

7. The State Agricultural Produce Marketing(Development & Regulation) Act, 2003 -Its Provisions

Since agriculture is a state subject, the Central Government has more of an advisory role. However the Central Government had stated that if States were to receive central funding, then they would have to reform their APMC Acts on the lines of The State Agricultural Produce Marketing (Development & Regulation) Act, 2003 (hereinafter referred to as the 'Model Act'). Some of its key provisions are stated here.

The term "**Market Functionary"** has been expanded to include buyers and sponsors of contract farming.[35]

Under Section 44 a person desiring to operate in the market area as trader, commission agent, weighman, hammal, surveyor, warehouseman, contract farming buyer, owner or occupier of processing factory or such other market functionary, is required to apply to the local Market Committee for registration. He is not required to procure a license to operate as a functionary, as was the case earlier.

Moreover, any person may buy agricultural produce in the market yard / sub market yard on day to day basis even without getting registration in manner prescribed by the State Government.[36] Also, he can operate as a market functionary in more than one market area.[37]

No commission agent shall Act in any transaction between the producer and the purchaser and he shall not deduct any amount towards commission from the sale proceeds payable to the agriculturist-seller.[38]

Implementation by States

In the National Conference of State Ministers on Agricultural Marketing and Land Reforms held on January 7, 2004, all the State Governments agreed to adopt the Model Act on Agricultural Marketing in their respective States.[39]

As of 31st January, 2007, the States and U.Ts of Madhya Pradesh, Himachal Pradesh, Punjab, Sikkim, Nagaland, Andhra Pradesh, Chattisgarh, Rajasthan, Orissa, Arunachal Pradesh, Maharashtra, Chandigarh, Haryana, Karnataka, Gujarat, Uttar Pradesh, NCT of Delhi Assam, Mizoram, Tripura, Meghalaya, J&K, Uttaranchal, Goa, West Bengal , Jharkhand and Pondicherry have either reformed their APMC Acts or have initiated administrative action for reforms.[40]

35 Section 2(29)
36 Section 44(1)
37 *Ibid.*
38 Section 44(6)
39 <http://indiabudget.nic.in/es2004-05/chapt2005/chap818.pdf > accessed 14th April 2010.
40 "Status of Market Reforms in Agriculture (APMC Act amendments) as on 31st January, 2007",

8. Contract Farming

Contract farming is an agreement between processing firms, market intermediaries and the farmers for the production and support of agricultural products under forward agreement, frequently at predetermined prices.

Though initially prohibited in India, the model APMC Bill permits contract farming subject to certain regulations.

Sponsors of contract farming (The business entity which contracts with the farmer) must register themselves with the Market Committee.[41] They are also required to get their agreements with farmers recorded with the Market Committee.[42] In order to protect the interests of the agriculturist, no such agreement can provide that the title, possession or ownership of the farmer's land will vest in the contract farming sponsor.[43] The farmer can sell his produce to a sponsor of contract farming even if he is from outside the market area within which the land falls.[44] And such selling can take place without the levy of any market fee.[45] Moreover, it shall not be necessary for the farmer to bring agricultural produce covered under contract farming to the market yard and it can be sold directly to the sponsor from his fields.[46]

Cooperatives

The concept of the Rythubazar was intiated by the Goverment of Andra Pradesh in January 26,1999 to eliminate middlemen and enable farmers sell their produce directly to consumers at remunerative prices. There are currently 102 Rythu Bazars which cover nearly 40,000 farmers from 2,800 villages in all the district headquaters and important cities in Andra Pradesh.[47] The farmers sell their produce directly to consumers at rates that are above the wholesaler's rate and below the retailer's rate in a particular area. Every farmer in the Rythu bazaar sells his produce as a retailer. A similar model called 'Apni Mandi' is being followed in Punjab.

<www.agmarknet.nic.in> accessed 5th April 2010.

41 Section 38(1)

42 Section 38(2)

43 *Ibid.*

44 *Ibid.*

45 *Ibid.*

46 Section 40(1)

47 <http://www.manage.gov.in/rythu/html/welcome.html > accessed 12th April 2010.

9. Conclusion

Upendra Baxi, in 'A Crisis of Legitimation of the Law', has said that beneficial legislation for the weaker sections will generally be unable to deliver goods for the beneficiary population and that, at least initially, the dominant interests will distort the channels and goals of redistribution in their favour.[48] We can draw a mild analogy in this scenario. The APMC Acts were no doubt beneficial legislation for the farmers, who had long suffered from exploitation in the pre-independence era. However, the Act was unable to provide fully for the farmer's welfare. Corruption pervaded the market authorities and market functionaries formed cartels. In addition, illiteracy levels were very high among farmers and availability of information was minimum. Thus the farmer was largely ignorant about the market prices of his produce. Even if he was aware, he would still have to pay the prices quoted by the functionaries because he was not permitted to sell his produce outside the market area. This left the middlemen in a stronger position and the . Improper enforcement of the provisions ensured that while the license holders exercised their exclusive right to purchase agricultural produce, farmer's welfare in the form of fair prices could not be secured.

The winds of change are already blowing. With most states having amended their APMC acts, it may be said that the government has adopted a balanced approach to the problem. The system of regulated markets still exists, but licenses have been replaced with registration. This way more persons and organisations such as cooperatives, organised retailers and food processing companies can deal with farmers. Retail chains like Spencer's and More can enter into contract farming agreements with farmers after registering themselves with the market committees. Registration of sponsors and agreements will ensure government monitoring of deals and prices. Therefore it is seen that in the current regulatory environment for Agricultural marketing provides an open playing field to all players but with regulation which keeps tabs on them without being a hindrance to their activities. Middlemen, organised retailers and contract-farming sponsors- all have a history of misconduct. But this would be no ground to excuse them from the system. Ultimately, be it the pre or post- reform era, the key towards securing the noble objectives of any welfare legislation is its proper and complete enforcement.

48 Upendra Baxi, "The Crisis of the Indian Legal System", 1st Ed. 1982, p. 5.

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