

Structure

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16.0 OBJECTIVES

After going through this unit, you will be in a position to:

- identify various types of marketing institutions prevalent in India;
- explain the cooperative marketing structure and its problems; and
- identify the role and efforts of the central and state governments in regulating marketing of farm produce.

16.1 INTRODUCTION

The term marketing is derived from the term market, which in turn is derived from the Latin word 'marcat' meaning merchandise, wares, traffic or place where business is conducted.

The word 'market' has been widely and variably used to mean: (a) a place or a building where commodities are bought and sold, e.g., super market; (b) potential buyers and sellers of a product, e.g., wheat market and cotton market; (c) potential buyers and sellers of a country or region, e.g., Indian market and Asian market; (d) an organization which provides facilities for exchange of commodities, e.g., Bombay stock exchange; and (e) a phase or a course of commercial activity, e.g., a dull market or bright market.

Marketing occupies an important place in agriculture. It motivates the farmers to produce more and earn higher income. Traditionally, marketing consisted of those efforts which affect transfers in ownership of goods and care for their physical distribution. But in the modern concept marketing is a comprehensive term covering a large number of functions such as (i) collection of surpluses from the individual farmers; (ii) transportation to nearest assembling centre; (iii) grading and standardisation; (iv) pooling; (v) processing; (vi) warehousing; (vii) packing; (viii) transportation to the consuming centres; (ix) bringing the buyers and sellers together; and (x) sale to the ultimate consumers. All these functions require capital and also involve risk due to fluctuation in prices, losses, deterioration in quality, etc. The arrangements made for raising the requisite finance for the above activities bearing market risks at various levels, also, therefore, form part of marketing.

16.2 SPECIAL FEATURES OF AGRICULTURAL MARKETING

Agricultural marketing has certain special characteristic features such as:

- a) The agricultural produce is bulky for its value in comparison with many manufactured goods. The demand it makes on storage and transport facilities is heavy and specialized, resulting in heavy costs.
- b) The farm output is seasonal in character, whereas its demand by the consumers is spread over the whole year. The market system has, therefore, to balance suitably the seasonal outflow of the produce from the farm with the relatively steady and continuous consumer demand.
- c) The marketable surplus with individual farmers (who are small farmers, spread over larger area) is in small lots. Its collection becomes a complicated process particularly as the consumers are concentrated in urban areas.
- d) Agricultural commodities are perishable in nature and suffer loss and deterioration in quality during storage and transportation. Thus, they require special type of storage and transport facilities.

- e) The production of certain crops like fruits and plantation crops is highly localised but consumption is widespread, their marketing becomes more difficult.
- f) In India most of the farmers are small and medium scale producers with weak financial position. They are unable to undertake the above functions individually, whereas these functions are usually in the hands of intermediaries or middlemen, who exploit them.

16.3 MARKET STRUCTURE OF AGRICULTURAL PRODUCE

16.3.1 Types of Markets

In India markets for agricultural produce have been classified under three main groups, viz., (a) primary, (b) secondary, and (c) terminal.

Primary Markets

These include mainly the periodical markets called 'hats' 'peths', or 'shandies' at the village level and are held at weekly or fixed intervals. In all there are 22, 000 such markets in India. Such markets serve an area of 5 to 10 kms. radius each.

Secondary Markets

These markets are called 'mandis' or 'gunjs' and are wholesale daily markets usually situated at the district and taluka head quarters or important trade centres near railway stations. There are about 3, 400 important secondary markets or mandi centres in the country. These markets have good communication facilities and draw supplies from their hinterland spread within a radius of 10 to 30 kms.

Terminal Markets

In these markets the produce is finally disposed of to the consumers directly or to the processors or is assembled for shipment to foreign destinations. The port markets are such terminal markets. The area served by these markets is very large.

16.3.2 Market Functionaries

The functionaries for marketing of agricultural commodities vary from region to region as well as from commodity to commodity. However, the following are the important functionaries operating in all regions:

- a) *The village/itinerant Merchant*: He is the main functionary in the primary market. He sometimes also produces, and buys locally for sale to itinerant merchants.
- b) *Kutchi Arhatia*: He mainly functions as a link between the primary seller (producer or village merchant) and the buyer in the 'mandis' and arranges for disposal of the sellers' produce on commission basis and charges commission from both the seller and the buyer.
- c) *Pucca Arhatia*: He generally acts on behalf of the outside purchaser on commission basis, also operates as a wholesale agent and buys and sells on his own account. These arhatias attend to cleaning of produce, processing (where necessary), weighing, packing and forwarding upto the rail head. They own big capital and finance their own agents.
- d) *Dalal*: He assists arhatia in bringing together the sellers and buyers and arranges for sale of produce. He thus acts as an broker between two traders.

- e) *Tolas (weighmen)*: Weighing in wholesale market is done by a functionary called Tolas who generally works as a separate entity.
- f) *Hammals and Palledars (Market laborers)*: They attend to the collection and handling of produce in the market. They are generally independent workers.
- g) *Other Functionaries*: There are a number of other minor functionaries such as sweepers, water carriers and other servants of arhatia who attend to the affairs of arhatia's clients.

16.3.3 Market Structure for Some Agricultural Commodities

Notwithstanding the direct intervention by the government, the markets for agricultural products in India have remained dominated by the private sector. According to one estimate, the quantity of agricultural produce handled by the government agencies has been not more than 10 per cent of the total value of *marketed surplus*. Further, around 10 per cent of the surplus is handled by the cooperatives. Thus 80 per cent of the marketed surplus of agricultural products in India is handled by the private trade. Even in the case of cereals, the share of private trade is quite large and increasing. Of the estimated marketed surplus of cereals, the share of private trade which was 72.5 per cent during triennium ending (TE) 1982-83 went upto 74.0 per cent during TE 1996-97. Out of the incremental output of 57.4 million tonnes between TE 1982-83 and TE 1996-97, the quantity handled by the public agencies was around 8 million tonnes. With larger quantities required to be handled by the private trade, the size and structure of the market for cereals have considerably expanded.

Trade in foodgrains in India is handled by around two million wholesalers and five million retailers. In the area of retailing, there are more than 4.10 lakh fair price shops, of which nearly three-fourths are in the private sector, operating under the public distribution system (PDS). On average, there is one retail shop of foodgrains for a population of 200. Apart from traders, processors play an important role as they also enter the market as bulk buyers and sellers. In the case of paddy/rice, there are 91,801 hullers, 4,538 shellers, 8,365 huller-cum-shellers and 34,688 rice mills, which process the entire output of around 120 million tonnes of paddy. In the wheat market, the roller flour mills command considerable share of total quantity handled. There are now 812 roller flour millers who buy, process and sell 10.5 million tonnes of wheat and wheat products. Out of the total output of pulses, nearly 75 per cent is processed in the organised as well as unorganised sector. The number of organised pulse (*dal*) mills is now more than 10,000.

Nearly 98 per cent of the fruits and vegetables produced in India are traded as fresh products. The commercial processing segment accounts for only 1.8 percent of the total output. Though the processing capacity has gone up to 19.1 lakh tonnes, due to the seasonality in production and lack of farmer-processor linkages, only half of the capacity is being utilised.

The food-processing sector is assuming increasing importance owing to the increased urbanisation and rise in the income levels. Of the total Indian food market the processed segment is only 10 per cent, semi-processed 15 per cent and remaining 75 per cent is fresh food segment. The food processing in India is presently dominated by the unorganised sector. The organised processing sector comprises 18,000 units producing Rs.9000 crore worth of processed foods. The processing segment of the food market is growing rapidly and projected to increase by 200 per cent by the year 2005 with high investment potential. This segment is attracting massive investment and since July 1991 several ventures in the private, joint and cooperative sectors, some with foreign collaboration and 100 per cent export oriented units, have been approved, sanctioned or commissioned.

The market structure for meat includes 3,600 slaughter-houses, six modern abattoirs and 25 meat processing plants, besides several poultry dressing units. There are 104 licences functioning under the Meat Food Products Order, 1973. The structure of the processing capacity needs to be examined in relation to the total meat output in the country which is estimated at 3.9 million tonnes per year.

Oilseeds and vegetable oils constitute another important segment of the Indian agricultural markets. The oilseed processing industry consists of mechanical crushing and solvent extraction units. The mechanical crushing units include 20,000 expellers and 1,31,600 cottage level crushers (*ghanies*). The number of solvent extraction units is 761. In addition, there are 130 oil refining and 145 hydrogenation units. The capacity utilisation of the industry is less than half. One important structural change observed in oilseeds processing sector is that the share of cottage units in the total volume of crushing is going down. The capacity utilization in cottage units is reported to be around 10 per cent whereas it is 30 per cent for expellers, 34 per cent for solvent extraction units, 50 per cent for oil refining and 37 per cent for hydrogenation units.

Some preliminary information presented here indicates some general features of the agricultural produce markets, viz., (a) the market size is already large and expanding; (b) it is dominated by the private sector; (c) by and large, unorganised segment is much larger than the organised sector and the share of organized sector is increasing; and (d) despite the market being large, due to infrastructure bottlenecks coupled with geographically dispersed market places, the possibilities of localised monopolies or oligopolies cannot be ruled out.

16.4 MARKETING CHANNELS FOR IMPORTANT AGRICULTURAL COMMODITIES

Marketing channels are routes through which agricultural products move from producers to consumers. The length of channel varies from commodity to commodity, depending on the quantity to be moved, the form of consumer demand and degree of regional specialization in production.

16.4.1 Length of Marketing Channels

Marketing channels for agricultural products vary from product to product, country to country, lot to lot and time to time. For example, the marketing channels for fruits are different from those of foodgrains. Packers play a crucial role in the marketing of fruits. The level of development of a society or country determines the final form in which consumers demand the product. For example, consumers in developed countries demand more of processed foods in packaged form. Wheat has to be supplied in the form of bread. Most of the eatables have to be cooked and packed properly before they reach the consumers. Processors play a dominant role in such societies. In developing countries like India, however, most foodgrains are purchased by consumers in the raw form and processing is done at the consumer's level. Again, the lots originating at small farms follow different routes or channels from the one originating in large farms. For example, small farms usually sell their produce to village traders; it may or may not enter the main market. But large farms usually sell their produce in the main market, where it goes into the hands of wholesalers. The produce sold immediately after the harvest usually follows longer channel than the one sold in later months.

With the expansion in transportation and communication network, changes in the structure of demand and the development of markets, marketing channels for farm products in India have undergone a considerable change, both in terms of length and quality.

16.4.2 Marketing Channels for Foodgrains

Marketing channels for various cereals in India are more or less similar, except the channel for paddy (or rice) where rice millers come into the picture. Some common channels for wheat have been identified as follows:

- i) Farmer to consumer
- ii) Farmer to retailer or village trader to consumer
- iii) Farmer to wholesaler to retailer to consumer
- iv) Farmer to village trader to wholesaler to retailer to consumer
- v) Farmer to co-operative marketing society to retailer to consumer
- vi) Farmer to a government agency (FCI etc) to a fair price shop-owner to consumer
- vii) Farmer to wholesaler to flour miller to retailer to consumer

The channels for paddy and pulse are broadly the same, except that the rice millers or *dal* millers come into the picture before the produce reaches retailers or consumers.

16.4.3 Marketing Channels for Oilseeds

Marketing channels for oilseeds are different from those for foodgrains, mainly because the extraction of oil from oilseeds is an important marketing function for oilseeds. The most common marketing channels for oilseeds in India are:

- i) Producer to consumer (who either directly consumes oilseeds or gets it processed on custom basis)
- ii) Producer to village trader to retailer to consumer
- iii) Producer to oilseed wholesaler to processor to oil wholesaler to oil retailer to oil consumer
- iv) Producer to village trader to processor to oil consumer
- v) Producer to government agency to processor to oil wholesaler to oil retailer to oil consumer

16.4.4 Marketing Channels for Fruits and Vegetables

Marketing channels for fruits and vegetables vary from commodity to commodity and from producer to producer. In rural areas and small towns, many producers perform the functions of retail sellers. Large producers directly sell their produce to the processing firms. Some of the common marketing channels for fruits and vegetables are:

- i) Producer to consumer
- ii) Producer to primary wholesaler to retailer or hawker to consumer
- iii) Producer to processor (for conversion into juices, preserves, etc.)
- iv) Producer to primary wholesaler to processor
- v) Producer to primary wholesaler to secondary wholesaler to retailer or hawker to consumer
- vi) Producer to local assembler to primary wholesaler to retailer or hawker to consumer

16.4.5 Marketing Channels for Eggs

The prevalent marketing channels for eggs are:

- i) Producer to consumer
- ii) Producer to retailer to consumer
- iii) Producer to wholesaler to retailer to consumer
- iv) Producer to co-operative marketing society to wholesaler to retailers to consumer
- v) Producer to egg powder factory

Sometimes, the wholesaling and retailing functions are performed by a single firm.

Check Your Progress 1

- 1) Justify the statement that marketing of agricultural commodities differs from that of industrial goods.

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- 2) What are the essential components of market structure?

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- 3) What are the types of markets for agricultural produce in India?

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- 4) What are the marketing channels for fruits and vegetables?

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16.5 MARKETING COSTS

The difference between the price received by the farmer and price paid by the consumer is called marketing cost. This includes middlemen's charges for the services rendered in performing marketing functions. Studies have shown that a large proportion of consumer's income is taken away by the middlemen. The reasons for the prevalence of high marketing costs are scattered farms, small size of individual lots of produce, their variability in quality, poor transport facilities, inadequate development of market information services, lack of capital for storage and processing, etc.

The following are some of the *marketing disabilities*, which cause high marketing costs.

- a) *Multiplicity of Market Charges*: The producer is required to pay a large number of market charges without any justification and often for no services rendered. 'charity' or 'dharmada' charges, storage charges without the produce having been stored are some of the examples of unwanted charges.
- b) *Trade Allowance*: Traders in most of the unregulated markets make deductions which are unwanted and heavy. For example, allowances for drayage, moisture, dirt, etc. even when the produce is displayed in a heap and inspected by the buyers before purchases are made. These are unjustified trade allowances.
- c) *Adulteration and lack of grading*: The producers of agricultural commodities and traders by and large, have not yet realized the importance and advantages of grading the produce, with the result that the transaction takes place on a sample basis and the producer does not get full worth of his produce.
- d) *Method of Sale*: The under-over (or *hatha*) system of sale is widely prevalent in many of the unregulated markets. This system is open to various malpractice, because only the negotiators know the price being negotiated. It generally operates to the detriment of the producer and to the benefit of the trader, particularly the commission agent.
- e) *Weighment*: In many markets the weights used are not correct. Besides, there is no supervision over the persons engaged in weighing, who are mostly employees of the trader and often manipulate the scale.
- f) *Large Samples*: Large samples are taken by the buyers without payment.
- g) *Delayed payment of sale proceeds*: The producer in most cases is not paid immediately the full value of his produce sold. Advances are made and final settlement is made after some delay. If advances are made before harvest, heavy interests are also charged.
- h) *Superfluous Middlemen*: There are large number of middlemen between the producer and the consumer resulting in high cost to the consumer and low returns to the producer.
- i) *Inadequate Storage Facilities*: In most of the villages, there is hardly any institutional storage facility is available as a result the farmers dispose of their produce as soon as it is harvested at any cost. It is estimated that the storage losses at the farmers level are about 5% of the total produce.
- j) *Defective Transport*: The transport system in rural areas is also in the bad state of affairs and is practically non-existent during rainy season. It is a well known fact that good transport and communication systems are pre-requisite for efficient marketing.

- k) *Lack of Market Information*: There is hardly any agency providing reliable information about prices in rural areas. The villagers have no contact with the outside world and act on the hearsay reports.
- l) *Absence of Regulated Markets*: As many as 2,000 out of the 3,400 important markets have not been regulated so far. Even in the regulated markets the rules and regulations are not properly enforced by the officials, with the result that the malpractices continue in one form or other.

Organised marketing is of considerable significance to the economy of the country. It would be useless to increase the output of food and equally futile to set up optimum standards of nutrition, unless food moves to the consumers from producers at a price which provides fair remuneration to the producers and is within the consumer's ability to pay.

16.6 COOPERATIVE MARKETING

The need for cooperative marketing is keenly felt in India against the background of defects and malpractices that exist in agricultural marketing system. Although, certain statutory measures have been adopted by the central as well as state governments, yet many malpractices still continue in one form or other. This is because even today a large number of farmers continue to be indebted to the trader-cum-money lenders, as they control credit, marketing, transport and storage.

Cooperative marketing is a process of marketing through a cooperative association formed to perform one or more of the marketing functions in respect of the produce of its members. It is a voluntary business organisation established by its members to market farm produce collectively for their direct benefits.

16.6.1 Objectives of Cooperative Marketing

The broad aim of cooperative marketing society is to rationalise the whole marketing system so as to make it beneficial to the producer. Its immediate objectives are to:

- a) strengthen the bargaining capacity of the cultivator,
- b) secure the members a better price for their produce,
- c) eliminate superfluous middlemen,
- d) provide the members with needed finance,
- e) persuade the farmer to grow better quality goods,
- f) stabilise prices,
- g) develop fair trading practices,
- h) provide facility of grading, storage and transportation,
- i) act as an agent of the government for the procurement and implementation of price support and market intervention schemes,
- j) promote the economic interest of its members by encouraging self-help, thrift and better farming among members,
- k) act as a distributive centre for agricultural inputs such as seeds, fertilisers, chemicals, implements, etc., and
- l) help in the expansion of agricultural credit programme by linking marketing with credit.

16.6.2 Advantages of Cooperative Marketing

The cooperative marketing is beneficial to the producer, consumer and the whole society at large. Some of the specific advantages are:

- a) *Economy in cost of marketing*: Since the society handles large volume of business as well as takes up various activities like assembling, grading, storing, risk bearing, etc. it might be possible to render these services at a minimum cost due to economies of scale.
- b) *Better prices*: The marketing society strengthens the bargaining capacity of the farmers, as such they get better prices for their produce. The society also provides advances which helps the farmers to sell the commodity when prices are high.
- c) *Credit facilities*: The cooperative marketing society is in a position to borrow from cooperative banks at lower rate of interests and finance members on reasonable terms. It, thus, saves the members from the clutches of money lenders on the one hand and ensures better recovery position of cooperative banks.
- d) *Supply of quality goods to consumers*: The members of a cooperative marketing society are also consumers. The society, therefore, provides quality consumer goods to its members at reasonable/lower prices.
- e) *Help in growing better crops*: Market societies, by providing quality seeds, fertilisers and other input help their members in growing high quality crops and better production.
- f) *Distribution of surplus*: The profits of a marketing society become property of its members and are distributed in proportion to the patronage. This becomes additional income to the members.
- g) *Educative value*: The marketing society educates its members about scientific methods of farming, provides market information and so on. Thus, it has become a source of education.

Check Your Progress 2

1) What are the various marketing disabilities prevalent in Indian agricultural markets?

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2) Discuss the advantages of cooperative marketing.

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3) What are the important objectives of cooperative marketing?

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16.7 COOPERATIVE MARKETING STRUCTURE

The structure of cooperative marketing societies consists of the National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) at the national level, the state cooperative marketing federations at the state level and primary marketing cooperative societies at the agricultural market (Mandi) level. The organisational structure of cooperative marketing in the country is federal type but the pattern of organisation is not uniform in all the states. It is two-tier, consisting of primary marketing cooperatives at the mandi level and state marketing federation, at the state level, in the states of Assam, Bihar, Kerala, Karnataka, M.P., Orissa, Rajasthan, West Bengal, and North-eastern states. On the other hand, it is three tier consisting of primary marketing cooperatives at the base, central marketing societies at the district and state marketing federations at the state levels in the rest of the states.

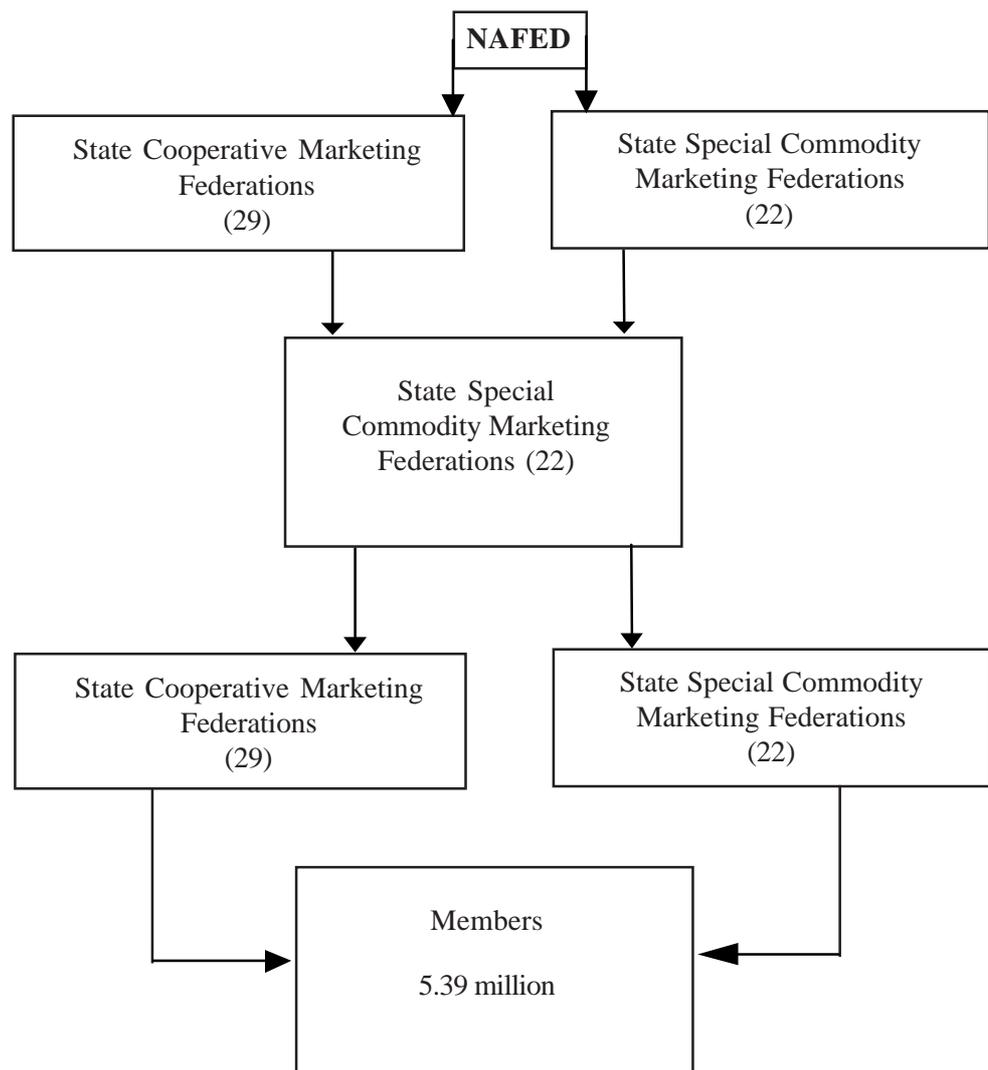


Fig. 16.1: Structure of Agricultural Marketing Cooperatives

The structure of Cooperative Marketing Societies in India is given in Fig. 16.1

As of March 1998 there were 29 state marketing federations, 22 state level special marketing federations, 397 district/central marketing societies and 8,422 primary cooperative marketing societies in the country. The business turnover of primary societies was Rs.5803 crore and that of state and district societies/federations to the tune of Rs.1,05,845 crore.

The National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) which is the national body of marketing cooperatives handled agricultural commodities worth Rs.546 crore during 1997-98. Of this amount, Rs.208 crore was through internal trade and Rs.339 crore through exports. It has also implemented price support scheme and market intervention scheme of Government of India. It had earned a net profit of Rs.11 crore in that year.

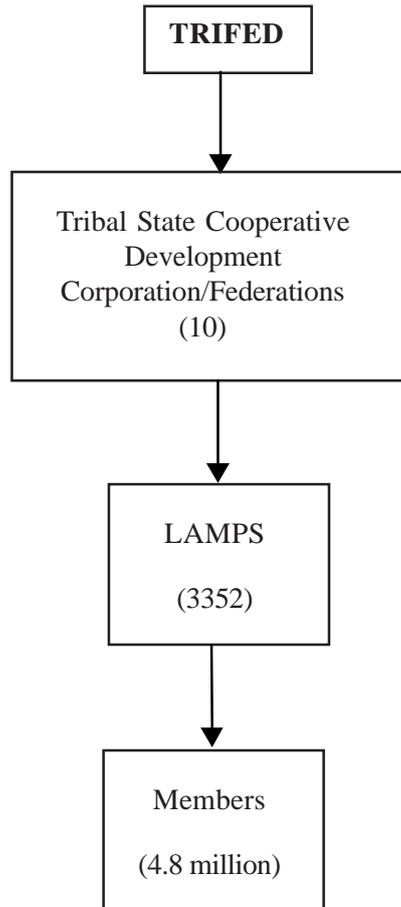


Fig. 16.2: Structure of Tribal Cooperatives

In ten states having a higher concentration of tribal population, minor forest produce is marketed by Large-sized Agricultural Multi-purpose cooperative societies (LAMPS) at the primary level and Tribal Development Cooperative Corporations / Federations at the state level. The Tribal Cooperative Societies Marketing Development Federation of India Ltd. (TRIFED) is a national level body which provides support to the tribal cooperatives in marketing of minor forest produce. In 1996-97 TRIFED conducted business of Rs.132 crore of which export component was Rs.22 crore. The structure of Tribal Cooperatives is given in Fig. 16.2

16.7.1 Primary Marketing Societies

The primary marketing societies (PMS) perform the following functions:

- a) arrange sale of agricultural produce of members by undertaking functions like pooling, grading, packing, transportation, storage, etc.

- b) give loans to the members on pledging their produce
- c) procure agricultural commodities, implement price support and market intervention schemes and act as an agent of the government
- d) undertake processing of agricultural commodities
- e) act as an agent of PACs for recovery of production loans from the members
- f) distribution of fertilisers and other agricultural inputs.

16.7.2 District Marketing Societies

These societies exist in those states where the marketing structure is three-tier. These societies were organised to coordinate the functions of PMSs both in regard to marketing of agricultural produce and distribution of agricultural inputs and consumer goods. These societies were also to undertake processing where necessary and inter-district trade in agricultural commodities. But in actual practice these societies are mostly involved in the distribution of agricultural inputs and essential consumer goods.

16.7.3 State Marketing Federations

The state cooperative marketing societies have crucial role to play in the development of PMSs. These federations are organised for undertaking operations on behalf of their affiliated societies particularly in the field of inter-state trade and export of agricultural commodities, They also undertake procurement of agricultural inputs and consumer goods required by the farmers. The following functions in particular are performed by the state federations:

- a) marketing and processing of agricultural produce
- b) supply of improved implements, fertilisers and other agricultural inputs
- c) coordinate member societies in marketing
- d) implement price support scheme and market intervention scheme as an agency of NAFED
- e) provide remunerative prices to farmers for their produce.

16.7.4 National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED)

It is the national level body of cooperative marketing societies. Its main function is to coordinate the activities of state federations and render expert advice and technical guidance to them on problems relating to marketing, processing, inter-state trade, export trade, market and price trends, commercial intelligence, business techniques, etc. The following are the specific functions:

- a) marketing of agricultural produce in the country and exports.
- b) processing and storage of agricultural produce.
- c) coordinate member societies in promotion of internal trade.
- d) canalizing agency for export of onion, niger seeds and monitoring agency for import of pulses, maize, onion, etc.
- e) nodal agency of Government of India for price support operations and market intervention schemes.
- f) production and marketing of agricultural machinery, implements and bio-fertilisers.
- g) inter-state trade to stabilize consumer price in agricultural commodities.

16.7.5 Problems of Cooperative Marketing Structure

Although steady growth in the marketing of agricultural produce by cooperatives has been recorded year after year, yet the structure suffers from many ills, which are as under:

- a) absence of forward and backward linkages in the structure.
- b) most of the marketing cooperatives are mainly engaged in supply activities rather than marketing activities.
- c) only few societies are making outright purchases and selling farmers' produce through pooling.
- d) cooperative marketing societies are undertaking marketing of agricultural produce by handling the produce of farmers on commission basis.
- e) very few societies are providing finance against the pledge of farm produce.
- f) marketing cooperatives are financially weak and are unable to mobilise adequate working capital for business activities.
- g) marketing cooperatives engage themselves in the business activities involving lesser risk with the result that no long term perspective planning is resorted to.
- h) most of the marketing cooperatives have failed to create their own employees as manager, instead departmental officers work as managers in these cooperatives who do not take the marketing business seriously.

16.7.6 Need for Integrated Approach

The cooperative marketing structure has to compete with private trade which is entrenched firmly in the business. Integration and collective steps in various activities are a must for the cooperative structure. Such integration is possible when following principles are fully recognised by all concerned at all levels:

- a) unhealthy competition and duplication of functions at various levels are avoided.
- b) higher level organisation should always work for the benefit and development of lower level institutions and not independently in competition with them.
- c) undue concentration of too many functions/ resources should be avoided. Gradual decentralization and specialisation in different fields should be the aim.

Check Your Progress 3

1) What are the important functions of NAFED?

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2) What are the problems of cooperative marketing?

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3) Discuss the functions of primary marketing societies.

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4) Explain the structure of cooperative marketing in India.

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16.8 GOVERNMENT EFFORTS TO IMPROVE AGRICULTURAL MARKETING

In order to secure remunerative prices to the producers of agricultural and horticultural commodities, the central as well as the state governments have been taking various steps to regulate working of markets and stop malpractice. One of the steps followed was encouraging and supporting establishment of cooperative marketing societies/federations, which have already been discussed in detail earlier. The other steps are establishment of: i) regulated markets, ii) forward trading, iii) storage and warehousing facilities, and iv) implementation of price support and market intervention schemes. We will discuss issues related to the first three topics below while the fourth one will be taken up in Block 6.

The government keeps a watch and monitors the market conduct through several mandatory regulations. The regulatory framework for agricultural commodities in India is unique and consists of two distinct sets of measures. One of these is the development and regulation of primary markets, popularly called 'Regulated Markets' and the second set is the regulation of market conduct through a series of legal instruments.

16.9 REGULATED MARKETS

Under the traditional system of marketing of agricultural produce, producer is the seller. He incurs a high marketing cost and suffers from unauthorized deductions of marketing charges and the prevalence of various malpractices. Improvement in marketing conditions with a view to creating fair competitive conditions and increase the bargaining power of producer-sellers was considered to be the most important pre-requisite of orderly marketing. Most of the defects of, and malpractices under, the traditional marketing system of agricultural produce have been more or less removed by the exercise of public control over markets, i.e., by the establishment of regulated markets in the country.

The establishment of regulated markets is not intended at creating an alternative marketing system. The basic objective is to create conditions for efficient performance of the private trade, through facilitating free and informal competition. In regulated markets, the farmer is able to sell his marketed surplus in the presence of several buyers through open and competitive bidding. The legislation for the establishment of regulated markets does not make it compulsory for the farmer to sell his produce in the regulated market yard. Instead, voluntary action on the part of the farmers to take advantage of such a market is assumed. The basic philosophy of the establishment of regulated markets is elimination of malpractices in the system and assignment of dominating power to the farmers or their representatives in the functioning of markets.

16.9.1 Objectives of Regulated Markets

The specific objectives of regulated markets are:

- i) To prevent the exploitation of farmers by overcoming the handicaps in the marketing of their products;
- ii) To make the marketing system most effective and efficient so that farmers may get better prices for their produce, and the goods are made available to consumers at reasonable prices;
- iii) To provide incentive prices to farmers for inducing them to increase the production both in quantitative and qualitative terms; and
- iv) To promote an orderly marketing of agricultural produce by improving the infrastructure facilities.

16.9.2 Progress in Market Regulation

Though the establishment of regulated markets was started during the 1930s, the programme got momentum only after the independence. The number of regulated markets before the commencement of First Five Year Plan (April 1951) was 236. However, this number increased to 715 in March 1961, 5776 in April 1986, and further to 6968 in March 1996. At present, 98.5 per cent of wholesale markets are functioning under the regulation programme (Table 16.1).

The number of commodities under regulation also varies from state to state; but they include almost all the important agricultural commodities such as foodgrains, oilseeds, fibre crops, commercial crops, fruits and vegetables, forest produce and livestock products. There is also wide variation across states in infrastructure facilities in the regulated markets. The facilities in many markets are less than what they should have been.

Table 16.1 : Progress of Market Regulation in India

Year Ending	Number of Regulated Markets	Regulated Markets as Percent of Total Wholesale Assembling Markets (7077)
March, 1951	236	3.33
March, 1956	470	6.64
March, 1961	715	10.10
March, 1966	1012	14.30
March, 1976	3528	49.85
March, 1980	4446	62.82
March, 1986	5766	81.48
March, 1991	6640	93.83
March, 1996	6968	98.46

16.9.3 Important Features of Regulated Markets

Under the provisions of Agricultural Produce Market Act, the state government gives notice of its intention to bring a particular area under regulation by notifying the market area, market yard, main assembling market and submarket yard, if any, under the principal regulated market. The meaning of these terms is explained below.

- i) *Market Area*: The area from which the produce naturally and abundantly flows to a commercial centre, i.e., the market, and which assures adequate business and income to the market committee.
- ii) *Principal Assembling Market*: It is the main market which is declared as a principal yard on the basis of transactions and income generated for the market committee.
- iii) *Market Yard*: This is a specified portion of the market area where the sale and purchase of any of the specified agricultural commodities are carried out.
- iv) *Sub-Market Yard*: It is the sub-yard of the principal assembling market. This is a small market and does not generate sufficient income to be declared as a principal assembling market.

In the regulated markets, (a) the sale of produce is undertaken generally by open auction or by close tender method; (b) weighing of the produce is done by licensed weighing; (c) the produce is put to auction generally after cleaning and/ or grading; (d) market information is appropriately disseminated; (e) market charges are specified; (f) the payment to the seller is made by the buyer within the stipulated time; and (g) all the functionaries are required to obtain a license.

The day-to-day functioning of regulated markets is supervised by the officials of market committee, viz., the secretary, auction clerks, and other staff. The administrative decisions are taken by the nominated/ elected market committee.

The market committee consists of representatives of all sections, viz., farmers, traders, co-operative marketing societies, co-operative or commercial banks, autonomous bodies (panchayat samiti and municipal board of the area) and government officials. Prior to the establishment of regulated markets, the rules for the conduct of the business in the market were framed by traders without any consideration for the interests of other groups of persons, (farmers and consumers).

Disputes arising between producer-seller and traders on the ground of quality of the produce, accounts and deductions of unauthorized charges are solved by the sub-committee of the market committee. This avoids the legal complications and unnecessary expenditure. Prior to regulation, no such facility existed. If a farmer was not satisfied, he had to go to the court of law to get his due share, which involved a lot of expenditure and wastage of time.

Regulated markets have brought about a general awakening among producer-sellers. This awakening enables them to protect themselves against a number of malpractices which were formerly prevalent in the unregulated markets. Now the sale slips of the produce sold are given to farmers, showing the details of the quantity sold, the rate of sale and deductions, if any. A copy of the sales slip is supplied to the market committee for the purpose of checking. The malpractices like taking away of samples by the bidders have also been stopped.

The market committee provides the amenities required for a smooth and efficient marketing of the produce of farmer-sellers. These amenities encourage the farmers to bring their produce for sale in the regulated market, and check the tendency on their part to sell locally. There is also a check on the tendency to aversion of city markets for one reason or the other.

Various amenities provided by the market committee in the market area are:

- i) Link roads and culverts in the area
- ii) A spacious market yard and/ or subyards
- iii) Rest houses, cattlesheds and water trough
- iv) Light, watchmen, drinking water and parking space for carts in the market yard
- v) Infrastructure facilities, such as banks, canteens and post offices in the market yard.

The amenities vary from state to state and from market to market, depending upon the financial status of the market committee.

16.9.4 Other Regulatory Measures

While primary markets are regulated under Agricultural Produce Market Acts of various states, several other activities are regulated by the legal instruments promulgated by the centre. These include the following:

- Agriculture Produce (Grading and Marking) Act, 1937, 1986.
- Prevention of Food Adulteration (PFA) Act, 1954, 1964, 1976, 1986.
- Essential Commodities Act, 1955.
- Solvent Extracted Oil, Deoiled Meal and Edible Oil (Control) Order, 1967.
- Meat Food Products Order, 1973.
- Standards of Weights and Measures Act, 1976.
- Pulses, Edible Oilseeds and Edible Oils (Storage Control) Order 1977.
- Vegetable Oil Products (Control) Order, 1977.
- Prevention of Black Marketing and Maintenance of Supply of Essential Commodities Act, 1980.
- The Cold Storage Order 1964, 1980 (rescinded in 1997).
- Consumer Protection Act, 1986.
- Bureau of Indian Standards Act, 1986.
- Milk and Milk Products Order, 1992.
- Fruit Products Order (FPO) 1955, 1997.

The provisions under the legal instruments are used to regulate the activities of traders and processors pertaining to trading, stocking, maintenance of quality, grading, packing, processing, blending and movements. These instruments are administered by different Ministries and Departments.

16.10 WAREHOUSING

Storage is an important marketing function which involves holding and preserving goods from the time they are produced until they are needed for consumption. The storage function is as old as human civilization and is performed at all the stages of marketing. However, in traditional storage methods there is a considerable loss of the produce. The storage losses could be 3 to 5 per cent depending on the type of storage structures used. The losses to the produce during storage is caused by rodents, insects and pests and also by dampness in the grain as well as the storage structure. With a view to reducing these avoidable losses, there is a need for scientific storage to prevent national loss.

16.10.1 Functions of Warehousing

Warehouses are scientific storage specially constructed for the protection of the quantity and quality of stored products. The produce stored in warehouses is protected against rodents, insects, pests, moisture and dampness.

The history of warehousing in India can be traced back to the recommendations of the Royal Commission on Agriculture in 1928. Later on several Committees and Commissions emphasised the need for warehousing in India. Government of India undertook legislative measures in this regard and established Central and State Warehousing Corporations (CWC and SWCs).

The warehousing scheme in India is an integrated scheme of scientific storage, rural credit, price stabilization and market intelligence and is intended to supplement the efforts of co-operative institutions.

The capacity utilization of public sector warehouses is estimated as 85 to 96 per cent, most of which is used by public agencies or traders. Studies have shown that around 30 per cent of warehousing capacity of CWC and six per cent of SWCs is utilised by farmers or their cooperatives. Foodgrains, sugar and fertilizer account for 78 per cent of the total utilised storage capacity in the country. Investment in construction and maintenance of warehouses has enabled the country to save considerable losses of foodgrains and other important food and non-food commodities. In that sense, calling warehouses as protectors of national wealth is no exaggeration.

Apart from large warehouses created by CWC, SWCs, FCI and Cooperative Organizations, need for constructing small size storage structures in rural area was felt to enable the farmers to store their small surpluses till they are able to sell in the market. To meet this requirement, the government had launched a scheme of establishment of National Grid of Rural Godowns in 1979. The storage capacity of these godowns is around 12 million tonnes. These godowns are being used to store fertilizers and other commodities including foodgrains for sale/ distribution in the villages. However, there is considerable scope to increase and strengthen warehousing and storage infrastructure in remote rural areas.

16.10.2 Use of Warehousing Facilities

Eligibility: Any person may store notified commodities in a warehouse on agreeing to pay the specified charges.

Warehouse Receipt (Warrant): This is a receipt/ warrant issued by the warehouse manager/ owner to the person storing his produce in the warehouse. This receipt mentions the name and location of the warehouse, the date of issue, a description of the commodities, including the grade, weight and approximate value of the produce based on the present price.

The warehouse warrant is negotiable and can be transferred by a simple endorsement. A delivery of part of the goods may be taken through this warrant by the depositor. Sometimes, the warrant may be non-negotiable.

Use of Chemicals: The produce accepted at the warehouse is preserved scientifically and protected against rodents, insects and pests and other infestations. Periodical dusting and fumigation are done at the cost of the warehouse in order to preserve the goods.

Financing: The warehouse receipt serves as a collateral security for the purpose of getting credit. Commercial banks advance upto 75 per cent of the value of the produce stored in the warehouse.

Delivery of Produce: The warehouse receipt has to be surrendered to the warehouse owner before the withdrawal of the goods. The holder may take delivery of a part of the total produce stored after paying the storage charges.

16.10.3 License for Running a Warehouse

The main provisions of the Act governing the grant of a license to run warehouses are:

- i) Any person, including a company, association or corporate body may apply to the state government for the grant of a license to carry on the business of warehousing.
- ii) The government grants the license after examining the warehouse building and the financial soundness of the party, and after the realization of the prescribed fees.
- iii) The license has to be renewed periodically on payment of prescribed fees.
- iv) The warehouse owner is authorised to receive only notified commodities for storage in his warehouse and issue receipts in prescribed form.
- v) It is the responsibility of the warehouse owner to keep the premises clean, keep different lots of goods separately in the warehouse, and carry on such operations as are necessary to protect the goods against losses from the damage and pilferage.

At the end of March 1996, there were 1829 warehouses in the country with a storage capacity of 18.4 million tonnes. Apart from the warehouses owned by CWC and SWCs, the Food Corporation of India has also established storage capacity of 16.8 million tonnes. The cooperative societies have also built a storage capacity of 13.36 million tonnes.

The warehouses can also be constructed in the private sector which are licensed under the provisions of the prevailing Act in that regard. Depending on the commodities stored, warehouses are classified into general warehouse, special commodity warehouse or refrigerated warehouse.

16.11 FORWARD TRADING

In order to control unhealthy practices in forward trading in agricultural commodities, which ultimately reflect on prices in primary and secondary markets, Forward Contracts (Regulation) Act was passed by the Central Government in 1952. Under this Act, a Forward Markets Commission has been set up whose functions are both quasi-judicial and executive. The functions include:

- a) study of the forward market in a particular commodity with a view to deciding if the market should be brought under the regulatory provisions of the Act.
- b) enquiry into claims of associations for recognition to conduct forward trading.
- c) supervision and inspection of recognised association.
- d) collection of factual data, and
- e) keeping the different forward markets under observation.

16.11.1 Price Support Scheme

In order to protect the farmers from the distress sale of agricultural commodities, Government of India set up Agricultural Costs and Prices Commission. The commission fixes minimum support prices of foodgrains, oilseeds and pulses, taking the cost of production and other costs into account. In the event of a fall in market rates of the above commodities below the minimum support price fixed by the Central Government,

Food Corporation of India (FCI) in the case of foodgrains and pulses makes purchases from the markets. In the case of oil seeds as well as the commodities which are not procured by the FCI, the NAFED is asked to procure these commodities. Government of India meets the losses, if any, suffered by the NAFED.

16.11.2 Market Intervention Scheme

In the case of perishable agricultural and horticultural commodities such as fruits and vegetables, the producers usually suffer heavy losses in the event of bumper crop. With a view to protect them from fall of prices and distress sale, Market Intervention Scheme has been introduced. The scheme is implemented on request from the state Government concerned. The procurement is made on the pre-determined price during the specified period jointly by the NAFED, as an agent of Government of India and state designated agency as their agent on 50:50 basis. At the end of the operation the loss (or profit) is shared by the State and Central Governments on 50:50 basis.

The scheme in the past has been implemented in commodities like apples, pine apples, ginger, potatoes, chilies, coriander, grapes, oranges, etc. in the states of Himachal Pradesh, Jammu & Kashmir, Uttar Pradesh, North Eastern States, Andhra Pradesh, Rajashtan and Karnataka.

Check Your Progress 4

- 1) What is the role of market committee in a regulated market?
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- 2) What are the facilities provided by warehouse owners to farmers and traders?
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- 3) What are the various efforts initiated by the Central and State Governments for improving agricultural marketing?
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4) Discuss the Market Intervention Schemes initiated by Government of India.

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16.12 LET US SUM UP

Marketing comprises collection, transportation, grading, standardisation, pooling, processing and finally distribution to the ultimate consumers. There are a number of functionaries involved in the above process. As a result, the costs of goods and services increase considerably. Cooperative marketing as well as regulated markets have been introduced in order to reduce the costs of marketing with a view to benefit both producers and consumers.

The cooperative marketing structure in India is generally federal type having three tiers: primary marketing societies at the *taluka/tahsil* level, central marketing societies at the district level and state marketing federations/ societies at the state level.

16.13 KEY WORDS

- FAO** : Food and Agricultural Organisation of United Nations
- NAFED** : National Agricultural Cooperative Marketing Federation of India Ltd.
- TRIFED** : Tribal Cooperative Marketing Federation Ltd.
- LAMPS** : Large-sized Agricultural Multi-Purpose Cooperative Societies

16.14 SOME USEFUL BOOKS

Abott, J., 1993, Agricultural and Food Marketing in Developing Countries: Selected Readings, Technical Centre for Agricultural and Rural Cooperation, UK.

Ellis, F., 1992, Agricultural Policies in Developing Countries, Cambridge University Press, UK.

Jat, D.R., 1991, Marketing of Agricultural Produce, Radha Publications; New Delhi.

Vyas, V. S. and P. Bhargava, 1997, Policies for Agricultural Development, Rawat Publications, New Delhi.

16.15 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) The special features of agricultural marketing are given in Section 16.2. Read these features carefully and answer the question.
- 2) The essential components of market structures are the types of market and the market functionaries.

- 3) There are three types of markets: Primary, secondary and territory.
- 4) Read Sub-section 16.4.4 and answer the question.

Check Your Progress 2

- 1) The disabilities of Indian agricultural markets are given in Section 16.5. Discuss these problems.
- 2) Read Sub-section 16.6.2 and answer.
- 3) Bring out the important objectives given in Sub-section 16.6.1 and answer the question.

Check Your Progress 3

- 1) Bring out the important functions given in Sub-section 16.7.4 and answer the question.
- 2) Read Sub-section 16.7.5 and answer.
- 3) Read Sub-section 16.7.1 and answer.
- 4) You can explain the cooperative marketing structure on the basis of Fig.16.1. Discuss about the hierarchy of national, state and village levels cooperative institutions.

Check Your Progress 4

- 1) Read Sub-section 16.9.3 and answer.
- 2) Read Section 16.10 and answer.
- 3) The government has introduced price support scheme and market intervention scheme, Moreover, the government has encouraged regulated markets and cooperative marketing.
- 4) Read Sub-section 16.11.2 and answer.