



National Collateral Management Services Limited

**Are our Agricultural Markets
Competitive? Case for Reform**

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Key Features of Indian Agricultural Markets: Access and Processes

- **Access limited to local markets**
 - The historical neighborhood market concept has undergone little change
 - Local demand and supply determines prices which often are at variance with prices in other markets
 - Framers “bonded” to local market
 - Unable to take advantage of arbitrage opportunities
- **Contract farming restricted**
 - All activities relating to sale such as price information, physical handling and financial settlement bundled into a single process and controlled by Arthias
 - Limited options limited for the farmer
- **Direct procurement from farmers not permitted**
 - Only Arthias can buy and sell
 - Contract farming restricted



Key Features of Indian Agricultural Markets: Efficiency and Infrastructure

- **Huge inefficiencies**
 - Vested interests dominate market committees
 - Private players cannot set up markets
 - Cumbersome licensing procedures
 - Lack of professional management
 - Existence of cartelization
 - Lack of price transparency and price dissemination
 - Undue Government interference in pricing
 - Over regulation - stock limits, movement restrictions

- **Huge infrastructure gaps**
 - No facilities for handling perishables
 - Lack of proper warehousing
 - No linkage with credit institutions
 - Absence of grading and testing facilities



Key Features of Indian Agricultural Markets: Undue Government Interference

- **Government actions have prevented competitive markets from developing**
- **Interference especially in food grains through MSP**
- **Flip flop in trade and tariff policies**
- **Fertilizer pricing has created distortions in fertilizer use**
- **Licensing, stock limits and movement restrictions continue in a number of commodities**



Undue Government Interference - Wheat Case Study

- **Wheat market prices closely aligned to MSP till 1998**
- **Since then large deviations between cost of production and MSP**
- **Frequent build of Government buffer stocks unrelated to production**
- **Policy uncertainties**
 - **During drought of 2002-03 large quantities of wheat injected into the market at low prices; prices remained stable despite lower produce**
 - **In current drought year, despite bumper crop and surplus wheat stocks wheat prices have risen appreciably due to Government holding back stocks and announcing high open sale prices**
- **Due to such uncertainties only large corporates willing to take high risks can afford to enter the wheat market**
- **Futures trade banned in 2006; resumed in 2009**



Reform Agenda 1: Removal of Restrictive Practices

- **System of mandi licensing is outmoded, has created oligopolistic structures and needs to be abolished.**
 - **Subject to payment of prescribed registration fees entry of buyers and sellers should be unrestricted**
 - **Farmers should be permitted to sell directly to buyers**
 - **Arthias will need to compete with other players**
 - **Stock limits and movement restrictions should be abolished**

- **Private markets should be permitted**
 - **Currently most State APMC Acts do not permit private markets**



Reform Agenda 2: Promote pan India Spot Markets

- **Spot Markets should be permitted to function as private electronic markets**
 - **Gujarat, Maharashtra and Karnataka have permitted e-spot markets**
 - **Provides state of the art trading, delivery and settlement facilities from across the country**
 - **Results in improved price realization**
 - **Improves holding capacity of farmers due to availability of warehouse receipt financing**
 - **Increases bargaining power of farmer due to alternative market options**
 - **Provides payment guarantees**
 - **Traders should be permitted to function on the basis of pan India licenses**



Reform Agenda 3: Promotion of Competitive Contract Farming Arrangements

- **Contract farming relevant in India**
 - **Due to inadequate Government extension arrangements**
 - **Resultantly, access to technology, credit, quality seeds and marketing support to bulk of small and marginal farmers limited**
 - **Farmers need to be given a choice**
 - **Contract farming needs to be distinguished from corporate farming**
 - **Transparent and well enforced contract farming agreements will promote better yields and improved price realization**
 - **Possible through relevant amendments to the APMC Acts**



Reform Agenda 4: Reduction in Government Interference

- **MSPs have to be related to cost of production**
 - Distinction required to between procurement price and MSP
 - Stable tariff, trade and open sales policies need to be announced
- **Unbundle procurement and PDS activities**
 - Procure only to prevent distress sale and to maintain buffer stocks
 - MSP can be ensured through introducing agricultural options, where the farmer becomes the buyer of a “put” option and Government becoming the seller of the “put” at the MSP.
 - This arrangement could be less distortionary as markets would determine prices based on demand and supply
 - Physical distribution of food grains under PDS can be replaced by food coupons
- **Farmers should get market determined prices**
 - Futures trading should be well regulated and not delisted



Reform Agenda 5: Promote Warehouse Receipt Financing

- **Warehouse receipt financing has potential to emerge as the major linkage of farmers with credit institutions**
 - **Provides farmer the option not to sell**
 - **Will promote quality warehousing infrastructure**

- **NCMSL alone has facilitated Rs. 2000 crore of warehouse receipt financing in the first six months of FY 2009-10**

- **The Warehousing (Development and Regulation) Act was passed in 2007**
 - **Regulatory Authority yet to be established**



Reform Agenda 6: Promote Synergy between Spot and Futures Markets

- **Spot Markets are regulated by State Governments through the APMC Acts**
- **Futures Markets are regulated by the Central Government through the Forward Markets Commission**
- **Need to have synergy between the two markets**
 - **As agriculture is a State subject, unified Regulatory Authority not possible to establish**
 - **However, innovative enabling Central legislation is possible to provide greater synergy between the two markets**



Reform Agenda 7: Amend APMC Acts

- **APMCs have largely outlived their utility**
 - The radical measure would be to abolish the APMCs as done in Bihar
 - However, in Bihar mandis had already become dysfunctional
 - More realistic to amend the APMC Acts in line with the “model” APMC act circulated by the Central Government
- **19 States have amended their Acts so far. However, major concerns remain**
- **Even after amendments, in most States**
 - Contract farming arrangements not well defined
 - Provision for private markets either not made or made too restrictive
 - Single point levy of market fees not introduced
 - Licensing retained in place of registration
 - Rules remain to be notified



Thank You