

## A Brief on National Agricultural Market

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The share of agriculture in the GDP of India has reduced from 30% in 1990-91 to less than 14% in 2014-15, however 52% of total workforce is still dependent on farm sector for sustenance. The central and state governments recognize the mismatch and have concentrated their efforts on improving coverage of irrigated land, enhancing soil quality, boosting financial capabilities of farmers, reducing financial risk through Minimum support prices (MSP), mechanizing the harvesting process and increasing the storage capabilities. But there has been minimal focus on improving the sub-sector of **post-harvest supply chain infrastructure of agricultural marketing** that directly impacts the income realization and living standard of primary producers. Only 4-5% of total public expenditure on agriculture in 10<sup>th</sup> and 11<sup>th</sup> five-year plan concentrated on agricultural marketing sub-sector and a mere 1% on infrastructure development in this sector. Moreover, market segregation and inconsistencies in state laws on the subject has resulted in negligible private investments in this sub-sector.

The working group on agricultural marketing infrastructure, secondary agriculture and policy required for internal and external trade for 12<sup>th</sup> 5-year plan came up with a comprehensive strategy to counter the woes of agricultural marketing in India by setting up a National Agricultural Market (NAM) for purchase and sale of agricultural products. NAM is a central sector scheme that will be completely funded by the central government and will be promoted by SFAC (Small Farmers Agribusiness Consortium), which comes directly under the jurisdiction of Central Government through DAC (Department of Agriculture & Cooperation). Although agriculture is a state subject, the center will be playing the role of aggregating all the states' markets and implementing a scheme for the modernization of these markets by increasing transparency in bidding process, to foster efficient price discovery mechanisms and creating a comprehensive model for efficient flow of commodity.

### **National Agricultural Market: The Concept**

National Agricultural Market is broadly a concept to unify all the nation wide agricultural markets by creating a central online platform for agricultural commodity price discovery. It is envisaged as a pan-India electronic trading platform that endeavors the integration of Agricultural Produce Marketing Committees (APMC) market yards, sub-market yards, private markets and other unregulated markets to create a unified national market for all agricultural commodities. NAM is a virtual market that has many physical markets at the core of it. These physical markets will be provided with technological infrastructure and trained professionals to update the arrival of new produce and sale from the stocks. The web platform will allow online auction and bidding and will eliminate the need for physical presence at the point of sale by letting traders trade electronically. Traders can view price differences across markets and can trade accordingly after considering the transportation costs. Unification of markets through NAM won't just be restricted to price discovery, but will imply several other things. These are:

- ✓ Single license for trading across all markets in a state.
- ✓ Single point of market tax levy.
- ✓ Electronic auction for transparent price discovery.
- ✓ Easier norms for obtaining trading licenses.
- ✓ Abolition of fragmented markets.
- ✓ Seamless transfer of agricultural commodities.

- ✓ Improved supply-chain and reduced wastage.
- ✓ Increased price share for the farmers.
- ✓ Warehouse based sales.

## Stated Plan of Action

The NAM scheme will be implemented over a **period of 3yrs from 2015-16 to 2017-18**. It will cover a total of **535 regulated market yards** in this three-year period. A total amount of **Rs. 200 crore** has been earmarked for the scheme for supplying customized software and subsidizing necessary infrastructure.

### Mandi Coverage

Year	Planned number of districts to be added under NAM.
2015-16	250
2016-17	200
2017-18	135
<b>Total</b>	<b>585</b>

### Central Funding



Free of Cost for States and UTs. DAC will meet the expense on software and its customization.



Subsidized up to Rs. 30 lakhs per mandi. DAC will provide this grant as one time fixed cost. (Doesn't include private mandis.)

## Produce Selection

The NAM scheme changes the sensitive agricultural marketing framework that impacts the daily wages of vulnerable population of Small and Marginal. Its sensitivity calls for extreme risk mitigation measures to ensure zero loss in daily wages of farmers. SFAC, the official promoter agency is approaching the NAM implementation process in two stages by strategically selecting the produce in a manner that will minimize risk for the participating farmers:

- 1) **Staples (cereals, pulses & oilseeds):** In the first phase of NAM, staples that have a minimum support price (MSP) defined by CACP (Commission for Agricultural Costs & Prices) will be mandated for the e-platform in selected mandis. This is a **risk limitation strategy** that will ensure the framers receive a minimum price in case favorable prices are not offered in the introductory phase of online marketplace.
- 2) **Fruits and Vegetables (F&V):** Following the announcement of deregulation of F&Vs in Delhi beyond the market yards of 3 mandis, including Azadpur - SFAC setup an online portal, e-kisan mandi for direct sale of F&Vs to organized retailers, hotels, processors and exporters in Delhi. This will act as a sample in testing the feasibility of online platform for low shelf life produce like F&Vs before it is implemented on a larger scale through NAMs in its 2<sup>nd</sup> phase.

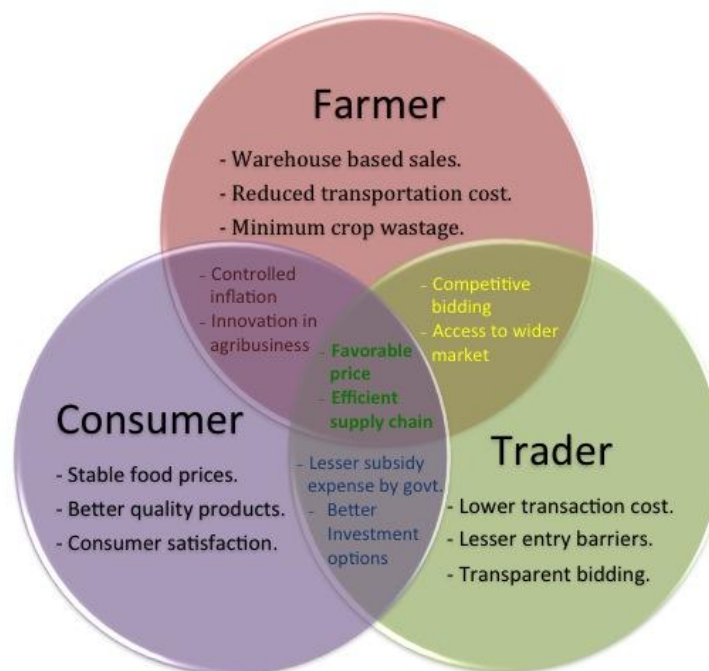
## Mandi Selection Criteria

The Scheme is applicable on an all India basis and there is no formulaic state-wise allocation. However, states interested in availing this central sector scheme will be required to meet the pre-requisites in terms of carrying out necessary agri-marketing reforms in their respective states. These pre-requisites are:

- ↳ Single license across the State
- ↳ Single point levy of market fees
- ↳ Provision for electronic auction as price discovery mode.

## Perceived Benefits of NAM for Stakeholders

A European Commission study of agricultural practices in developing countries suggests that effective use of agricultural market access tools like Market information System (MIS) is 'often found to be more beneficial to downstream players and large-scale agricultural producers'. NAM scheme provides MIS by improving the agri-foodvalue chain, reducing hoarding and multiple taxes, increasing transparency in bidding process, minimizing barriers to entry and providing new business opportunities – the NAM is expected to create a lucrative and conducive unified market for all stakeholders. The diagram below categorically denotes these envisaged benefits of NAM to the respective stakeholder/s:



## Progress so far

The current Government in its first budget speech of 2014 announced its intention of creating a National Agricultural Market by working closely with State Governments to help reorient their APMC Acts. Thereafter the economic survey 2014-15 published an entire chapter explaining the need for a National Agricultural Market and the constitutional methods that can be used to implement it. Since then:

- 1) A Central Sector Scheme on Promotion of National Agriculture Market through Agri-Tech Infrastructure Fund (ATIF) for 200 crore has been approved by Cabinet Committee on Economic Affairs (CCEA).
- 2) Ernst & Young was selected as the transaction advisor for ATIF related works of Directorate of Marketing and Inspection (DMI) in Department of Agriculture and Cooperation (DAC) through an open tender. It helped in developing detailed bidding documents to select Strategic Partner.
- 3) DAC has opened financial bids for the three companies that it declared technically eligible after evaluating their technical bids for strategic partner for implementing the NAM project.

## Hindrances in implementation of NAM

Setting up NAM is a task that looks simple on the face of it but faces numerous constitutional, infrastructural, cultural and market hurdles.

### Constitutional

The 7<sup>th</sup> Schedule of Constitution of India places Agriculture, Trade & commerce within state and Markets & fairs in State List (List-II), among 61 items that fall under the legislature of state governments. This implies that state governments legislate in matters concerning agricultural markets and central government is restricted from imposing any laws on this matter on the States under normal circumstances. Many of these states through their respective APMC acts don't satisfy the three basic criteria specified for creation of NAM.

### Infrastructural

A 2012 report by the committee of state ministers, in-charge of Agricultural Marketing to promote reforms noted that grading units are available in less than 1/3<sup>rd</sup> of the markets and only 9% of markets have cold storage units. Less than half of these markets have covered market yards for auction and only a few of those have electronic weighbridges. An e-trading system cannot function properly without other necessary mandi specific infrastructure and NAM funds won't cover anything apart from the hardware needed for the e-platform.

### Complex Tax Structure

There exists a multi-layered tax regime in the form of commission charges, market fee, octroi/entry tax, sales tax, weighing charges and labour charges for handling, loading and unloading. These taxes vary from 3% to 18% from state to state and from commodity to commodity creating a highly fragmented market structure that imposes a number of restrictions in the free flow of agricultural goods. The lack of common market and predictable tax structure also hinders private investment in agricultural marketing.

## Electronic Trading: Case study of Karnataka e-mandi

**Rashtriya e-Market Services Limited (ReMS)**, a joint venture of Karnataka Government and NCDEX Spot Exchange Limited (NSPOT) was formed to setup a **Unified Marketing Platform (UMP)** for modernizing more than 300 APMC regulated market yards into a **single online marketplace for the state**, and enhancing the efficiency of regulated markets in the state. The main partners involved are Karnataka Government, NSPOT, APMC market committees and Karnataka farmers and their families.

Karnataka Government passed the Karnataka Agricultural Produce Marketing (Regulation and Development) (Second Amendment) Bill, 2013, that allowed the State Govt. to provide unified licenses for all APMCs within Karnataka. It also allowed for warehouse-based sales, warehouse receipt-linked loans and single point levy of market fees across the state, making Karnataka one of the first few states to adopt all recommendations of Model APMC Act. The state government, through these legislative changes supported a regulatory environment for promoting transparent and efficient agricultural markets. NCDEX, a public limited company that provides commodity exchange platform for trading, recognized the initiatives of Karnataka Govt. and liaised with them for providing a simple platform for “Tur” pulses trading in Gulbarga Mandi and eventually providing an e-trading UMP across the state. This platform was funded with APMC revenue & RKVY funds.

Through the e-platform, the state govt. and NCDEX have played a key role in linking smallholders to a wider market and helping them realize better prices for their produce. An NIAM impact assessment of the E-Tendering of Agricultural Commodities in Karnataka reveals that about 83% of stakeholders felt that the operations have become more transparent and time-efficient. Farmers have reported an 18% increase in income realization and traders have reported at least 25% of their time being saved through the online process. Overall, all the mandis have experienced an increase in trading volume and revenue because of increased sale at the higher side of price range and stable prices.

## State-wide agricultural marketing policy comparison metric

States	%CA	STL	SPL	EA	PM	DM	CF
Madhya Pradesh	30%	✓	✓	✓	X	X	✓
Arunachal Pradesh	29%	X	X	X	✓	✓	✓
Nagaland	25%	✓	✓	X	✓	X	✓
Andhra Pradesh	24%	✓	✓	✓	✓	✓	✓
Tripura	22%	X	X	X	✓	✓	✓
Uttar Pradesh	22%	X	X	X	X	✓	X
Punjab	20%	X	✓	X	✓	✓	✓
Assam	20%	X	X	X	✓	✓	✓
Manipur	20%	X	X	X	X	X	X
Rajasthan	19%	✓	✓	✓	✓	✓	✓
Bihar*	19%	X	X	X	X	X	X
Himachal Pradesh	19%	✓	✓	✓	✓	✓	✓
Chattisgadhd	19%	✓	X	X	X	X	✓
Mizoram	18%	✓	✓	✓	✓	✓	✓
J&K	17%	X	X	X	X	X	X
Jharkhand	17%	✓	✓	✓	✓	✓	✓
West Bengal	16%	X	X	X	X	✓	X
Meghalaya	16%	X	X	X	X	X	X
Odisha	15%	X	X	✓	✓	X	✓
Karnataka	15%	✓	✓	✓	✓	✓	✓
Haryana	14%	✓	X	✓	X	X	✓
Gujarat	13%	✓	✓	✓	✓	✓	✓
Telangana*	13%	✓	✓	✓	✓	X	✓
Sikkim	9%	✓	✓	✓	✓	✓	✓
Uttarakhand	9%	X	✓	✓	✓	✓	✓
A&N Islands	9%	X	X	X	X	X	X
Kerala	9%	X	X	X	X	X	X
Tamil Nadu	7%	X	X	X	✓	✓	✓
Maharashtra	7%	✓	X	✓	✓	✓	✓
Puducherry	4%	X	X	X	X	X	X
Goa	4%	✓	✓	✓	✓	✓	✓
Delhi	1%	X	X	X	X	✓	X
Chandigarh	0%	X	✓	X	✓	X	X

%CA – Percentage Contribution of Agriculture to State/UT's GSDP

SPL – Provision for **Single Point Levy** of market fees.

PM – **Private Markets**

CF - **Contract Farming.**

STL – **Single Trading License** across multiple markets in states.

EA – Provision of **Electronic Auction** as mode of price discovery.

DM – **Direct Marketing**

✓ APMC Act amended and notified.

✓ APMC Act Amended but not notified

X APMC not Amended

\*Kerala, Manipur, A&N Islands, D&N Haveli, Daman & Diu and Lakshadweep don't have APMC. Bihar repealed APMC Act in 2006. Tamil Nadu APMC already provided for some of the necessary reforms.