



## Agricultural Marketing and warehousing system in India

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### ***Abstract:***

*Majority of the farmers may have less level of marketable surplus. Agricultural marketing is mainly the buying and selling of agricultural products. In earlier days when the village economy was more or less self-sufficient the marketing of agricultural products presented no difficulty as the farmer sold his produce to the consumer on a cash or barter basis. Today's agricultural marketing has to undergo a series of exchanges or transfers from one person to another before it reaches the consumer. It is necessary to provide a network of godown facilities all over the count so that the farmers are not compelled to sell their produce immediately after the harvesting of crops. This will enhance the bargaining power of farmers and save them from distress sales.*

***Key words:*** commission agent, self-sufficient, marketable surplus, commission agent

### **Introduction**

As quoted Mahatma Gandhi, India is living in the rural area which comprising nearly 68 percent of rural population and mostly structured by agricultural sector. The percentage of marginal farmers among all farmers is nearly 64.8 per cent having agricultural land up to 1 hectare (2.5 acres)<sup>1</sup>. Thus, majority of the farmers may have less level of marketable surplus. Agricultural marketing is mainly the buying and selling of agricultural products. In earlier days when the village economy was more or less self-sufficient the marketing of agricultural products presented no difficulty as the farmer sold his produce to the consumer on a cash or barter basis. Today's agricultural marketing has to undergo a series of exchanges or transfers from one person to another before it reaches the consumer. There are three marketing functions involved in this, i.e., assembling, preparation for consumption and distribution. Selling on any agricultural produce depends on some couple of factors like the demand of the product at that time, availability of storage etc. The products may be sold

directly in the market or it may be stored locally for the time being. Moreover, it may be sold as it is gathered from the field or it may be cleaned, graded and processed by the farmer or the merchant of the village. Sometime processing is done because consumers want it, or sometimes to conserve the quality of that product. The task of distribution system is to match the supply with the existing demand by whole selling and retailing in various points of different markets like primary, secondary or terminal markets. Most of the agricultural products in India are sold by farmers in the Private sector to moneylenders (to whom the farmer may be indebted) or to village traders. Products are sold in various ways. For example, it might be sold at a weekly village market in the farmer's village or in a neighboring village. If these outlets are not available, then produce might be sold at irregularly held markets in a nearby village or town, or in the mandi<sup>2</sup>. The most general existing system of marketing of agricultural products is as below:



### **Pattern of Agricultural Marketing in India**

#### **Money Lenders and village traders:**

A Considerable part of the total produce is sold to the village traders and the money lenders. According to estimates, 85 per cent of wheat and 75 per cent of oil seeds in UP, 90 per cent of jute in WB and 60 percent of wheat in Punjab are sold by the farmers in the villages themselves. Most of the farmers are under heavy burden of debts and the money lenders compel them to sell their produce to them (moneylenders) often at prices considerably lower than the market prices. Often the moneylender acts as 'a commission agent of the wholesale trader'<sup>3</sup>.

#### **Hats and shandies:**

Hats are village markets often held once or twice a week while shandies are also village markets held at longer intervals or on special occasions. Agricultural workers and other persons of the rural areas purchase their requirements from these markets. The farmers often sell a part of their produce in these markets. The agents of wholesale merchants, operating in different mandies, also visit these markets and purchase agricultural produce. Such markets are spread over the entire country. Each hat serves a small village or a cluster of small villages. The area covered by a hat usually varies from 5 to 10 miles. Most of the village markets are very poorly equipped, are uncovered, and lack storage, drainage, and other facilities. The quality of roads linking them to towns is very poor. Some markets lack roads completely, it is important to observe that only small and marginal farmers sell their produce in such markets. The big farmers with large surplus go to larger wholesale markets.<sup>4</sup>

#### **Mandies or wholesale markets:**

One wholesale market often serves a number of villages and is generally located in a city. In such mandies business is carried on by arhatiyas (middlemen). The farmers sell their produce to these arhatiyas with the help of brokers, who are generally the agents of orhariyas. Because of the malpractice of these middlemen, problems of transporting the produce from villages to mandies, and small amount of agricultural surplus, the small and marginal farmers are hesitant of coming to these mandies. They generally dispose of their produce in the village markets. It is generally the medium and large farmers who come to mandies. With the change of times and the establishment of regulated markets the farmers are now vigilant and the exploitative practices of the middlemen have declined considerably.

#### **Cooperative marketing:**

To improve the efficiency of agricultural marketing and to save farmers from the exploitation and malpractice of middlemen, emphasis has been laid on the development of cooperative marketing societies. Such societies are formed by farmers to take advantage of collective bargaining. A marketing society collects surplus from its members and sells it in the mandi collectively. This improves the bargaining power of the members and they are able to obtain a better price for the produce. In addition to the sale of produce, these societies also serve the members in a number of other ways.

Agricultural Marketing continues to be the mainstay of life for majority of the Indian population. It



contributes around 25% of the GDP and employs 65% of the workforce in the country. A most agricultural commodity market generally operates under the normal forces of demand and supply. However, with a view to protect farmer's interest and to encourage increased production, the government also fixes minimum support price (MSP) for some crops like Paddy, Wheat, Jute etc. as public policy instruments<sup>5</sup>.

### **Constraints agricultural marketing**

The purpose of regulation of agricultural markets was to protect farmers from the exploitation of intermediaries and traders and also to ensure better prices and timely payment for his produce. Over a period of time these markets have, however, acquired the status of restrictive and monopolistic markets, providing no help in direct and free marketing, organized retailing, and smooth raw material supplies to agro – processing, competitive trading, information exchange and adoption of innovative marketing systems and technologies. Farmer cannot sell his produce directly in bulk except on retail basis to the consumers. Farmers have to bring their produce to the Market yard. Exporters, processors and retail chain operators cannot get desired quality and quantity of produce for their business due to restrictions on direct marketing. The processor cannot buy the produce at the processing plant or at the warehouse. The produce is required to be transported from the farm to the market yard and then only it can be purchased and taken to the plant. There is thus an enormous increase in the cost of marketing and the farmer end up getting a low price for his produce<sup>6</sup>.

### **Warehousing/Godowns and Storage Facilities in India**

Warehousing plays a very vital role in promoting agriculture marketing, rural banking and financing and ensuring Food Security in the county. It enables the markets to ease the pressure during harvest season and to maintain uninterrupted supply of agricultural commodities during off season. Hence, it solves the problems of glut and scarcity, which are the usual problems in agricultural marketing. Though warehousing is an independent economic activity, yet is closely linked with production, consumption and trade. Development of agro processing agricultural marketing needs a strong warehousing system. Warehousing is the most important auxiliary service for development of trade and commerce.

It is further said that Agricultural growth has shown a high degree of interdependence with the infrastructure industry-the transportation, warehousing and Packaging. Cooperative distribution channels and other service sector industries have tremendously grown. The purchasing power and the standard of living of the rural masses have improved consequent to the development of agriculture. The supply of agricultural commodities in the market will increase substantially after the harvesting of crops. In fact, there will be a glut in the market and prices will tumble down sharply inflicting heavy losses on the farmers. This can lead to fall in production in subsequent years as the farmers will lose interest in maintaining the production levels. They siphon off the excess production in the harvesting period and release it slowly and gradually in other times of the year.



Thus prices remain stable and reasonable all the year round.

Warehousing is a capital intensive sector and without availing finance from banks and other financial institutions, warehousing facilities cannot be created by the entrepreneurs. Besides, land requirements for construction of the warehouses are difficult to meet now-a-days due to high cost of land. Although 100% FDI and some benefits are allowed for the warehousing sector, there has been moderate growth in the Private warehousing sector.

It recommended a three-tier storage system at (i) the national level, (ii) State and district level, and (iii) Village and rural level (cooperatives)<sup>7</sup>. The Department of Agriculture and Cooperation introduced a central sector scheme, the 'Grameen Bhandaran Yojana', in March 2002 to promote the construction of rural godowns. A total of

90-lakh tonnes capacity of rural godowns was targeted during the Tenth Plan period. However, the target has now been revised upwards to 140 lakh tonnes as the target of 90 lakh tonnes was achieved during 2004-05 themselves. Till 31 December 2006, 13030 storage projects having a capacity of 180.88 lakh tonnes have been sanctioned under the scheme<sup>8</sup>.

### Current Status of Warehousing Capacity in India

The warehousing capacity available in India, in public, cooperative and Private sector is about 108.75 million MTs. The warehousing capacity available in India, with various agencies/sectors is as follows (table 1):

Table 1. Warehousing capacity available in India

S.No.	Name of the Organization /Sector	Storage Capacity in Million MTs
1.	Food Corporation of India (FCI)	32.05
2.	Central Warehousing Corporation (CWC)	10.07
3.	State Warehousing Corporations (SWCs)	21.29
4.	State Civil Supplies	11.30
5.	Cooperative Sector	15.07
6.	Private Sector	18.97
	<b>Total</b>	<b>108.75</b>

The storage capacity available with FCI and a part of the warehousing capacity available with CWC and SWCs is used for the storage of foodgrains procured by Government agencies for Central Pool. The storage space available in the country is not sufficient to cater to the procured stocks. As a result, a substantial quantity of foodgrains is stored in Cover and Plinth (CAP)

Storage.

### Need for modern warehousing in India:

Due to record levels of procurement in the last four years, several States have been facing a problem of covered storage capacity. In the current Rabi Marketing Season (RMS) 2011-12, the Food Corporation of India (FCI) has procured more than 281.31 lakh tonnes of wheat which is around 30 lakh tonnes higher than the



earlier record procurement. As on 01.06.2011, FCI is holding 65.5 million MTs of the wheat and rice which is the highest level, ever achieved. This is against the buffer and strategic norms of 319 lakh MTs of foodgrains.

### **National Policy on Handling, Storage and Transportation of Foodgrains**

In order to reduce storage and transit losses of foodgrains at farm and commercial level, to modernise the system of handling, storage and transportation of foodgrains procured by the Food Corporation of India (FCI) and to bring in additionality of resources through Private sector participation, the Government of India had approved a National Policy on Handling, Storage and Transportation in June, 2000 and notified the same in the Gazette of India dated 15<sup>th</sup> July 2000.

### **Facilities for Central Pool Stocks:**

It was envisaged in the Policy that:

For storage of foodgrains procured by the FCI, integrated bulk handling facilities with silos of large capacity for wheat along with testing facilities for quality control would be created at about 20 identical central locations in producing and consuming areas as well as a few port towns.

These facilities, including the infrastructure for bulk handling to these centres, will be created and maintained in Private sector under the overall co-ordination of the FCI. The design of special top fillings and bottom discharge wagons would be decided in consultation with the Ministry of Railways. The Ministry of Railways will also be consulted while deciding the

locations and the circuits where these wagons would apply.

### **Private Sector Participation:**

Private sector participation would be sought and encouraged for development of infrastructure for the integrated bulk handling, storage and transportation through measures such as Build-Own-Operate-Transfer (BOOT), Build-Own-Lease-Transfer (BOLT), Build-Own-Operate (BOO), Lease – Develop-Operate (LDO), Joint Ventures etc

The Planning Commission is also keen for argumentation of storage facilities for the storage of foodgrains through Public Private Partnership (PPP). There is a proposal for setting up modern silos of 2.0 million MTs in PPP mode. All these efforts will be beneficial for creating integrated modern warehousing capacities in the country. For meeting the capital expenditure on construction of silos, the Private entrepreneurs would be eligible for Viability Gap Funding (VGF) under the existing VGF scheme which allows grants of upto 20% of capital cost on the basis of competitive bidding. The FCI would provide an additional VGF of upto 20% of capital costs. For storage of wheat in these silos, the developer will be entitled to receive a recurring service charge provided he meets the required performance and maintenance standards.

### **Gramin Bhandaran Yojana (Construction of Rural Godowns):**

The main objectives of the scheme for construction/renovation of rural godown, launched in 2001, include creation of scientific storage capacity



with allied facilities in rural areas to meet the requirements of farmers for storing farm produce, processed farm produce and agricultural inputs, promotion of grading standards and quality control of agricultural produce to improve their marketability and prevention of distress sale immediately after harvest. Individual farmers, Group of Farmers/Growers, Partnership Proprietary Firms, NGO's/Self-Help Groups, Co-operatives, APMCs and Agro Processing Corporations are eligible for the scheme.

### Conclusion

Most of the agricultural products in India are sold by farmers in the Private sector to moneylenders (to whom the farmer may be indebted) or to village traders. Products are sold in various ways. For example, it might be sold at a weekly village market in the farmer's village or in a neighboring village. If these outlets are not available, then produce might be sold at irregularly held markets in a nearby village or town, or in the mandi. It is necessary to provide a network of godown facilities all over the count so that the farmers are not compelled to sell their produce immediately after the harvesting of crops. This will enhance the bargaining power of farmers and save them from distress sales.

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<sup>1</sup> Misra and puri (2013), 'Agricultural landholdings in India', Indian Economy, Himalaya publishing house, New Delhi. p 274

<sup>2</sup>Agricultural marketing in India, [http://agritech.tnau.ac.in/agricultural\\_marketing/agrimark\\_India.html](http://agritech.tnau.ac.in/agricultural_marketing/agrimark_India.html), linked on 4/1/2015

<sup>3</sup> Misra and puri(1998), 'Agricultural marketing in India', A text book of Indian Economy, Himalaya publishing house, New Delhi.p.210

<sup>4</sup> Jma J. Lele, "Traders of Sholapur: The Market Structure", in John W.Mellor, Thomas F. Weaver, Urns J. Lle and Sheldon R. Simon, Developing Rural India: Plan ai4 Practice (Bombay, 1972), p. 243.

<sup>5</sup> Agricultural marketing in India (2014); [http://megagriculture.nic.in/PUBLIC/marketing/agri\\_marketing.aspx](http://megagriculture.nic.in/PUBLIC/marketing/agri_marketing.aspx)

<sup>6</sup> Dr.T.V.Ramana (2009), *The prototype of vegetable cropping, marketing and its determinants: A case study in Godavari delta Region, AP, India* published in International Journal of Commerce and Management, ISSN-0974-2646, Vol.3 issue 1p.134 April, 2010

<sup>7</sup> Misra and puri (1998), 'Agricultural marketing in India', A text book of Indian Economy, Himalaya publishing house, New Delhi. p 218

<sup>8</sup> Working Committee Report on ware housing (2010), supra n.12, p.81.