

Linking Small-Scale Farmers to Emerging Market Opportunities¹

Importance of agriculture markets

A large majority of the poor in most developing countries are found in rural areas and, hence, there is a close correspondence between agricultural growth and poverty reduction. India is no exception, with 70% of the poor in rural areas. Another feature of the agricultural sector in developing countries of Asia is the small size of average land holding, which is further declining due to population pressure. In India, average land holding size is about 1 ha, and smallholders with less than 2 ha account for 80% of the total holdings.

Thus, the growth of the agricultural sector in absolute terms (despite its declining share relative to other sectors) is critical for poverty reduction and promoting the welfare of millions of smallholders dependent on the sector. But agricultural growth has to translate into higher rural incomes, cheaper food, and generate employment opportunities in non-farm sectors. Markets play a vital role as transmission mechanisms to bring about poverty reduction and higher income to producers from agricultural growth. Regions/sub-regions with good market access have a higher productivity per unit of land, compared to areas with poor market access. Higher productivity can be attributed to diversified cropping patterns, better access to inputs, and better informed cropping and marketing decisions,

Markets are becoming the focus of policy goals for inclusive growth, since they address the welfare of both producers and consumers. Given the importance of markets, the Government of India invested in markets and brought them under the ambit of a Regulated Marketing Act. The Regulated Markets serve as a platform for the assembly and storage of agricultural produce, and they bring producers and buyers together. The Regulated Markets played an important role during the green revolution era, when production of food grains

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was supply driven and the main goal was meeting the food security requirements at the national level.

Changing context of agriculture markets

However, in the last 2-3 decades, due to liberalization and globalization, rising incomes, urbanization, and changes in tastes and preferences, there has been a shift in consumption patterns towards fruits, vegetables, milk, meat, fish, etc. To meet the changing consumption pattern, farmers have had to adjust their production portfolio. Take, for example, gearing production to meet grades and standards, producing for niche markets for pre specified or organic products (basmati rice, vegetables) and export markets (gherkins, grapes, Hand Picked Selected (HPS) groundnuts, mangoes), tailoring production to meet the requirements of the industry for processed food products, and emerging alternative uses of coarse cereals for poultry feed, alcohol industry, etc. There is thus a movement from supply-driven value chains to demand-driven value chains. Also while farm sizes are getting smaller and smaller, the end users, i.e., processors and retailers (super markets) are getting bigger and bigger, to reap the economies of scale that relate to buying of raw materials, processing, and sale of products.

Under this changing scenario, two issues need to be addressed: (1) Is the present marketing system geared to meet the requirements of the demand-driven value chains? (2) What are the implications for millions of small scale farmers?

Small-scale farmers face a number of constraints related to marketing that include lack of financial and physical assets, lack of access to key information and services, and lack of negotiating power and competitiveness (due to the production of very small volumes of low-quality products). They also do not have access to infrastructure related to Sanitary and Phytosanitary (SPS) measures and food safety issues.

Need for new institutional arrangements linking farmers to markets

The regulated markets in India that played an important role in promoting the food security goal in the 1980s and 1990s are not quite geared to meet the requirements under the consumer-driven supply chains for perishables, export markets, and marketing of pre-specified grades and quality for the processing

industry. The major drawbacks of the present marketing system include the following:

- Localized and price discovery process often is non-transparent;
- Multi-level, with many intermediaries; high transaction/marketing costs;
- Interlinked markets (credit/input and output markets): for example, farmers borrow from the commission agent for crop production and are hence forced to sell the produce to them and thus prone to exploitation;
- Lack of scientific storage facilities/warehouse facility at the markets;
- Quality specification not standardized/lack of grading; and
- Lack of information on market intelligence.

Thus small farmers often end up with distress sales, facing high transaction costs and low prices. The regulated markets were not designed to handle perishables and meet the quality requirements of the processing industry, super markets, and the export market. An efficient marketing system should reduce post-harvest losses, enhance farmers' realization, reduce consumer prices, promote grading and food safety practices, induce demand-driven production, within and outside the country. Marketing is the key not only to catalyse agricultural development but also to foster inclusive growth.

To overcome the constraints of the present marketing system and ensure that small farmers are included in the emerging marketing scenario, several innovative institutional arrangements have been piloted and are being implemented, which would reduce transaction costs and improve market efficiency, i.e., plate-to-plough linkages to meet cost and quality imperatives of end users.

These include, contract farming (several models), direct marketing (vegetables and fruits), cooperative marketing (milk), bulk marketing through Farmers Associations (fruits and vegetables), Producers Company (grains, fruits, vegetables, etc.), Information and Communication Technology (ICT)-enabled supply chains (soybean, coffee, aqua), etc. It is hoped that through these institutional arrangements small-farmer participation in the demand-driven value chains will be ensured, along with initiatives by the government to promote small farmer participation. Each of these arrangements is briefly described in the paragraphs that follow.

Contract farming

Contract farming is one way of linking farmers directly with the buyers. Contract farming is an agricultural production system carried out according to an agreement between a buyer and farmers. Typically, in a contract farming arrangement, the farmer commits to providing agreed quantities of a specific agricultural product that should meet the quality standards of the buyer and be supplied at the time and place that the buyer determines. In turn, the buyer agrees to purchase the product at agreed pricing conditions and, commits to supply of farm inputs, seed, and the provision of technical advice for the crop cultivation, to the farmers.

Some successful models of contract farming include: Maize by Suguna Poultry, barley in Karnataka by Ugar Sugar, gherkins by Global Green. It is a win-win situation for both the parties, as the farmer can sell his produce at a pre-determined price, while the buyer is able to get bulk quantities of required quality by contracting a large number of farmers. While the farmer takes on the production risk, the contracting firm takes on the marketing risk.

Contract farming can be successful only if it is partnership oriented and not transaction oriented. Good communication and trust building are essential features for the success of contract farming. Some contract farming initiatives have failed due to lack of trust or to the farmer or sponsor not meeting their commitments. There is thus a need to ensure better enforcement of the agreements.

Cooperative marketing

Cooperative marketing is the system of marketing in which a group of producers join together and register themselves under the respective State Cooperative Societies act, to market their produce jointly. The members also deal in a number of cooperative marketing activities, i.e., processing of produce, grading, packing, storage, transport, and finance.

An agricultural co-operative marketing society is an association of cultivators formed primarily for the purpose of helping the members to market their produce more profitably than is possible through private trade individually. Cooperatives have existed since many years, and they have been most successful for milk, mainly in Gujarat state of India. In many other states, however, their functioning is being questioned, as the large and well-to-do

farmers corner the benefits due to their political influence and diversion of funds, etc. To promote their independent functioning, several changes are being made to the Cooperatives Act to ensure equitable sharing of benefits.

Farmers' Association/Growers Association/Farmers' Groups

Farmers' associations are informal or formal groups managed by farmers themselves, with a shared goal and interest. Membership in a group can enable the small farmers to access collectively services that are denied to them as individuals. The members work together to achieve their goal by pooling their existing resources, gaining better access to other resources, and then share in the resulting benefits. For example, farmer commodity groups play an important role in bulk marketing of produce pooled from the group members. In this way, the farmers are able to increase their bargaining capacity to get higher prices, learn new skills, and are better informed on market intelligence. Basic market skills prepare farmers in small groups to produce effectively for the market by organizing their production to satisfy market demand. Acquiring basic bargaining skills helps poor farmers to improve their market power, challenge barriers to selling their products, and realize higher profits. Some successful models include Safal Fruits and Vegetables Growers Association, Agrocel Cotton Growers Association.

Farmers Producer Company (FPC)

A Producer Company is like a cooperative with a more formal structure. The FPC would retain the unique elements of a cooperative business venture, but with a regulatory framework similar to that of companies. In other words, FPC is a hybrid between a private limited company and a co-operative society. It combines the goodness of a co-operative enterprise and the vibrancy and efficiency of a company. FPC would help improve returns to farmers through collective input purchase, collective marketing of output, leading to increase in productivity through better inputs, increase in knowledge of farmers, and better of quality of produce. .

With the introduction of regulation on Producer Company, many producer companies have been incorporated across India. Most of the companies emerging in this space are start-ups, which have been promoted by NGOs or development agencies. Despite the odds, this concept is slowly picking up in

India. It would be the ideal model to succeed in the marketing of agriculture produce. Some already successful models include Amul and Indian Organic Farmers Producer Company Limited (IOFPCL).

Direct marketing

Direct marketing or the farmer's market is the system of marketing where the producers and consumers come in contact directly without the intervention of middlemen to buy and purchase the produce. Direct marketing is most successful in horticultural products like fruits and vegetables, which are highly perishable. The direct marketing initiatives are presently functioning in several states (Raitubazaars, Apni mandi, Raitara sante, Uzavar Santhai) in Telengana, Punjab, Karnataka, Tamil Nadu, and Gujarat. The infrastructure for these markets needs to be improved to ensure that small farmers are the main beneficiaries.

ICT Enabled Supply Chains

India is witnessing a revolution in Information Communication Technology (ICT). Its applications in linking farmers to markets are on the rise. The E-chaupal initiative of the Indian Tobacco Company Limited (ITC) is such an initiative. ITC provides information on market prices, agronomic practices, inputs, weather, etc., through internet kiosks, and free of charge. A farmer can sell his produce to ITC at market price, and can also avail inputs from it, if so desired. There are many such initiatives taken by big business houses.

National Spot Exchange Limited – Electronic Spot Market

National Spot Exchange Limited (NSEL) is the national level, institutionalized, electronic, transparent spot trading platform for commodities. It is a structured marketplace, set-up to transform the commodity market by way of reducing the cost of intermediation and thereby improving marketing efficiency. NSEL provides customized solution to farmers, traders, processors, exporters, importers, arbitrageurs, investors and other stakeholders pertaining to commodity procurement, storage, marketing, warehouse receipt, financing, etc.

NSEL commenced "Live" trading on October 15, 2008. At present, NSEL is operational in 16 States in India, providing delivery-based spot trading in 52 commodities, which include agricultural commodities, bullion, metals, energy, and investment products.

The main objective of NSEL is to develop a vibrant electronic spot market in various commodities, and to offer a value proposition to different segments of the commodity ecosystem. The idea is to reduce the cost of intermediation and create an electronic linkage between buyers and sellers across the country.

Policy initiatives under agricultural marketing

The Government of India, realizing the importance of emerging institutional arrangements, has, over the years, come out with a number of policy initiatives, which include the following:

- Model Marketing Act 2003;
- Agmarknet portal;
- Internet connectivity between wholesale markets to create a national market;
- Construction of rural warehouses;
- Strengthening marketing infrastructure, grading, and standardization, and
- National Agriculture Market (e-NAM)

Some key features of Model Marketing Act: The main purpose of the model marketing act is to bring about competitiveness in agricultural marketing, by allowing the private sector to set up new markets and providing greater freedom for farmers and processors to buy and sell outside the regulated markets. The key provisions include the following:

- Setting up of new markets by private or other parties;
- Separate markets for special commodities;
- Direct marketing by farmers to agro-processors;
- Provision for contract farming;
- Futures or forward marketing;
- Prohibition of commission agency in transactions with producers;
- Formation of Farmers 'Associations for bulk marketing;
- Pledge financing and instituting a system of negotiable warehouse receipts;
- Ensuring complete transparency in the pricing system and transactions;

- Providing market-led extension services to farmers;
- Dissemination of market intelligence information (data on arrivals and prices);
- Promoting public-private partnerships in the management of agricultural markets;
- Wider role of State Marketing Boards in training & extension in market-related areas;
- Constitution of Standards Bureau at the State level;
- Market committees permitted to establish required infrastructure facilities in market yards using their funds; and
- Imposition of single-point levy of market fee on the sale of notified agricultural commodities in any market area.

Several states have amended their marketing acts to include provisions of the Model Marketing Act. However, ground level implementation is either slow or yet to take off.

National Agriculture Market (eNAM): This was launched in April 2016. It is based on the creation of an electronic platform that would link major *mandis* in India. Initially, the coverage was for 250 *mandis*, which will be extended to 585 this coming financial year, i.e., 2017-18 . NAM is to help farmers find the best possible price for their produce, by expanding the market nationally and eliminating middlemen. This novel concept, though useful, can succeed only if there is access to high speed computers, uninterrupted web connectivity, an electronic payment system for the buyer to credit the value of purchase directly to the seller's account, and if farmers are appraised on the advantages of e-NAM and its features. Given the infrastructure issues, it may take a few years for this concept to really take off.

Conclusions and Recommendations

New institutional initiatives like contract farming, producer's company, bulk marketing, have been successful in some regions for some crops. There are a number of successful models and some not so successful. The quantity of agricultural produce covered under these institutional arrangement is still small, and their upscaling and replication is a real issue. Scaling up of emerging market linkages should be possible if the political, institutional, legal, and regulatory environment are in place and are market oriented. There is a need to document successful case studies, and the reasons for their success should be highlighted. Rural youth can play an important role in Linking

Farmers to Markets (LFM) activities particularly in Information-technology (IT) related platforms. Design of youth-centric value chains would enable the youth to make use of their skills and continue to be associated with the sector.

The current initiatives on linking small farmers to the emerging sources of demand can be successful only if the government creates a policy environment for their success and upscaling, besides its dependence on public and private sector participation. Some of the areas that need to be strengthened include the following:

Measures for sustainable market linkages

- To create a long-term capacity for small farmers, support organizations and business associations on sound business practices.
- Institutionalization of any model market system that is followed and led by farmers and supported by appropriate policies.
- To establish practical market linkages between buyers, established business chains, trade facilitation institutions and producers/farmers.
- To empower farmers and support organizations to advocate for favorable trade agreements/arrangements and reduce political interference.
- To establish a close network among various agri. firms, money lenders/bankers and the farmers.
- To facilitate effective market linkages of small-scale farmers, their capacity will have to be strengthened in the areas of group organizations and management, basic market skills, innovation, and negotiation skills.

Suggested further reading

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