
Paper for submission to the USAID Workshop to follow the International Food and Agribusiness Management Meeting in Chicago June, 27-30, 2005

Title: *Reforming Agricultural Marketing in India*

Country: INDIA

Author: Larry Paulson

Problem Statement

Three years ago USAID/India assessed the agricultural sector to identify opportunities for USAID re-entry. The assessment recommended initial activities were ranked for implementation at a pace commensurate with management capacity, growth in understanding, and resource levels.

The higher-rank activities were agricultural biotechnology product development and food and agriculture policy analysis, taking advantage of established Washington-managed programs readily extendable to India. Next-tier activities were agriculture market reform, scientific exchanges, on-farm water management, rural ICT and horticultural market development.

This paper addresses market reform and horticultural market development.

Background

Since the 1960s and the Green Revolution, India's agriculture policy has been production-focused. In recent decades public investment in rural roads, irrigation and electricity has fallen and production subsidies have risen. A result has been over-production of relatively imperishable cereals at the expense of higher-value vegetables and fruits. Farmers' selling options are in most cases restricted to the government-approved market.

The production focus, increasingly implemented through subsidies, has distorted normal market price signals that could encourage more-remunerative diversification. It has reduced funds available for public investment in infrastructure of all types. Agriculture support prices, notionally the primary farm income stabilizer, are applied almost exclusively to wheat and paddy and implemented in only four states, directly benefiting about five percent of India's farmers.

Independence-era restrictions on trading, holding or transporting food, and myriad food processing laws that discourage investments, also contribute to the

general failure of internal (inter-state, even inter-district) or external markets to develop.

The net effect is that farming has become economically unviable.

India can grow itself out of poverty with an 8-10 percent annual growth rate. The agricultural contribution to sustain that rate must increase from the recent 2-3 percent to at least 6 percent. This cannot be accomplished by grain farming alone. It requires diversification into horticultural crops and related value-adding packaging and processing. Such an environment depends critically on creating new options and incentives for farmers and those who supply consumers with fresh or processed foods.

The Government of India (GOI) recognizes these issues and is moving to address them. There are a number of promising examples. Commodity futures trading, banned for 30 years, is being encouraged. Government has drafted, and states are adopting, a marketing law that de-monopolizes official markets and permits innovation; Government is programming an end to internal barriers to agricultural trade: a soon-to-be-implemented rationalization of tax regimes indicates support and intent to act.

Objectives

A thriving agricultural sector is a precondition to economic growth and poverty reduction. The strategic objective is increasing rural income. The likely pathway to rising incomes leads through productivity increases that result from increasing farmers' options. Options are increased from alternative venues and arrangements for selling, storing and financing a variety of crops. These alternatives and arrangements come from greater access of food buyers to farmer-sellers, increasing farmers' knowledge of current and predicted prices, and increasing storage and financing options together with farmers' knowledge of them.

Focusing USAID/India's agricultural strategy and investments on marketing constraints thus enables it to more effectively contribute to accelerating agricultural growth. USAID will assist the GOI in creating an efficient agriculture marketing system that creates incentives for farmers to invest in production and productivity enhancement technologies.

USAID's organizational strength lies in its capacity to assist governments to achieve domestic and international trade liberalization, efficient market linkages, market risk management, and efficient resource use. These are the areas the GOI and businesses are requesting our assistance.

Procedures

Agriculture in India is a state subject: implementation and enforcement of regulations, and program delivery, lies with state governments. The Union government formulates policies to guide and coordinate state governments; states may adapt or reject policies, and in any case are responsible for implementation and enforcement. Financing is predominantly from Union budgets.

USAID will therefore cooperate with both Union and state governments. All activities will seek to develop private-public linkages and private sector financial participation. Selection of states in which to pursue activities will be based on opportunity to achieve results.

Present Activities (2003-2006)

Marketing policies

IFPRI (the International Food Policy Research Institute) analyzes policies that treat subsidies, diversification, processing, and the public food distribution system. IFPRI studies have helped USAID define policy issues and interests. Its discussion network has effectively engaged policy-makers and appears influential in advocacy. The GOI is re-visiting agricultural policies dealing with primary market restrictions, transport, taxation, storage, processing and futures trading.

USAID is discussing with the Ministry of Agriculture, institutional linkages to cooperate in areas such as market information and market standards for farmers, traders, processors, et al., marketing education, and storage systems. Linkages are expected to involve the USDA.

Market Chain Development

USAID's Partnership for Food Industries Development, a Michigan State University-led pilot activity in mango marketing in Maharashtra, is responding to demand from both state and private entities for technical assistance to

improve horticulture marketing chains, from producers to consumers, add value to produce (packaging, processing) and create jobs.

Commodity Futures Market Regulation

Three national multi-commodity futures exchanges opened within the past 14 months and will surpass the stock market in value in the near future. There is enormous potential value to agricultural development in developing options for farmers to sell produce, in stabilizing prices and supplies, and in financing production and storage. An initial USAID activity dealt with weak market regulation, at GOI request. Recommendations, widely vetted with and supported by the exchanges and several ministries, are now with the GOI. Early action on them is likely, and further USAID programming would follow.

Potential areas for future activities:

Information & Communication Technology (ICT)

Efficient dissemination of market knowledge (product prices, marketed quantities, and fluctuations in both over time) is a key element of risk management for farmers and traders. ICT is considered a potent tool to address this old 'extension' problem. USAID is monitoring several commercial and NGO initiatives and will look for opportunities to add value to them.

Credit and Insurance

Timely and affordable medium-term credit is a necessary production input. Credit delivery has never been satisfactory. Together with crop insurance schemes, credit is now subject to renewed GOI attention. USAID interest in this issue is likely to be its connection to developments in commodity futures markets.

Expected Results - Outcomes (to FY2008)

Activities implemented under the agriculture strategy focus on systematic broad-scale positive change in options and opportunities for India's farmers.

Domestic Trade Liberalization

The GOI's 'internal common market' goal is achieved, with no restrictions on the movement of food. Value is added to agricultural products through better

packaging or processing. There is wide farmer participation in commodity futures markets.

USAID contributions: Policy analysis and advocacy lead to policy and regulatory changes encouraging private investment in farmer-to-consumer market chains, economic scales of food processing, and production credit for farmers. Model market chains are replicated. Commodity futures markets are well-regulated. Farmers access current prices and price projections.

Efficient Market Linkages

Fruit and vegetable market chains encourage crop diversification in response to demand, create employment, and increases exports for millions of poor farmers.

USAID contributions: New relationships are engendered between processors and farmers, shifting production to higher-value crops. Agri-industries, state agencies and universities bring state-of-the-art food processing and food safety techniques to new markets. The value of produce processed or exported increases.

Better Market Risk Management

Commodity Futures Markets create for farmers price predictability and stability, bankable (negotiable) forward marketing or storage receipt instruments, and marketing choices with respect to timing, location and product. Public and private banks serve as consolidators to help small and marginal farmers. A negotiable warehouse receipt system is in place. Product standardization, storage, processing and packaging, and market information support agricultural marketing.

USAID contributions: A strong regulatory entity. Market information systems. Bank loan officers and clients training support.

Conclusions

- The Mission decision to re-establish programs in agriculture is valid. There is keen interest in cooperation with USAID in agricultural technology transfer, policy analysis, and marketing. U.S. models of, and experience in, market support and regulation are seen as relevant models for India.

-
- Global Field Support is an appropriate and convenient way to enter the sector. Procurement has been accomplished by funds transfers to AID/W or Mission execution of task order or associate award options, resulting in timely and efficient initiation of activities.
 - Marketing - improving systems - is the key to improving rural economic growth, farm income, food security, and trade. "Marketing" in this context includes access, information, options or choices, rules and regulations, policy, finance and organization. The USAID/India focus will be on marketing policy: the rules and regulations and standards that guide public and private investment in procurement, processing, transport and distribution of agricultural commodities.