

# Public Private Partnership (PPP) Approach – for sustainable development of APMCs in Gujarat

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## **Abstract**

There has been great concern in the recent years regarding the efficiency of marketing of agriculture produces in India. It is believed that poor linkages in the marketing channels and poor marketing infrastructure are leading to high and fluctuating consumer prices, and to only a small proportion of the consumer rupee reaching the farmers. There is also substantial wastage, deterioration in quality, and frequent mis-match between demand and supply spatially and over time.

Agricultural Markets in most parts of the Country are established and regulated under the State APMC Acts. The monopoly of Government regulated wholesale markets has prevented development of a competitive marketing system in the country, providing no help to farmers in direct marketing, organizing retailing, a smooth raw material supply to agro-processing industries and adoption of innovative marketing system and technologies.

Gujarat, a major industrial state, also has great potential to develop a vibrant agrarian economy through agro-industrialization by deriving competitive advantages from Gujarat's unique position in the world for many commodities viz; castor, fennel, cotton, tobacco, groundnut sesame, chikus, onion, bananas, isabgul, guarseed and cumin. Moreover, these agri products are produce in certain geographical clusters which makes these clusters prima facie suitable for setting up of common user infrastructure facilities. Despite many strength and well-developed infrastructure facilities, there is enough scope for developing and upgrading agriculture infrastructure in the area of specialized storage facilities, primary and secondary transportation, mechanization, grading standards, export promotion, processing industry support and market intelligence etc. to establish effective linkages between the farm production to market to retail chains to end consumers. Promotion of such a *market-led business model* can enhance the competitiveness and trigger a virtuous cycle of higher productivity, higher incomes, enlarged capacity for farmer risk management, larger investments and higher quality and productivity throughout the supply chain. This encourages the promotion of public private partnership for the professional management of backward and forward linkage of the regulated markets to the rest of the world. Appropriate legal framework is also required to promote direct marketing and contract farming arrangements as alternative marketing mechanism.

The paper is focusing on finding the lacunas of existing APMC Act, current trading practices and availability of infrastructure. It also suggests the Public Private Partnership (PPP) Model for creating a competitive advantage for APMCs of Gujarat in world market in the new economic regime, which enables farmers to undertake market driven production plan and adoption of modern marketing practices.

Keywords: Public Private Partnership Model, competitive advantage, market-led business model, regulated market

## **Introduction**

In recent past, a mountain of food is piled up in government godowns. At the same time, there is alarming destitution in many parts of the country. The Supreme Court has been so moved that it has ordered six states to remedy this anomaly of hunger in the presence of abundance. That is easier said than done. There is practically no country in the world that is able to balance

agriculture production against demand or regulate agriculture incomes to the satisfaction of farmers.

Evidently, India<sup>i</sup> has solved the problem of production but not that of distribution. As Professor Amartya Sen has argued again and again, famines – and acute poverty too - arise from faulty distribution and not for want of goods distribute. The market is powerful tool for promoting production. Unfortunately, it is no good for ensuring equitable distribution.

Agriculture forms the backbone of the Indian economy and despite concerted industrialization in the last five decades agriculture occupies a special pride. It provides employment to 65 percent of the total workforce in the country. Today, agriculture contributes even now a major share of national income in India. The significance of the agriculture in India arises also from the fact that the development in agriculture is an essential condition for the development of national economy. In other words, general economic development requires rapid agricultural development. Thus any changes in agriculture sector either positive or negative have multiplier effect on entire economy. According to the National Agriculture Policy 2000<sup>ii</sup>, the Indian agriculture sector facing the problems of capital inadequacy, lack of infrastructure support and demand side constraints such as controls on movement, storage and sale of agricultural products etc, have continued to affect the economic viability of agricultural sector, consequently, growth has also tended to slacken during the nineties. To overcome these bottlenecks the National Agriculture Policy 2000 aimed to attain the following objectives<sup>iii</sup>.

- i) A growth rate of over 4% per annum in agriculture sector with equity that is based on efficient use of resources.
- ii) Growth that is demand driven and caters to domestic markets and maximizes benefits from exports of agricultural products in the face of challenges from economic liberalization and globalization.
- iii) Growth that is sustainable technologically, environmentally and economically.

### **Agricultural Marketing**

Agricultural marketing is viewed as a process encompassing all the steps involved from the producers to the consumers including pre and post harvest operations. Such operation adds value to the produce in terms of time, place and farm utilities. Agricultural marketing has assumed increased importance after launching of new economic policy and consequent opening up of India's market to world market.

There has been great concern in the recent years regarding the efficiency of marketing of agriculture produces in India. It is believed that poor linkages in the marketing channels and poor marketing infrastructure are leading to high and fluctuating consumer prices, and to only a small proportion of the consumer rupee reaching the farmers. There is also substantial wastage, deterioration in quality, and frequent mis-match between demand and supply spatially and over time.

### **Agriculture Marketing In Gujarat**

Gujarat, a major industrial state, also has great potential to develop a vibrant agrarian economy through agro-industrialization by deriving competitive advantages from Gujarat's unique position in the world for many commodities viz; castor, fennel, cotton, tobacco, groundnut sesame, chikus, onion, bananas, isabgul, guarseed and cumin<sup>iv</sup>. Moreover, these agri products are produce in certain geographical clusters which makes these clusters prima facie suitable for setting up of common user infrastructure facilities (Annexure I). It also has a great potential in agriculture because of its diverse agro climatic zones, trained manpower availability, investment thrust, government support and entrepreneurial acumen. It is endowed with abundant natural resources in terms of fertile land, good river system, varied soil and climatic conditions, good support in terms of industries and most important enterprising people & technical talent. This provides an

immense opportunity to develop a vibrant agrarian economy. Gujarat witnessed an impressive agriculture growth during the 2000-2005 with an average growth rate of 24.11 percent<sup>v</sup>. It stands fourth in the country in terms of per capita agriculture output.

Despite many strength and well-developed infrastructure facilities, there is enough scope for developing and upgrading agriculture infrastructure in the area of specialized storage facilities, primary and secondary transportation, mechanization, grading standards, export promotion, processing industry support and market intelligence etc<sup>vi</sup>.

Gujarat stands at the top level in terms of strength and development of APMCs in India with 173 successfully managed APMCs under the APMC Act 1954<sup>vii</sup>. Each APMC in Gujarat has its own monopoly for particular commodity viz. Mehsana for Vegetables, Ahmedabad for Fruits and Vegetables, Unava for tobacco, Unjha APMC for cumin, isabgul, castor and fennel and siddhapur for castor etc.

### **Focus on Lacunas of Existing Regulated Markets**

- There is a great concern about the scale of operation because farms are small and getting smaller with passing of time. Hence it is difficult and costly to provide knowledge of modern agriculture practices.
- Agri marketing and agro processing industries facing a problem of the availability of material of right quality, in right quantity, at right time and at right price.
- The wide dispersal of produces with small quantity, results in costly transportation and handling efforts to ensure the final markets.
- Long marketing chains and clumsy transfers, resulting in substantial leakage of value and actual physical loss.
- Numerous intermediaries widely spread between farm gate and consumer increase the cost of consumer but not the value received by the producer.
- Limited value addition because of poor linkages to agro processing industries. Even, inefficiencies at post harvest operations like; cleaning, grading, storage, handling and packaging. The losses occur due to excessive moisture, infestation by insects, pests and rodents etc.
- Lack of modern warehousing and storage facilities.
- Local brokers are often in collusion with arhatiyas and therefore the price which is settled is generally to the advantage of the arhatiyas and not to the farmer.
- Farmer does not ordinarily get the information about the ruling prices in the big markets. As a result the farmer have to accept whatever price quoted to them and have to believe whatever the traders tell them.
- Awareness and exploiting the benefits of trading with future market is restricted to big farmers, traders, and other intermediaries; except producers.
- The amount procured under future trading is considerably large for individual farmer; mostly above 3T.
- Poor Backward and Forward linkages of APMCs with producers as well as agro processing industries.
- Lack of linkage and orientation with R & D institutions, as well as poor market intelligence.
- Lack of knowledge of quality parameters and standards.
- Lack of vision, leadership, professional competence etc restricts the development of APMCs and increases the corruption and mal practices.
- Role of APMCs for building integrated channel to connect farm gate to food plate is negligible.
- Existing markets do not play a pro-active role in attracting produce.

- There is hardly any facility/infrastructure for handling, assembling, sorting, grading, packing, transportation, quality certification, palatisation, labeling, pre -cooling, cold storage, ripening chambers etc.

### **New Thinking on Regulated Markets**

Agricultural Markets in most parts of the Country are established and regulated under the State APMC Acts. The monopoly of Government regulated wholesale markets has prevented development of a competitive marketing system in the country, providing no help to farmers in direct marketing, organizing retailing, a smooth raw material supply to agro-processing industries and adoption of innovative marketing system and technologies. There is, in the process, an enormous increase in the cost of marketing and farmers end up getting a low price for their produce. Monopolistic practices and modalities of the state-controlled markets have prevented private investment in the sector.

In recent years however there has been a new thinking is required on the part of central as well as state government to remove the bottlenecks of the regulated markets and facilitates the farming community to benefit from new market opportunities, through integrating and strengthening the internal agriculture marketing system. The central government formulated and circulated a Model Act in the place of existing State APMC Act<sup>viii</sup> which permit the farmers, local authorities and others to establish new markets, setting up of purchase center, farmer/consumer markets for direct sale in any area and promote public – private partnership in management and development of agricultural markets as well as contract farming too. The proposed Act encourage :(a) development of competitive agriculture marketing; (b) deregulate the marketing system; and (c) promote private investment in management and development of agricultural markets in India.

**Table: 1 State-wise status of reforms in APMC Acts as on 31 December 2006:**

SI No.	Stage of Reforms	States/ UTs
1.	States/ UTs where APMC Acts have been suitably amended.	Madhya Pradesh, Himachal Pradesh, Punjab, Sikkim, Nagaland, Andhra Pradesh, Chattisgarh, Rajasthan, Orissa, Arunachal Pradesh, Maharashtra and Chandigarh.
2.	States/ UTs where reforms to APMC Acts have been partially modified: a) by amending APMC Act/ Resolution b) by Executive Order	Haryana, Karnataka, Gujarat and National Capital Territory of Delhi  Uttar Pradesh.
3.	States/ UTs where there is no APMC Act in operation	Bihar, Kerala, Manipur, Andaman & Nicobar Islands, Dadra & Nagar Haveli, Daman & Diu and Lakshadweep
4.	States/ UTs where APMC Act already provides for the reforms	Tamil Nadu
5.	States/ UTs where administrative action has been initiated for introducing the reforms	Assam, Mizoram, Tripura, Meghalaya, J&K, Uttrakhand, Goa, West Bengal Pondicherry and Jharkhand.

(Source: Ministry of Agriculture, Government of India)

### **Challenges to Existing Markets**

The main problem, which the farmers face is related to the marketing of their produce. Most of the States have ‘Agricultural Produce Marketing Committee Act’ which forces the individual farmers to sell their produce only to designated agencies and do not allow them to sell in the open market.

The State Governments of Madhya Pradesh, Maharashtra, Karnataka, Punjab and Uttar Pradesh have amended their Agricultural Produce Marketing Committee (APMC) Act/Rules for direct marketing and/or for permitting private and cooperative investments for setting up of agricultural markets.<sup>ix</sup> The marketing in Indian Agriculture is something, which has been, neglected all this while.

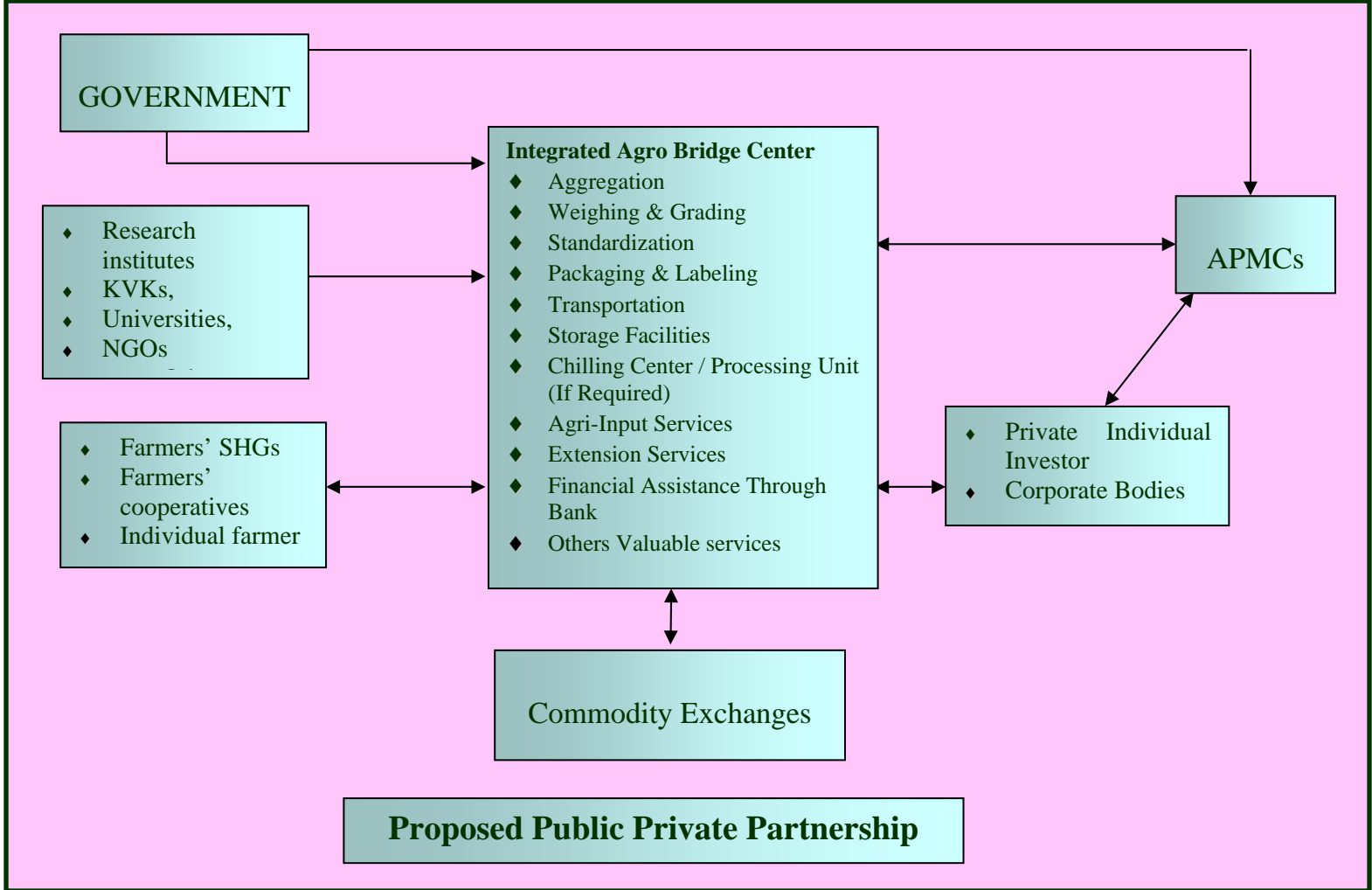
- The Indian agriculture market is growing with the aspiration of achieving greater international exposure. Even with the increasing level of population the critical areas like food availability, food accessibility and food security are demanding the great interest of concern. The food products capture almost 53 percent of private consumption expenditure and demand rises consistently at almost 8 percent. Even the concept like perishability and health and hygiene are covering the considerable place in consumer basket.
- Another eye-catching issue is the infrastructure inadequacies of marketing support for farmers as well as poor guidance on forward linkages that are necessary for the farmers to get the remunerative price of their produce.
- Initiative of government to permit the corporate bodies to enter into the agriculture sector and develop the value chain as backward integration to continue the supply of food grains, fruit and vegetables to their organized retail chain at a lower cost will raise the questions of long term survival of APMCs.
- Identifying and seizing opportunities, however, requires an up-to-date awareness about industry developments as well as a sound understanding of the society and policy impacts of every action taken. With the agribusiness industry expanding beyond food to energy, the need for innovations has emphasized at initial level. In response, organizations are making bold moves as they strive to operate differently and to do what is right... there is a felt need to inculcate and develop proactive thinking and proper planning for charting the road map of the future.

### **Public Private Partnership Approach**

To develop the integrated agri-value chain, linking various stakeholders of agriculture market the Public Private Partnership approach can provide a better platform. The “Integrated Agro-Bridge Center”, which would not only fulfill the agriculture input requirement but also provide better and efficient agriculture produce market. In India the agriculture produce is distributed according to geographical proficiency. Such distribution can be termed as the production hubs for the particular crop. Successful replication of PPP models across various production hubs for key commodities can lead to the evolution of Indian agriculture from inefficient, supply driven, low-value business scenario to an organized, high-tech, demand-led and high-value orientation.

### **Features of the PPP Model**

- ◆ The model would help the farmers to shorten the cost of cultivation by reducing the post harvest losses, transportation costs, energy losses by maximizing the optimum use of available resource, enhancing environment quality and earning better profit from better quality product.
- ◆ The higher returns can be ensured through high quality product, off-season availability, and through enhancing the productivity, which would help the government to meet the issue of food security to certain extent.



- ◆ The level of sophistication is likely to rise in the PPP model, which may lead to increase the level of dissatisfaction among existing players of APMCs. The suggested model will try to create a market place, which works, in its natural form where large number of buyers and large number of sellers participate in transactions and decide price without monopoly of any dominant market player.
- ◆ The present system dose not cope up with cultural change, technological advancements and professional expertise of different stakeholders. IT applications have opened various dimensions of backward and forward linkages, which will ensure transparency and efficiency. Even various opportunities of collaborative arrangements with exchequers in PPP model, the farmers may not prefer to take risk in dealing with APMCs.
- ◆ Due to involvement of Research institutions like universities and the private players, the migration of the advanced and the best practices in production and processing would be faster and smoother. Farmers would enjoy the price realization and quality up gradation through TOT approach (Transfer of Technology).

Thus, the PPP model would provide the multi-user facilities and establish an integrated agro-value chain, which would amplify the agriculture operational efficiency. Even the private players would also get the benefit due to well-organized structure of the market.

### **Principles of Proposed PPP Model**

- ◆ Represent unique and advanced aspect of agriculture in Gujarat.
- ◆ Provide an effective, technical and commercial high-end platform to Indian agriculture Sector.
- ◆ Educate various stakeholders of Indian agriculture process.
- ◆ Create a direct interface between various stakeholders.

Appreciating the imperative of intermediaries in the Indian context, the PPP model virtually clusters all the agri-value chain participants, delivering the benefits on equal ground. The PPP model makes use of the physical transmission capabilities of intermediaries – aggregation, grading, logistics, counter-party risk and bridge financing – by providing them the chain of information flow and market signals. With a judicious blend of click & mortar capabilities, “Integrated Agro-Bridge Center” managed by representative of Farmers Self Help Group, farmers’ cooperatives, Government and APMCs officials as well as the professionals from investors. The model would enable the agricultural community access ready information in their local language on the weather, market prices, disseminate knowledge on scientific farm practices & risk management. It would also facilitate the sale of farm inputs, purchase farm produce from the farmers’ doorsteps and provide them more efficient market through APMCs.

### **Working Force of PPP Model**

Even though, the APMCs in Gujarat is working very effectively, the professional efficiency can be added through PPP model. The farmers sell their produce directly through open auction at APMCs where the commission agents play the vital role. The price spread is also wide because the majority of the farmers are unaware of actual ruling prices in other markets.

“Integrated Agro-Bridge Center” would be the joint venture of APMCs and Private investors to strengthen the agri-value chain. The APMC would facilitate the land as part of its equity and the private investor would develop other infrastructure. Both the partners would likely to follow the policies by the government in their functioning. The center would get the membership charges from the group of farmers in respective areas. The research institutes, KVKs, Universities, and NGOs would be the knowledge partners of the model. This segment would provide the extension services consistently.

The representative of the Farmers groups, the officials from government, APMCs, and knowledge partners as well as the executives of private investors would organize the governing body of the model.

### The Agri-Value Chain

The produce would aggregate by the center from group of farmers. The individual farmer can also supply his produce on membership basis. The center would work as the heart of the model. At the center, the value added operations of agriculture produce like, weighing, grading, cleaning, standardization, packaging, labeling etc would be carried out. The trained professionals would handle the same. The center would also provide the agriculture inputs at rational price. The extension services would be provided with the help of knowledge partners either through visits or through practical trainings at center as well on the farm with the help of demonstration plots. The center would help the members for getting financial assistance from banks. The center would be linked with commodity markets, to make aware of forward market prices of various commodities in domestic as well as international markets at the hub itself. The group of farmers would be permitted to deal directly with the commodity market after paying the charges of value addition. The produce would be directly placed for the open auction in APMCs by the center to discover better price. The private investor would get the benefit of no-license fees for purchasing of the produce from the APMCs. They can also participate in open auctions. Even they would be allowed to procure the produce from the hub at prevailing forward market price. The farmers would get the return on the basis of the quantity and quality of their produce they deposited at the hub.

### Conclusion

In day-to-day reality of the business, Supply chain formation, value addition and efficient market are creating equality between trade partners. The sustainable and professional relationship between them play a vital role. The government as well as private sectors is having two fold responsibilities in cross border trading. On one hand a good climate in agri-value chain and market is required to develop and on other hand to create better environment for small and marginal farmers by proving them a holistic platform. In this paper, the proposed PPP model indicates the role and responsibility of the public and private sectors to strengthen the market competitive ness of Indian agriculture.

### References

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- v Yes-Bank report, 2006.
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- vii Report of Unjha APMC.
- viii “Indian Economy”, op. cit.
- ix Report drafted by Yes-Bank, 2006

### ANNEXURE I

#### The production wise cluster distribution:

CROP	CLUSTER
Fruit crops	South Gujarat region, Charotar area and part of Saurashtra region
Vegetable	Middle Gujarat, Part of Saurashtra region
Oilseed	Saurashtra, part of North Gujarat
Spices	North Gujarat, Part of Saurashtra region
Medicinal Herbs	South Gujarat, North Gujarat and Middle Gujarat

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