manufacturers in handling, storage, transport, packing, marking and labelling of containers, and in the use of flavouring/colouring material and preservatives. Meat food products are subjected to laboratory testing to ensure that they are free from poisonous metals.

Prevention of Food Adulteration Act, 1954

The Prevention of Food Adulteration Act, 1954 aims at achieving the objective of protection of the consumers against the sale of adulterated or substandard articles in the market. The minimum quality standards have been laid down for the enlisted food items under this Act. Enforcement staff have powers to draw the samples of food items from the manufacturer to retailing outlet and get them tested by the Public Analyst. In case the sample is found to be sub-standard or adulterated, the lot is seized and prosecution is initiated against the party which is liable to be punished upon conviction. This Act has been a powerful deterrent against the manufacture and sale of adulterated or sub-standard food products.

The Prevention of Food Adulteration Act, 1954 was promulgated with effect from June 1, 1955. The Act was further amended in 1976. The major objective of enacting this Act was to protect the public from harmful and poisonous food. With the passing of this Act, a uniform food law was prescribed for whole of the Indian Union. The Act sets out certain basic requirements of food quality such as absence of extraneous matter, preparation and handling under sanitary conditions, use of certified food additives, preservatives and synthetic colours, packaging in sound containers, proper branding and declaration of the quantity of contents in the package. The Act provides for the local authority of food (health) to prohibit the sale of any article of food in the interest of the public health. The Central Committee for Food Standards (CCFS) has been functioning since 1941 under the aegis of the Ministry of Health and Family Welfare. The function of this committee is to advise the Central and State Governments on matters arising out of the administration of the Prevention of Food Adulteration Act. The CCFS consists of the representatives of the central and state governments and certain research institutes, besides representatives of agricultural, commercial, industrial and consumer interests. At present there are 85 public analysis laboratories in the country which are administered by the central/local bodies/state governments. In the event of the report of the food sample given by a public analyst appearing to be erroneous, there is a provision in the PFA Act to get the second part of the sample reanalysed by another public analyst in the country.

SUGGESTIONS FOR LEGAL POLICY REFORMS IN FOOD AND AGRICULTURAL MARKETING

Following policy reforms have been suggested in the Tenth Five Year Plan which can benefit both farmers and food consumers (Planning Commission, 2002-07):

(a) Amend Essential Commodities Act to make it an emergency provision to be invoked for a limited period.

(b) Abolish octroi and all taxes/levies on food articles.

(c) Allow & encourage state food corporations and private sector to operate freely throughout the country.

(d) Remove licensing controls and dereserve all agro-based and food processing industries—sugar, milk, roller flour mills, rapseed and groundnut processing units, pesticide and fungicide units and fertilizer producing units.

(e) Remove all restrictions on exports of agricultural commodities and agro-products.

(f) Lift ban on futures trading and stocking of all agricultural commodities.

(g) Lift ban on institutional credit and finance on all marketing and processing activities.

(h) Amend State Agricultural Produce Marketing Acts to allow direct purchase of grains and other products from farmers by agro-produce trading, storage and processing companies.

(i) Allow foreign direct investment in food retailing.

(j) Speed up the process of integrating multifarious laws (27) relating to food into one modern food law.

ALTERNATIVE MARKETING SYSTEMS

Presently all the wholesale markets in almost all the states and union territories of the country have been regulated under their respective Agricultural Produce Marketing Regulation Acts. Under these Acts, the whole geographical area of the state is divided and declared as market area of one or the other regulated market. The markets are managed by the market committees constituted by the state governments under these Acts. Within the markets area, marketing of specified agricultural commodities is regulated in accordance with the provisions of the market regulation Act. Once a particular area is declared as a market area under Agricultural Produce Marketing Act and falls under the jurisdiction of a particulars market committee, only licensed persons or associations are allowed to carry on wholesale marketing activity. Thus, regulation of markets has given the monopoly power to market functionaries in these regulated wholesale markets.

The present regulatory set-up in wholesale markets has lead to following situations:

(i) An oligopoly situation has emerged and made the traders to dominate the market forces.

(ii) Most of the APMCs and SAMBs members are nominated rather than elected and hence lack direct accountability to the users of markets.

(iii) In actual operation of the market, farmers continue to lack effective voice and hence have low marketing power.

(iv) Large number of small farmers is unable to effectively bargain in the market.

(v) Farmers still depend on traders for credit. There is thus an inter-locking of credit and product markets. Farmers receive payment for sale of their produce in piece meals, perpetuating dependence on trader for cash needs. The farmers loose the freedom to find the best buyer at the time of sale of their produce.

(vi) Services provided by the existing markets are inadequate and ineffective specially about price information and technical matters.

It appear that the present system of marketing (regulated markets) is not amenable to easy and efficient transformation. Hence, a need is being felt to look for Alternative Marketing System for modernising the present system to provide better returns to farmers and reducing marketing system inefficiencies. It is envisaged that the alternative system may operate parallel to, and in addition to the present regulated markets. The purpose of the alternative marketing structure is to establish modern efficient trade practices as a catalyst for changes in the market towards improved transparency and efficiency. (Expert Committee on Agricultural Marketing, 2001).

Alternative marketing system may be any one of the following forms:

(i) Direct Marketing by producers—Direct marketing enables the farmers to meet the specific requirement of wholesalers, retailers and consumers. It thus helps farmers to take advantages of favourable prices and improve their net share. It also enables farmers and buyers to economise on transportation costs. It also breaks the monopoly of regulated markets. Direct marketing to wholesalers and agro-industrial processors by farmers pre-supposes knowledge of buyer's needs among farmers and knowledge of the capability of the farmers among wholesalers and agro-industrial processors. Availability of such knowledge cuts costs related to the gathering and estimation of needs and capabilities, and enables the transactions through purchase order for long-term deliveries and payments.

Direct marketing (retailing) by farmers to the consumers is already going on in different states through Apni Mandi in Punjab, Haryana and Rajasthan, through Rythu Bazars in Andhra Pradesh and through Uzhavar Sandies in Tamil Nadu. These markets are more popular for retailing of fruits and vegetables grown around metropolitan cities and nearby towns. At present these markets are being run at the expenses of the state exchequer, as a promotional measure to inculcate habit of marketing without the help of middlemen by the small and marginal producers of fruits and vegetables. There is need to set up more such markets in the organised sector with private investment.

(ii) Marketing through Farmers Interest Groups—The other alternative marketing system is marketing by farmers organizations. The government is encouraging such organizations by providing several incentives for refrigerated as well as for general transport, setting up of grading and packing houses, and by providing easy credit.

The marketing through informal groups by hiring common facilities of post harvest management and hiring joint transport have also been successful in several South-East-Asian countries like Thailand, Philippines and Malaysia. Successful cases are available in India too. The group action strengthens bargaining power of the farmers and provides better share in net returns by distributing marketing costs on larger volume of goods.

It is also important for the farmers in a liberalised marketing environment to organise themselves into strong cooperatives or Self Help Groups (SHGs) because in a market friendly economy, producer or member friendly cooperatives or SHGs are critical in creating competitive trade environment.

(iii) Marketing Through Rural Youth—Another form of direct marketing is involvement of unemployed youth in procurement of orders and supply of graded and packed products to different city dwellers. The youth after their proper training in marketing practices, can move into different localities to obtain offers from bulk consumers and procure supplies of needed quality directly from the producers. They can sort, clean, grade and pack these products right in the villages before onward transmission to the retail outlets of consumers. The financial assistance from the public sector to such ventures of unemployed youth would generate entrepreneurship and provide profitable employment to the younger generation.

(iv) Establishment of Private Sector Terminal or Mega Markets—Establishment of terminal markets by the private sector is another area of alternative marketing system. Agri-Export Zones and Food Parks are examples of this system.

(v) Electronic Trading or E-commerce—The electronic trading is another form of alternative system of marketing. Every market committee can be provided with the facility of electronic trading by setting up kiosks for this purpose. The young entrepreneur can be supported financially to set-up portals on their own. Such kiosks can provide information to buyers and sellers about online demand of different products, and product specifications with regard to quality, packsize, packing material and time frame of supply.

INCENTIVES BY THE GOVERNMENT FOR DEVELOPMENT OF AGRICULTURAL MARKETING

To achieve the basic objectives of efficient agricultural marketing, several schemes have been launched by the Central and State Governments/Organizations/Institutions. All these schemes are in the form of providing various incentives for improving the marketing system in the country. In this section a summary of these incentives has been provided.

(i) Ministry of Food Processing Industries, Government of India—The Ministry of Food Processing Industries has initiated several incentive schemes to promote improvement in marketing and processing infrastructure for value-addition in agricultural commodities. The Ministry has designated a Nodal Officer in major states for this purpose. The assistance in terms of technical, subsidy and loan facility is made available in following four broad areas:

(a) Setting up, expansion and modernization of processing units for vegetable products, fruit products, milk products, grain milling, cereal products, fish processing, meat products, poultry products and oilseed processing.
(b) Setting up of post-harvest infrastructure facilities like food-park, cold storage, and grading, sorting and packaging units.
(c) To enhance backward linkages by providing subsidy on procurement of raw material under contract farming arrangements.
(d) Quality up-gradation by providing assistance for up-gradation to ISO/HACCP certificates.

(ii) Incentives provided by the Central Sector Organisations/APEX level bodies such as NABARD, APEDA, NCDC, and NHB—These institutions have initiated schemes to boost exports of agricultural commodities, which indirectly help the farmer producers in getting better prices. These include:

(a) Construction of cool chains and storage units.
(b) Establishing export processing units including grading and packing units.
(c) Support for development of market information system.
(d) Establishment of testing units.
(e) Providing incentives in the form of revenue relief, grant of relief for certain commodities such as freight subsidy, duty drawbacks, excise rebate, foreign exchange concession, replenishment benefits for agricultural machinery, providing packing credit and post-shipment finance.

(iii) Incentives by the State Governments or the State Level Institutions—The State Governments have also initiated a number of schemes to augment the arrival of agricultural produce in the regulated markets to help the farmers in increasing their holding capacity. These include:

(a) Providing pledge loan against agricultural produce by APMCs.
(b) Providing cleaning and grading facilities in the markets for agricultural produce.
(c) Providing facility of free transportation of produce from villages/threshing floors to markets.
(d) Supply of inputs by having a input shop in the market yard.
(e) Providing free consultancy to the farmers visiting the mandis.
(f) Start of Kisan Card scheme

13.	Meghalaya	The Meghalaya Agricultural Product Markets Act, 1980. (Act 1 of 1980)	No market has yet been regulated.
14.	Mizoram	The Mizoram State Agricultural Produce Marketing (Regulation) Act, 1996 (Act 11 of 1996)	—
15.	Orissa	The Orissa Agricultural Produce Markets Act, 1956. (Act 3 of 1957)	—
16.	Nagaland	The Nagaland Agricultural Produce Marketing (Regulation) Act, 1985 (Act 1 of 1989)	—
17.	Punjab	The Punjab Agricultural Produce Markets Act, 1961. (Act 23 of 1961)	Amended in 1961, 1962, 1963,1966,1969,1970,1971 & 1974.
18.	Rajasthan	The Rajasthan Agricultural Produce Markets Act, 1961. (Act 38 of 1961)	—
19.	Sikkim	The Sikkim Agricultural Produce Market Act, 1993 (Act 1 of 1993)	—
20.	Tamil Nadu	The Tamil Nadu Agricultural Produce Markets Act, 1959. (Act 23 of 1959)	—
21.	Tripura	The Tripura Agricultural Produce Markets Act, 1979 (Act 15 of 1983)	—
22.	Uttar Pradesh	The Uttar Pradesh Krishi Utpadan Mandi Adhiniyam, 1964 (Act 25 of 1964)	Amended in 1970, 1973, 1977, 1978.
23.	West Bengal	The West Bengal Agricultural Produce Marketing (Regulation) Act, 1972 (Act 35 of 1972)	—
24.	Chandigarh	The Punjab Agricultural Produce Markets Act, 1961 (Punjab Act 23 of 1961)	Adopted by the Union Territory.
25.	Delhi	The Delhi Agricultural Produce Marketing (Regulation) Act, 1976. (Act 87 of 1976).	—
26.	Goa, Daman & Diu.	The Maharashtra Agricultural Produce Marketing (Regulation) Act, 1963 (Maharashtra Act 20 of 1964).	Adopted on 19th June, 1968.
27.	Pondicherry	The Pondicherry Agricultural Produce Markets Act, 1973. (Act 3 of 1974).	—

Market Regulation Act has not been enacted in Jammu and Kashmir; Andaman and Nicobar Islands; Dadra and Nagar Haveli; Lakshadweep; and Kerala.

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Chapter 8

Cooperation and Cooperatives in Agricultural Marketing

COOPERATION IN INDIA

MEANING

The Word cooperation is composed of two Latin words 'Co' and 'opus'. The word 'co' means to work and 'opus' means together. Cooperation thus means working together or jointly. In simple words, the cooperation can be defined as a form of association of people to work together in order to achieve a particular end but the scope of cooperation is very wide. Cooperation is a philosophy, a ruling principle of our social, educational and industrial life.

Cooperation stands for voluntary association of members for some economic and/or social objective. In brief, it is self help made through effective organization. Cooperation is based on the principle of help of people especially marginalized individuals who are powerless and to provide benefits (economic/social/moral) to them equal to rich, powerful and resourceful persons, through their joint efforts.

Cooperation has the following three elements:

(i) Coming together of individuals on voluntary basis;

(ii) Equality among members irrespective of capital contributed (one vote for each); and

(iii) An honest economic and social objective.

The cooperative associations resemble the private business corporations in its method of operation. Principally, as a business institution, the cooperatives must succeed on their own merits. It should not seek any paternalism but should receive the same fair treatment as accorded to other business concerns by the government. Basically, the cooperatives are the economic organizations where members are owners; operators and contributors of commodities handled and are direct beneficiaries of the savings that may accrue. No intermediary has to gain or suffer at the expense of members of that organization. It must conduct business according to sound business principles.

Cooperation as a form of economic organization differs from capitalism and socialism. Cooperation involves all the basic aspects of capitalism. These are:

(i) Private property right in producer and consumer goods;
(ii) Capital is invested for gain by the investor;
(iii) Inheritance to the property and rights;
(iv) Right of free enterprise;
(v) Right of contract;
(vi) Personal liberty; and
(vii) Guaranteed privileges to the individuals.

As in capitalism, in cooperation also payment is made for the services utilized and profit is distributed among the individuals as in private corporation. However, the cooperation avoids the drawbacks of capitalism, such as waste, exploitation of workers, absence of any voice of workers in management, denial of share to workers and profit, predominance of self interest and existence of excessive individualism.

Cooperation also differs from socialism. There are, however, some similarities in economic organization between socialism and cooperation. These are:

(i) Common ownership and operation of production units to some extent;
(ii) Service and not the profit as main objective; and
(iii) Capital subordinated to the individuals

On the other hand, cooperation avoids the shortcomings of socialism as–

(i) There exists great supervision of individuals;
(ii) Excessive interference of state in all affairs of production is absent; and
(iii) There is a lack of self interest.

Thus, cooperation combines the advantages and avoids the disadvantages of both capitalism and socialism.

MOTIVES OF COOPERATION

Cooperation can be studied in respect of its motives from three angles, *i.e.*, social, political or economic motives. There are three basic corresponding motives in these spheres as under:

	Social	Political	Economic
(i)	Freedom	Liberty	Opportunity
(ii)	Justice	Equality	Security
(iii)	Brotherhood	Fraternity	Partnership

PRINCIPLES OF COOPERATION

The important principles of cooperation are:

(i) Voluntary organizations – It is voluntary to the individual to join or not to join the organization.

(ii) Management of the organization – It is based on democratic principle *i.e.*, one vote of each member irrespective of financial contribution by the individual to the organization.

(iii) The working is based on the principle of mutual self-help and reliance. The motto of cooperation is "each for all and all for each". In other words, it is help of himself through the help of others.

(iv) The aim of the cooperation is not to promote merely the economic interest of its members but also for moral and educative values.

(v) Honesty is capitalized *i.e.*, loans to the members are given mostly on personal security.

(vi) Loans to the members are given mainly for productive purposes.

(vii) Neutral to caste, religion, and political party to which members belong.

(viii) Emphasis in working is on person and not to his wealth.

(ix) Service is the motto of a society and not earning the profits.

ADVANTAGES OF COOPERATION

The advantages accrued to the members joining the different forms of cooperation can be grouped into four broad groups as under:

(i) Economic benefits – These benefits can be in terms of availability of loan at low rate of interest, low marketing cost per unit of output in sale of agricultural produce through cooperative marketing society, etc.

(ii) Moral benefits – It boosts the moral of the members as it increases among them the habit of savings and thrift.

(iii) Social benefits – The society as a whole is also benefited. The members plan and carry such activities, which are beneficial for the whole society *viz.*, water management decisions, use of CPRs and joint decisions for removal of social evils.

(iv) Educative benefits – The members also get benefits in terms of improvement of their understanding power through opening of schools or start of literary campaigns in the society.

STRUCTURE OF COOPERATIVES IN INDIA

Cooperation has mostly a three tier structure which is pyramidal in shape *i.e.*, it is broad at the base level and narrows down at the apex or top level. The examples of three tier structures of cooperative credit and marketing are portrayed below:

Three Tier Structure of Cooperative Credit

Level	Short-Term Credit
(i) Primary	PACS (Primary Agricultural Cooperative Credit Societies)
(ii) District	CCBS (Central Cooperative Banks)
(iii) State Level	SCB (State Cooperative Bank)

Three Tier Structure of Cooperative Marketing

(i) Village Level	Primary Agricultural Cooperative Societies (PACS)
(ii) Intermediate Level	Primary Agricultural Marketing Societies (General purpose or product specific)
(iii) State Level	State Cooperative Marketing Federation (General purpose or product specific)

The structure of cooperation thus resembles a pyramid with large number of societies at village and few societies at district or intermediate level and one society at the state level. The state level cooperative organizations have a national level federation.

HISTORY OF COOPERATIVE MOVEMENT IN INDIA

The cooperative movement saw the light of the day in 1844 in England. Later, on the guidance of Schultz, F.W. and Raiffeisen, F.W., cooperative credit societies were started in Germany. This has been the model to the present day cooperative credit structure in the world.

In India, the idea of cooperative movement was first conceived by the then Madras Government in 1892. Sir Frederick was appointed to find ways and means for the constitution of agricultural banks in the state. He suggested the formation of Raiffeisen type societies. These societies started to function in the present century to protect the farmers from exploitation by the traders. Further, on the basis of the precise report of Fredrick Nicholson and Duperhex that the cooperatives were considered worthy of every encouragement. Taking this view as well as the recommendations of the Famine Commission, 1901, a pilot bill was passed and an Act was approved by the legislative council in 1904 to meet the credit needs of rural people. As such the Act of 1904 was a pioneer Act in the cooperative credit movement in India.

The Act of 1904 was amended to meet the growing needs of rural credit and the limitations of the Act were removed by passing another Act in 1912. The Act of 1912 gave a fresh impetus to the growth of cooperative movement by including marketing and processing also in addition to rural credit. In 1914, Sir Edward Maclagan Committee suggested many more changes. In 1919, Government took measures under the Reforms Act of 1919 to make the cooperative credit more effective for furtherance of agricultural growth. In 1945, the Saroya Committee and in 1954 Gorawala Committee suggested changes for improvement in the cooperative system for the welfare of the farmers. Since then, several committees examined the status of cooperatives from time to time and made suggestions for them to play an important role in rural and agricultural development including marketing of farm inputs and products.

COOPERATIVE MARKETING

The establishment of co-operative marketing societies was another step which has been taken to overcome the problems arising out of the present system of marketing agricultural produce. The objectives of economic development and social justice can be furthered by channelising agricultural produce through cooperative institutions.

Private agencies dominate the Indian foodgrains trade. Farmers complain of the marketing system because they get lower prices, due mainly to high marketing charges and the prevalence of malpractices. The efforts of the government to improve the marketing system of agricultural commodities have been only partially successful in creating healthy conditions for scientific and efficient marketing. Moreover, the progress of regulated markets is not uniform in all areas. The need for strengthening co-operative organization has, therefore, been recognized for the marketing of the produce of farmers and for making inputs available for them at the right price and time. The co-operative institutions are expected to function as competitors of private traders in the market. These organizations pool the produce of the small farmers having a small surplus to market and improve their bargaining power. They have also helped government agencies in the execution of the policy decisions bearing on the procurement and distribution of foodgrains and other essential commodities.

MEANING

A co-operative sales association is a voluntary business organization established by its member patrons to market farm products collectively for their direct benefit. It is governed by democratic principles, and savings are apportioned to the members on the basis of their patronage. The members are the owners, operators and contributors of the commodities and are the direct beneficiaries of the savings that accrue to the society. No intermediary stands to profit or loss at the expense of the other members.

Co-operative marketing organizations are associations of producers for the collective marketing of their produce and for securing for the members the advantages that result from large-scale business which an individual cultivator cannot secure because of his small marketable surplus.

In a co-operative marketing society, the control of the organization is in the hands of the farmers, and each member has one vote irrespective of the number of shares purchased by him. The profit earned by the society is distributed among the members on the basis of the quantity of the produce marketed by him. In other words, co-operative marketing societies are established for the purpose of collectively marketing the products of the member farmers. It emphasises the concept of commercialization. Its economic motives and character distinguish it from other associations. These societies resemble private business organization in the method of their operations; but they differ from the capitalistic system chiefly in their motives and organizations.

FUNCTIONS

The main functions of co-operative marketing societies are:

(i) To market the produce of the members of the society at fair prices;

(ii) To safeguard the members for excessive marketing costs and malpractices;

(iii) To make credit facilities available to the members against the security of the produce brought for sale;

(iv) To make arrangements for the scientific storage of the members' produce;

(v) To provide the facilities of grading and market information which may help them to get a good price for their produce;

(vi) To introduce the system of pooling so as to acquire a better bargaining power than the individual members having a small quantity of produce for marketing purposes;

(vii) To act as an agent of the government for the procurement of foodgrains and for the implementation of the price support policy;

(viii) To arrange for the export of the produce of the members so that they may get better returns;

(ix) To make arrangements for the transport of the produce of the members from the villages to the market on collective basis and bring about a reduction in the cost of transportation; and

(x) To arrange for the supply of the inputs required by the farmers, such as improved seeds, fertilizers, insecticides and pesticides.

HISTORY

The history of co-operative marketing in India dates back to 1912, when the Co-operative Marketing Societies Act, 1912 was passed. The first Co-operative Society was formed in Hubli in 1915 to encourage cultivation of improved cotton and to sell it collectively. In 1918, the South Canara Planters Co-operative Sale Society was formed in the then Composite Madras Province for joint sale of arecanut. The Royal Commission on Agriculture (1928) stressed the need for group marketing instead of individual marketing. The Central Banking Enquiry Committee (1931) also underlined the need for organised marketing. The XI Conference of Registrars of Co-operative Societies (1934) also emphasised the importance of Co-operative Marketing. In 1945, the Co-operative Planning Committee recommended that atleast 25 percent of the marketable surplus should be channellised through Co-operative societies within the next 10 years by forming one society for a group of 200 villages.

The All India Rural Credit Survey Committee (1954) brought to light the dismal performance of the existing marketing co-operatives. In a sample of 75 districts surveyed, there was no co-operative marketing society in 63 districts. In remaining districts only around one percent of the total sale of agricultural produce was done through the societies. The committee suggested the establishment of primary co-operative marketing societies and linking of credit with marketing. The First Five Year Plan (1951–56) laid stress on the establishment of agricultural marketing and processing co-operative societies. In 1958, the National Agricultural Co-operative Marketing Federation (NAFED) was established as the apex body of co-operative marketing. In 1963, the National Co-operative Development Corporation (NCDC) was set up for promoting programmes relating to co-operative societies. The Mirdha Committee (1965) recommended that the membership of agricultural marketing societies should be restricted to the agriculturists and traders should not be allowed to join agricultural marketing societies.

The Dantwala Committee (1966) stressed the need for co-operation and integration among the various co-operative organisations after reviewing the pattern of co-operative marketing, distribution of inputs to farmers and supply of consumer products. Based on the survey of the co-operative marketing societies in 1968, the Reserve Bank of India recognised that effective iinking of credit with marketing was necessary. The All India Rural Credit Review Committee, 1969 also recommended the strengthening of co-operative marketing, with a view to helping the government agencies in the execution of price support programmes. There is a multi-state cooperative marketing Act in place now.

TYPES

On the basis of the commodities dealt in by them, the co-operative marketing societies may be grouped into the following types:

(i) *Single Commodity Co-operative Marketing Societies*

They deal in the marketing of only one agricultural commodity. They get sufficient business from the farmers producing that single commodity. The examples are Sugercane Co-operative Marketing Society, Cotton Co-operative Marketing Society and Oilseed Growers Co-operative Marketing Society.

(ii) *Multi-Commodity Co-operative Marketing Societies*

They deal in the marketing of a large number of commodities produced by the members, such as foodgrains, oilseeds and cotton. Most of the co-operative marketing societies in India are of this type.

(iii) *Multi-purpose, Multi-commodity Co-operative Marketing Societies*

These societies market a large number of commodities and perform such other functions as providing credit to members, arranging for the supply of the inputs required by them, and meeting their requirements of essential domestic consumption goods.

STRUCTURE

The co-operative marketing societies have both two-tier and three-tier structure. In the states of Assam, Bihar, Kerala, Madhya Pradesh, Karnataka, Orissa, Rajasthan and West Bengal, there is a two-tier pattern with primary marketing societies at the taluka level and state marketing federation as an apex body at the state level. In other states, there is three-tier system with district marketing society in the middle. At the national level, NAFED serves as the apex institution. The pattern of the three-tier structure is as follows:

(i) *Base Level*

At the base level, there are primary co-operative marketing societies. These societies market the produce of the farmer members in that area. They may be single commodity or multicommodity societies, depending upon the production of the crops in the area. They are located in the primary wholesale market, and their field of operations extends to the area from which the produce comes for sale, which may cover one or two tehsils, panchayat samitis or development blocks.

(ii) *Regional/District Level*

At the regional or district level, there are central co-operative marketing unions or federations. Their main job is to market the produce brought for sale by the primary co-operative marketing societies of the area. These are located in the secondary wholesale markets and generally offer a better price for the produce. The primary co-operative marketing societies are members of these unions in addition to the individual farmer members. In the two-tier structure, the State societies perform the functions of district level societies by opening branches throughout the district.

(iii) *State Level*

At the state level, there are apex (State) co-operative marketing societies or federations. These state level institutions serve the state as a whole. Their members are both the primary co-operative marketing societies and the central co-operative unions of the state. The basic function of these is to coordinate the activities of the affiliated societies and conduct such activities as inter-state trade, export-import, procurement, distribution of inputs and essential consumer goods, dissemination of market information and rendering expert advice on the marketing of agricultural produce.

The cooperative marketing network of the country includes 27 state level marketing federations 199 district/regional marketing co-operative societies, and 4398 primary cooperative marketing societies besides NAFED at the national level.

MEMBERSHIP

There are two types of members of co-operative marketing societies:

(i) *Ordinary Members*

Individual farmers, co-operative farming societies and service societies of the area may become the ordinary members of the co-operative marketing society. They have the right to participate in the deliberations of the society, share in the profits and participate in the decision making process.

(ii) *Nominal Members*

Traders with whom the society establishes business dealings are enrolled as nominal members. Nominal members do not have the right to participate in decision making and share in the profits of the societies.

SOURCES OF FINANCE

In 1966, the Dantwala Committee estimated a capital base of Rs. 2.00 lakhs for a co-operative marketing society. At 2003 prices, it should be at least Rs. 40.00 lakhs. The following are the major sources of finance of a co-operative marketing society:

(i) *Share Capital*

Farmer-members and the State Government subscribe to the share capital of co-operative marketing societies. Members may purchase as many shares as they like. They are encouraged to invest sufficiently in the share capital. They are also persuaded to invest their dividend and bonus in the shares of co-operative marketing societies.

(ii) Loans

Co-operative marketing societies may raise their finance by way of loans from the Central and State Co-operative Banks and from commercial banks by pledging and hypothecation and also by clean credit to the extent of 50 per cent of owned capital.

(iii) *Subsidy*

The Co-operative marketing societies get a subsidy from the government for the purchase of grading machines and transport vehicles to meet their initial heavy expenditure. They also get a subsidy for a part of the cost of the managerial staff for a period of 3 years to make them viable.

FUNCTIONING

The important functions carried out by the co-operative marketing societies are:

(i) *Sale on Commission Basis*

Co-operative marketing societies act as commission agents in the market, *i.e.*, they arrange for the sale of the produce brought by the members to the market. The produce is sold by the open auction system to one who bids the highest price. The main advantage, which the farmer-members get by selling the produce through co-operative marketing societies instead of a commission agent, is that they do not have to accept unauthorised deductions or put up with the many malpractices, which are indulged in by individual commission agents. As there is no individual gain to any member in the marketing of the agricultural produce through co-operative marketing societies, no malpractices are expected to be indulged in.

This type of marketing is not risky for co-operative societies. But sometimes traders in the market form a ring and either boycott the auction or bid a low price when the produce is auctioned on the co-operative marketing societies shops. These tactics of the traders reduce the business of co-operative marketing societies. Therefore, farmers hesitate to take their produce for sale in the market through co-operative marketing societies.

(ii) *Purchase of Members' Produce*

Co-operative marketing societies also enter the market as buyers. A society participates in bidding together with other traders, and creates conditions of competition. The commodities thus purchased by a society are sold again when prices are higher.

This system of the outright purchase of the produce by the society involves the risk of price fluctuations. If the managers of societies lack business experience, they hesitate to adopt the outright purchase system. In 1964–65, the National Cooperative Development Corporation recommended that the outright purchase system should be adopted only by a society which possesses the following qualities:

(a) The society has a trained manager, *i.e.*, one who is capable of understanding the intricacies of the trade;

(b) The society is financially sound and has adequate borrowing facilities;

(c) The society is affiliated to a good viable central level society; and

(d) The society possesses processing facilities.

(iii) *Advancement of Credit*

Co-operative marketing societies advance finance to farmers against their stock of foodgrains in the godowns of the societies. This increases the holding power of the farmers and prevents distress sales. Generally, societies advance credit to the extent of 60 to 75 percent of the value of the produce stored with them. The recoveries are effected from the sale proceeds of the produce of the farmer. This function involves no risk to the society. Moreover, it increases the business.

(iv) *Procurement and Price Support Purchases*

Co-operative marketing societies act as agents of the government in the procurement of foodgrains and other agricultural commodities at the announced procurement or support prices.

(v) *Other Functions*

The following functions are also carried out by them, depending upon the availability of funds and other facilities:

(a) They assemble the marketable surplus of small and marginal farmers and transport this surplus from villages to the society headquarters for disposal;

(b) They make arrangements for the grading of the produce and encourage producers to sell the produce after grading so that they may get better prices;

(c) They undertake the processing of produce;

(d) They make arrangements for the export of agricultural commodities in collaboration with the State Level Co-operative Marketing Federation and the National Agricultural Co-operative Marketing Federation;

(e) They undertake inter-state trade in agricultural commodities; and

(f) They distribute agricultural production inputs, such as fertilizers, improved seeds, pesticides, agricultural implements, and such essential consumer articles as sugar, kerosene oil and cloth.

(vi) *Integrated System of Co-operative Marketing*

An integrated programme of co-operative development embracing credit, marketing, processing, warehousing and storage has been formulated. The important features of the integrated system are linking up of credit with marketing, development of agro-processing on co-operative lines and promotion of storage and warehousing.

COOPERATIVE PROCESSING

Co-operative processing is also making good progress in addition to co-operative marketing. The structure of processing units established in the co-operative sector is of two distinct patterns, *i.e.*, those which are set up by independent processing societies, such as co-operative sugar factories and spinning mills and those which are established as adjuncts of co-operative marketing societies, *e.g.*, small and medium co-operative processing units, such as rice mills, jute baling mills and cotton spinning and processing units.

PROGRESS

Information on the progress of co-operative marketing societies in India is given in Table 8.1.

(i) *Sale on Commission Basis*

Co-operative marketing societies act as commission agents in the market, *i.e.*, they arrange for the sale of the produce brought by the members to the market. The produce is sold by the open auction system to one who bids the highest price. The main advantage, which the farmer-members get by selling the produce through co-operative marketing societies instead of a commission agent, is that they do not have to accept unauthorised deductions or put up with the many malpractices, which are indulged in by individual commission agents. As there is no individual gain to any member in the marketing of the agricultural produce through co-operative marketing societies, no malpractices are expected to be indulged in.

This type of marketing is not risky for co-operative societies. But sometimes traders in the market form a ring and either boycott the auction or bid a low price when the produce is auctioned on the co-operative marketing societies shops. These tactics of the traders reduce the business of co-operative marketing societies. Therefore, farmers hesitate to take their produce for sale in the market through co-operative marketing societies.

(ii) *Purchase of Members' Produce*

Co-operative marketing societies also enter the market as buyers. A society participates in bidding together with other traders, and creates conditions of competition. The commodities thus purchased by a society are sold again when prices are higher.

This system of the outright purchase of the produce by the society involves the risk of price fluctuations. If the managers of societies lack business experience, they hesitate to adopt the outright purchase system. In 1964–65, the National Cooperative Development Corporation recommended that the outright purchase system should be adopted only by a society which possesses the following qualities:

(a) The society has a trained manager, *i.e.*, one who is capable of understanding the intricacies of the trade;
(b) The society is financially sound and has adequate borrowing facilities;
(c) The society is affiliated to a good viable central level society; and
(d) The society possesses processing facilities.

(iii) *Advancement of Credit*

Co-operative marketing societies advance finance to farmers against their stock of foodgrains in the godowns of the societies. This increases the holding power of the farmers and prevents distress sales. Generally, societies advance credit to the extent of 60 to 75 percent of the value of the produce stored with them. The recoveries are effected from the sale proceeds of the produce of the farmer. This function involves no risk to the society. Moreover, it increases the business.

		2[illegible]4	327	327
[illegible] in the co-operative sector	300	–	–	2300

The value of agricultural produce marketed through the co-operative marketing societies increased from Rs. 53 crores in 1955–56 to Rs. 7871 crores in 1991–92. The produce marketed through these societies account for 8 to 10 percent of the marketed surplus. The important commodities marketed by these societies are foodgrains, sugarcane, cotton, oilseeds, fruits, vegetables and plantation crops. The progress of co-operative marketing societies has varied from State to State and within each State from commodity to commodity. Maharashtra, Uttar Pradesh, Gujarat, Punjab, Karnataka, Tamil Nadu and Haryana together account for more than 80 percent of the total agricultural produce marketed through co-operatives in the country.

The other important function performed by these societies is the marketing of agricultural inputs *viz.*, fertilizers, improved seeds, insecticides, pesticides, agricultural implements and machinery. Over 70,000 retail outlets of these societies deal in these inputs. The value of agricultural inputs marketed by co-operative marketing societies has increased from Rs. 36 crores in 1960–61 to more than Rs. 2475 crores in 1991–92.

During the last forty years, the number of Primary Agricultural Cooperative Marketing Societies increased from 3108 in 1960–61 to 7871 in 1991–92. By the end of March, 1992, there were 2933 general purpose primary cooperative marketing societies, 4938 special commodity primary cooperative marketing societies, 191 district/regional marketing societies and 29 state cooperative marketing federations. These apart, there are 16 commodity-marketing federations, National Agricultural Cooperative Marketing Federation

(NAFED) and National Cooperative Development Corporation (NCDC) at the national level. The value of produce handled by the cooperatives multiplied manifold from Rs. 179 crores in 1960–61 to over Rs. 7100 crores in 1991–92. In addition, these institutions had supplied inputs to their members for agricultural activities valued at Rs. 2475 crores in 1991–92 compared to Rs. 36 crores in 1960–61. The cooperatives have continued to maintain their share at around 30 percent in the total fertilizers distributed to the farmers in India.

The cooperatives have constructed warehouses with a total storage capacity of 13.55 million tonnes by the end of March, 2000 compared to 8.0 lakh tonnes by the end of March, 1961. For specific commodities *viz.*, cotton and oilseeds, growers societies in cooperative sector also exist at regional level with state level federations at state level to deal with the specific problems in marketing of these crops produced in specific areas. For the benefit of sugarcane growers, there are 231 cooperative sugar factories in the country which provide marketing and price support to the sugarcane growers of their hinterlands. The cooperative sugar factories account for around 60 percent of the total sugar produced by 408 sugar factories in the country. In northern states, where private sugar factories dominate the cane market, there are several cane growers cooperative societies to manage the supply of cane produced by the farmers to sugar factories. There was also two-fold increase in cotton spinning and processing societies in the country during the last forty years.

In Gujarat, Maharashtra, Andhra Pradesh and Tamil Nadu, considerable quantities of the foodgrains are marketed by co-operative societies. In Maharashtra and Uttar Pradesh, 75 percent of sugarcane, in Maharashtra and Gujarat, 75 percent of cotton, and in Karnataka 84 percent of plantation crops are marketed by the co-operative societies. However, the progress of co-operative marketing societies has been far from satisfactory in most states of the country because farmer-members do not patronise these societies for the sale of their produce. Instead, they use the services of commission agents.

The success of cooperative marketing is not universal across commodities, sectors and geographical regions.

(i) The performance of cooperatives in dairy and sugarcane sectors is noteworthy. Dairy cooperatives present the most successful example of cooperative marketing.

(ii) The success of cooperatives and transforming the social and economic landscape of Gujarat state and some other parts of the country is a testimony of the role of cooperatives in agricultural marketing in the country.

(iii) The role of the cooperatives in improving the marketing environment for farmers have also been quiet significant.

However, the cooperatives as a whole account for only 10 percent of the total quantities of agricultural commodities marketed by the farmers. This share needs to be improved in the light of predominance of small-scale farmers, technological changes in marketing practices and as a long-term solution for improving farmer's price realization.

REASONS OF SLOW PROGRESS OF COOPERATIVE MARKETING

The main reasons of the slow process are:

(i) Co-operative marketing societies are generally located in big markets/ towns and quick and cheap transport facilities are not available for the carriage of the produce from the villages to the societies;

(ii) Farmers are indebted to local traders and enter into advance contracts with them for the sale of the crop;

(iii) Farmers are in immediate need of cash after the harvest to meet their personal obligations. They, therefore, sell their produce to local traders; they cannot wait for the time required to move the produce to the *mandi*;

(iv) There is lack of loyalty among members to co-operative marketing societies because of their poor education and absence of the co-operative feeling;

(v) In some cases rivalries among farmer-members result in indecision, which hampers the progress of the societies;

(vi) Members lack confidence in co-operative organizations, for most of the co-operative sector enterprises run at a loss;

(vii) The societies do not act as banks for the farmers;

(viii) Managers of societies do not offer business advice to members;

(ix) Societies do not provide facilities of food and shelter to farmers when they visit the market for the sale of the produce;

(x) The managers of the societies are often linked with local traders and become impersonal to the needs of a majority of small and marginal farmers;

(xi) There is lack of sufficient funds with the societies to meet the credit needs of the farmers against pledging of the produce brought for sale. Nor do they make an advance payment of the value of the produce purchased or sold through them;

(xii) Co-operative marketing societies are not capable of carrying on their business in competition with traders and commission agents, because of the absence of adequate business expertise among their employees; and

(xiii) There is a lack of sufficient storage facilities with the societies. They, therefore, try to dispose of the produce soon after their arrival; a fact which results in lower prices for the farmers.

SUGGESTIONS FOR STRENGTHENING OF COOPERATIVE MARKETING SOCIETIES

(i) The area of the operations of the societies should be large enough so that they may have sufficient business and become viable. Most of the societies at present are not viable because of the small volume of their business.

(ii) Co-operative marketing societies should develop sufficient storage facilities in the *mandi* as well as in the villages.

(iii) The societies should give adequate representation to the small and marginal farmers in their organizational set-up.

(iv) The co-operative feeling among members should be inculcated by proper education by organising seminars and by the distribution of literature.

(v) In the selection of the officials of co-operative marketing societies, weightage should be given to business experience and qualifications. After their selection, the officials should be given proper training so that they may deal efficiently with the business of the society. The efficiency should be rewarded, wherever possible.

(vi) There is a need for bringing about a proper co-ordination between credit and marketing co-operative societies to facilitate the recovery of loans advanced by credit societies, and make available sufficient finance for marketing societies.

(vii) The societies should-acquire the transport facility to bring the produce of the members from the villages to the *mandi* in time and at a lower cost.

(viii) Co-operative marketing societies should diversify their activities. They should sell the produce and inputs, and engage in the construction of storage facilities.

(ix) Marketing societies, like the private traders, should provide accommodation and the drinking water facility for their members when the latter come to the *mandi*.

(x) The public procurement and public distribution programmes should be implemented through co-operative marketing societies to increase their business; and

(xi) The cooperatives should be made free from government control.

NAFED

The National Agricultural Co-operative Marketing Federation of India (NAFED) is an apex organisation of marketing cooperatives in the country. It deals in procurement, processing, distribution, export and import of selected agricultural commodities. The NAFED is also the central nodal agency for undertaking price support operations for pulses and oilseeds and market intervention operations for other agricultural commodities.

The National Agricultural Co-operative Marketing Federation (NAFED) was established in October, 1958. The State Level Marketing Federations and the National Co-operative Development Corporation are its members. The head office of NAFED is at Delhi, and its branch offices are located at Mumbai, Kolkata and Chennai. NAFED's area of operation extends to the whole country. It has established branches in all the major port towns and capital cities in the country.

OBJECTIVES

The main objectives of NAFED are:

(a) To co-ordinate and promote the marketing and trading activities of its affiliated co-operative institutions;

(b) To make arrangements for the supply of the agricultural inputs required by member institutions;

(c) To promote inter-state and international trade in agricultural and other commodities; and

(d) To act as an agent of the government for the purchase, sale, storage and distribution of agricultural products and inputs.

ACTIVITIES

The NAFED performs the following activities:

(a) *Internal Trade*

NAFED is engaged in interstate trade in agricultural commodities, particularly foodgrains, pulses, oilseeds, cotton, jute, spices, fruits, vegetables and eggs with a view to assuring better prices to the producers. The objectives of internal trade operations are both the market support to farmers and maintaining steady supply of commodities to consumers at reasonable prices. NAFED purchases agricultural commodities through the co-operatives, public sector organisations and state agencies.

(b) *Foreign Trade—Export and Import of Agricultural Commodities*

Exports—Exports of agricultural commodities through the co-operative marketing system developed on a large scale after the establishment of NAFED. The NAFED exports agricultural commodities, particularly onions (canalised), potatoes, ginger, garlic, nigerseed, sesameseed, gum, deoiled cake of groundnut, soyabean and cottonseed, fresh and processed fruits and vegetables; spices—black pepper, cardamom, turmeric, cuminseed, coriander seed; cereals—rice, barley, bajra, jowar, and ragi and jute bags to various countries including Sri Lanka, England, Mauritius, Australia, Belgium, Canada, Fiji, Hong Kong, Japan, Malaysia, the USA and number of African, West Asian and Gulf countries.

The market intervention undertaken by NAFED has many times helped the growers of such crops as onion, potato, copra, chillies and other's in realising reasonable prices even in those years when market prices crashed.

Imports—The NAFED also arranges for the imports of pulses, fresh fruits, dry fruits, nutmeg (Jaiphal), mace (Javitri), wetdates and chicory seeds and inputs particularly fertilizers and machinery as and when asked to do so by the Government.

(c) *Price Support Operations*

NAFED is being appointed as the agency of the government to undertake

Table 8.2
Procurement of Oilseeds by NAFED under Price Support Scheme

	Oilseeds	Year	Quantity Procured (Tonnes)
1.	Groundnut Pods	1992–93	88
		1993–94	61
		2000–01	28858
		2001–02	163918
2.	Mustard Seed	1984–85	76614
		1985–86	13445
		1988–89	69
		1992–93	2746
		1993–94	66
		2000–01	247956
		2001–02	329524
		2002–03	467629
3.	Soyabean	1984–85	3709
		1985–86	62726
		1998–99	4480
		1999–00	494938
		2000–01	54754
4.	Safflower Seed	1989–90	25
		1992–93	790
		1993–94	14925
		2000–01	6534
		2001–02	3201
		2002–03	2020
5.	Sunflower Seed	1992–93	4430
		1993–94	15286
		1994–95	45
		1995–96	1196
		1997–98	80
		1999–00	47950
		2000–01	19502
		2001–02	25
		2002–03	17
6.	Copra	1989–90	2736
		1990–91	25099
		1994–95	61749
		1995–96	5619
		1996–97	485
		1998–99	1168
		1999–00	2955
		2000–01	235491
		2001–02	50300
		2002–03	5854

Source: Agricultural Statistics at a Glance, 2002 and 2003, Directorate of Economics and statistics, Ministry of Agriculture, Government of India, New Delhi.

support price purchases of commodities like groundnut since 1976–77, soyabean and mustard seed since 1977–78, gram, tur, moong and urad since 1978–79 and bajra, jowar, maize, barley, toria and sunflower seed since 1985–86. Government of India have designated NAFED as the nodal agency for implementing the price support policy for oilseeds and coarse grains during Seventh Five Year Plan period (1985–90). NAFED has standing instructions to intervene in the market when ruling market price falls below the minimum support levels for oilseeds and pulse crops. Since 1991, NAFED has been designated as nodal agency for undertaking price support operations for oilseeds and pulses on a regular basis. Price support purchases of pulses and oilseeds are shown in table 8.2.

(d) *Production and Marketing of Agricultural Inputs*

NAFED helps the farmers by supplying them agricultural machinery like harvesting combines, tractors, spare parts and such other inputs as bio-fertilizers. NAFED also imports some of the machines and spare parts from abroad to ensure timely availability of genuine spare parts at reasonable prices. The technical know-how to operate and maintain the machines is also provided to the farmers. The NAFED through its service centres also sells farm tools, agricultural implements and spare parts produced by Krishi Yantra Udyog, Bhiwadi in Rajasthan.

Bio-fertilizers are gaining importance for increasing yields of pulses and oilseeds crops. The NAFED has set up a unit for production of rhizobium culture at Indore (Madhya Pradesh) in 1985 with a capacity to produce bio-fertilizers for 12 lakhs hectares a year. NAFED maintains contact with the input supplying institutions such as the National Seeds Corporation and the Fertilizer Corporation of India.

(e) *Promotional Activities*

NAFED maintains expert staff which conducts market studies, collects data and circulates the results among the members. Other promotional activities of NAFED are intensive development of selected marketing societies as pilot centres for co-operative marketing of agricultural produce in each state; improvement in market intelligence services for co-operative marketing societies; conduct of market surveys; training of market personnel; promotion of market regulations and development of infrastructures.

(f) *Developing Co-operative Marketing of Tribal Produce*

A separate cell to develop the marketing of produce of the tribal areas (minor forest products) having economic value has been set up with the assistance of NAFED. NAFED arranges market intelligence, establishes better system for auction of tribal produce and develops markets for other commodities like chilgoza, gum, karya etc. Keeping in view the importance of marketing of tribal produce, a separate Tribal Co-operative Marketing Development Federation (TRIFED) has been set up.

(g) *Setting of Scientific Storage System*

NAFED has set up a cold storage along with an ice factory and a warehouse in Delhi. NAFED has also made pioneering effort in finding ways of developing modern storages. It has set up an onion warehousing complex at Nagapattanam.

(h) *Processing of Fruits, Vegetables and Others*

NAFED has set up a multi-commodity fruit and vegetables processing unit at Delhi and at Vellore (Tamil Nadu). The basic purpose is to develop the processing industry in co-operative sector in a major way so as to make fruits and vegetable marketing and processing to the advantage of the farmers.

NAFED also manufactures jute goods in joint venture with Konark Jute Limited—promoted by Industrial Development Corporation of Orissa.

OTHER NATIONAL COOPERATIVE ORGANIZATIONS

NATIONAL COOPERATIVE DEVELOPMENT CORPORATION (NCDC)

The National Cooperative Development Corporation (NCDC) was set up in March, 1963 under an Act of Parliament for promoting, guiding and supporting rural economic activities on cooperative principles. The corporation focuses on programmes of promoting, strengthening and developing farmers cooperatives for marketing, processing and storage of agricultural products as also for supply of agricultural inputs and essential consumer goods in rural areas. It tries to equip cooperatives with facilities for promoting income-generating activities including poultry, fishery, handlooms and minor forest products. The corporation supplements the efforts of the state governments in promoting cooperatives.

The NCDC provides financial assistance to cooperative societies through or on the guarantee of the state governments. NCDC provides financial assistance to large number of cooperatives and their activities. This includes:

(a) State level cooperative marketing/commodity marketing federations for margin money to raise working capital from banks or increasing marketing and distribution activities.

(b) Agro-based processing units including large size oil complexes and small and medium size units for foodgrains, plantation, commercial and horticulture crops;

(c) Viable or potentially viable primary agricultural cooperative societies, large size agricultural multipurpose cooperative societies (LAMPS), farmers service societies (FSS), commodity cooperatives and processing cooperatives for construction of godowns;

supplying 'Tilam brand' edible oils in 1, 2,5 and 15 litres/kgs packing to the consumers.

STATE LEVEL COOPERATIVE MARKETING ORGANIZATIONS

(i) RAJFED : RAJFED in Rajasthan, a state level co-operative marketing organization, has been playing a very important role in agriculture marketing. The Rajasthan Co-operative Marketing Federation (RAJFED) was established on November 26, 1957. It is an apex body at the state level. The main aim of establishing RAJFED is to co-operatively handle purchase and sale of agricultural commodities for the benefit of farmers as well as consumers. Following are the main functions of RAJFED:

(a) Purchase and sale of agricultural commodities

RAJFED purchases the agricultural produce from markets by an open auction method and thus creates condition of competition. Farmer-producers get fair prices of the produce. The commodities so purchased by RAJFED are sold later on when prices are high. In its marketing operations, the RAJFED collaborates with NAFED, Tilham Sangh and other co-operatives. The primary cooperative marketing societies act as commission agents for making the purchases of agricultural commodities on behalf of the RAJFED. RAJFED pays commission to these societies for this work.

(b) Production and Supply of Agricultural Inputs

RAJFED is also engaged in the supply of agricultural inputs such as fertilizers (DAP, Urea, CAN), improved seeds, pesticides, plant protection implements and gypsum.

(c) Production of Animal Feed

RAJFED has established a unit of production of animal feed at Jaipur with a capacity of 12,000 tonnes per annum. The animal feed is distributed through various units of cooperative societies, government departments and private dealers.

(d) Production of Isabgol Bhushi

RAJFED has established a Isabgol Bhushi production plant at Abu Road in 1982 with the help of NAFED with a capacity of 450 tonnes per annum.

(e) RAJFED has also established a cold storage and ice-plant at Jaipur.

(f) RAJFED works as an important state agency for price support operations whenever need arises.

(ii) MARKFED – MARKFED is the state level organization in the state of Punjab. It is a federation of marketing cooperative societies. Its main objective is to help the farmers to secure better prices for their produce by taking care of the market needs and providing agricultural inputs. To achieve this objective, MARKFED's present activity includes sale of farm inputs (fertilizers, seeds and pesticides); maintenance of godowns and procurement of agricultural commodities through its member societies. Markfed has also entered the export business and helping establish contract-farming arrangements in the state.

(iii) Other State Federations – Almost all states have state level federations of cooperative marketing societies. These may be general purpose federations or commodity specific federations. Some examples of state level federations are state Dairy Cooperative Federations, State Oilseed Federations and State Cotton Federations.

Chapter 9

Market Integration, Efficiency, Costs, Margins and Price Spread

MARKET INTEGRATION

MEANING

Integration shows the relationship of the firms in a market. The extent of integration influences the conduct of the firms and consequently their marketing efficiency. The behaviour of a highly integrated market is different from that of a disintegrated market. Markets differ in the extent of integration and, therefore, there is a variation in their degree of efficiency.

Kohls and Uhl[1] have defined market integration as a process which refers to the expansion of firms by consolidating additional marketing functions and activities under a single management. Examples of market integration are the establishment of wholesaling facilities by food retailers and the setting up of another plant by a milk processor. In each case, there is a concentration of decision making in the hands of a single management.

TYPES OF MARKET INTEGRATION

There are three basic kinds of market integration.

(i) *Horizontal Integration*

This occurs when a firm or agency gains control of other firms or agencies performing similar marketing functions at the same level in the marketing sequence. In this type of integration, some marketing agencies (say, sellers) combine to form a union with a view to reducing their effective number and the extent of actual competition in the market. In most markets, there is a large number of agencies which do not effectively compete with each other. This is indicative of some element of horizontal integration. Horizontal integration is advantageous for the members who join the group. Similarly, if farmers join hands and form co-operatives, they are able to sell their produce in bulk and reduce their cost of marketing. Horizontal integration of selling firms is generally not in the interest of the consumers or buyers.

The schematic arrangement of a horizontally integrated firm is shown in Figure 9.1. In this arrangement, there are four firms engaged in buying and selling of foodgrains under the direction of the parent agri-business firm. All the four business firms perform the same type of marketing function but their locations and areas of operations are different. Cases of such an integration are very commonly found. Frequently a firm will have a central headquarter with a large number of local branches that carry on operations at the local level. Such a network enables the organisation to achieve the economies associated with size of the firm. It also helps the firm to organise some complex types of operations and services which are needed by the local units but individually, they may not be able to perform with ease and/or efficiency.

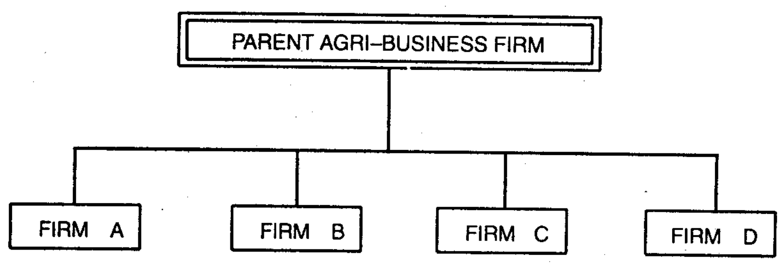

Fig. 9.1 Schematic Arrangement of Horizontally Integrated Firms.

(ii) *Vertical Integration*

Vertical integration occurs when a firm performs more than one activity in the sequence of the marketing process. It is a linking together of two or more functions in the marketing process within a single firm or under a single ownership. For example, if a firm assumes the functions of the commission agent as well as retailing, it is vertical integration. Another example of vertical integration is a flour mill which engages in retailing activity as well.

The schematic arrangement of a vertically integrated firm is illustrated in Fig 9.2. In this arrangement a firm is not only engaged in grain purchasing and storage of grains but also owns trucks for transporting the produce from threshing floors/villages to mandi and vice versa. In addition to trading in

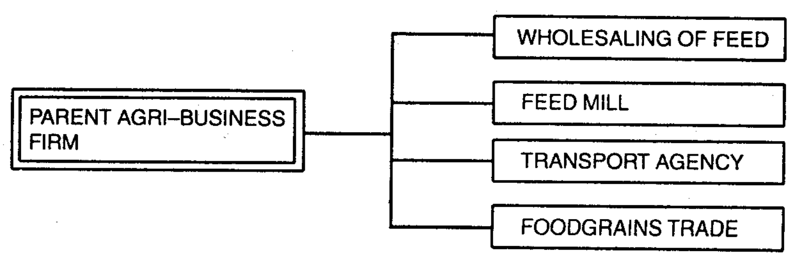

Fig. 9.2 Schematic Arrangement of a Vertically Integrated Firm.

foodgrains the firm may also be processing the grain for making livestock feed which it sells to the livestock rearers or feed retailers.

There have been many reasons for the development of such integrated operations. This type of integration makes it possible to exercise control over both the quantity and quality of the product from the beginning of the production process until the product is ready for the consumer.

Vertical integration leads to some economies in the cost of marketing. A vertically integrated firm has an advantage over other firms in respect of greater market power either in terms of sources of supplies or distribution network. Vertical integration reduces the number of middlemen in the marketing channel. It is of two types, forward or backward, depending upon the stage at which the integration occurs.

(a) *Forward Integration*: If a firm assumes another function of marketing which is close to the consumption function, it is a case of forward integration; for example, a wholesaler assuming the function of retailing.

(b) *Backward Integration*: This involves ownership or a combination of sources of supply; for example, when a processing firm assumes the function of assembling/purchasing the produce from villages.

Firms often expand both vertically and horizontally. The modern retail stores are a good example of this. Retailing firms have grown horizontally by expanding either retail stores or a number of commodities they deal in. They have grown vertically by operating their own wholesale, purchasing and processing establishment.

(iii) *Conglomeration*

A combination of agencies or activities not directly related to each other may, when it operates under a unified management, be termed a conglomeration. Examples of conglomeration are Hindustan Lever Ltd. (processed vegetables and soaps), Delhi Cloth and General Mills (Cloth and Vanaspati), Birla Group, Tatas, J.K. Group and NAFED.

The schematic arrangement of a business conglomerate is shown in Figure 9.3.

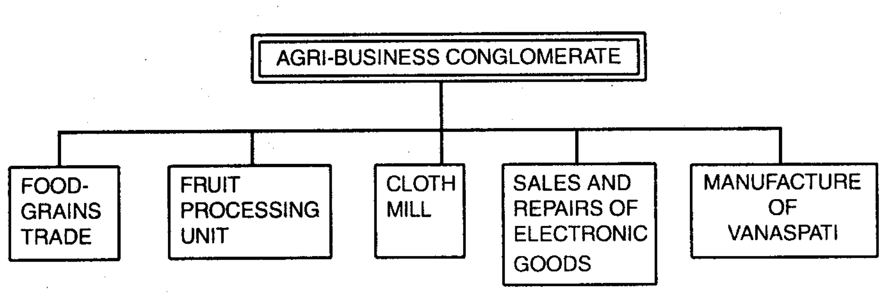

Fig. 9.3 Schematic Arrangement of a Business Conglomerate.

The conglomerate is involved in a number of different and frequently unrelated activities. For example, the firm may be dealing in foodgrains trading; processing of horticultural products; cloth milling; selling and repairs of electronic equipments; and manufacturer of vanaspati. Such a conglomeration of activities serves as a means of spreading the risk and helps in expanding the activities to additional markets.

Most of the business firms have some degree of vertical integration, horizontal integration and conglomerate character. The main objective of such an arrangement is to undertake closely related activities that will permit them to effectively meet the requirements of their customers. The most common type of integration which exists in our rural markets is that a firm which buys and sells the grains is also engaged in selling of fertilisers, insecticides and pesticides, feed and such other items with the main objective of meeting the multiple needs of their customers, most of whom are farmers.

DEGREE OF INTEGRATION

There are two types of integration.

(i) *Ownership Integration*

This occurs when all the decisions and assets of a firm are completely assumed by another firm. The example of this type of integration is a processing firm which buys a wholesaling firm.

(ii) *Contract Integration*

This involves an agreement between two firms on certain decisions, while each firm retains its separate identity. When *dal* mills of an area jointly agree on the pricing of the *dals* and processed product, it is a case of contract integration. Another example of contract integration is tie up of a *dal* mill with pulse trades for supply of pulse grains.

EFFECTS OF INTEGRATION

Integration is an attempt at organizing or co-ordinating the marketing processes to increase operational efficiency and acquire greater power over the selling and/or buying process. Like decentralization, integration in the marketing process may have both advantageous and disadvantageous effects. Whether a particular case of integration is advantageous to society or the individual can be judged by the motive with which it has been undertaken.

The vertical integration of firms may be actuated by the following motives:

(i) More profits by taking up additional functions;

(ii) Risk reduction through improved market co-ordination;

(iii) Improvement in bargaining power and the prospects of influencing prices; and

(iv) Lowering costs through achieving operational efficiency.

Horizontal integration may be actuated by the following motives:
(i) Buying out a competitor in a time-bound way to reduce competition;
(ii) Gaining a larger share of the market and higher profits;
(iii) Attaining economies of scale; and
(iv) Specializing in the trade.

Horizontal integration in the food industry is limited because of its potential impact on competition.

Conglomeration integration may be actuated by the following motives:
(i) Risk reduction through diversification;
(ii) Acquisition of financial leverage; and
(iii) Empire-building urge.

MEASUREMENT OF INTEGRATION

The measurement or assessment of the extent of market integration is helpful in the formation of appropriate policies for increasing the efficiency of the marketing process. The measurement or assessment of market integration may be attempted at two levels.

(i) *Integration among Firms of a Market*

The extent of vertical integration in a market may be assessed by counting the number of functions performed by each firm in the market. The extent of horizontal integration may be measured by studying the number of firms performing the same marketing function but operating under one common management.

The result of a study on the existence of vertical and horizontal integration in the marketing of wheat in eight main wheat producing districts of Rajasthan[2] revealed that (Table 9.1) about half of the marketing firms (50.5 percent) were integrated vertically because they performed two or three functions. Traders in the Sultanpur and Bharatpur markets were relatively more vertically integrated than those in other markets. The ownership of firms of a similar nature by a big firm (Table 9.2) revealed the extent of horizontal integration. The selected markets had very little horizontal integration, for 94 percent of the firms owned only one establishment.

(ii) *Integration among Spatially Separated Markets*

The extent to which prices in spatially separated markets move together or are related to transport costs reflects the degree of integration. A two-way analysis of prices in spatially separated markets may be used to assess the degree of integration.

(a) *Price Correlations*: One of the indicators of pricing efficiency is the extent of the interrelationship in price movements between selected markets. Uma Lele[3] has defined the interrelationship between price movements in two markets as market integration. The degree of correlation between prices in

Table 9.1
Vertical Integration of Market Functionaries

Markets	Total Number of Firms	Number of Functions Performed		
		One	Two	Three
1. Sultanpur	23	7(30.4)	14(60.9)	2(8.7)
2. Sriganganagar	280	146(52.1)	119(42.5)	15(5.4)
3. Pali	60	29(48.3)	20(33.3)	11(18.4)
4. Bharatpur	103	38(36.9)	61(59.2)	4(3.9)
5. Tonk	68	41(60.3)	21(30.9)	6(8.8)
6. Sawai Madhopur	46	30(65.2)	12(26.1)	4(8.7)
7. Pratapgarh	72	32(44.4)	32(44.4)	8(11.2)
8. Daussa	104	51(49.0)	47(45.2)	6(5.8)
Total	756	374(49.5)	326(43.1)	56(7.4)

Note : Figures in parentheses indicate the percentage of the total number of firms in each market.

Table 9.2
Horizontal Integration of Market Functionaries

Markets	Total Number of Firms	Ownership of Firms of a Similar Nature			
		One	Two	Three	More than three
1. Sultanpur	28	27(96.4)	1(3.6)	—	—
2. Sriganganagar	293	285(97.3)	5(1.7)	2(0.7)	1(0.3)
3. Pali	73	69(94.6)	2(2.7)	2(2.7)	—
4. Bharatpur	116	111(95.7)	4(3.4)	1(0.9)	—
5. Tonk	68	62(91.2)	3(4.4)	2(2.9)	1(1.5)
6. Sawai Madhopur	51	46(90.2)	3(5.9)	2(3.9)	—
7. Pratapgarh	59	46(77.9)	7(11.9)	4(6.8)	2(3.4)
8. Daussa	118	114(96.6)	3(2.5)	1(0.9)	—
Total	806	760(94.3)	28(3.5)	14(1.7)	4(0.5)

Note : Figures in parentheses indicate the percentage of the total number of firms in each market.

various markets is taken as an index of the extent to which the two markets are integrated. A higher degree of the correlation coefficient indicates a greater degree of integration; at least in terms of the pricing of the product between market centres and vice versa.

The correlation in the price of a commodity in any two markets is unity under conditions of perfect spatial price integration. Uma Lele[3] is of the opinion that a correlation coefficient of 0.90 or more is a high degree of inter–market price relationship because, in such a case, 81 percent or more variation in the prices in one market is associated with that in another market, and that the remaining 19 percent variation may be assumed to stem from transportation, information and data bottlenecks.

Market integration through price correlations may be studied between inter-district village level markets, between primary wholesale markets with corresponding secondary wholesale markets, and among secondary wholesale markets.

A study[4] on foodgrain prices in Rajasthan revealed that about 78 percent of the price correlation co–efficients (168 pairs out of 216 pairs at various levels of markets) were greater than 0.90, showing a high degree of price integration. In 32 market pairs, price integration was perfect. Among crops, integration was found to be very high for gram.

(b) *Spatial Price Differential and Transportation Costs*: In the absence of statutory restrictions on the movements of goods the differences in prices in two markets should be equal to the transportation cost. If price differences are wider, they simply reveal market imperfections or the existence of disintegrated markets. The observed price differences may also exist because of the differences in the quality of the product and market services. Barring these, the gap between price differentials and transportation cost provides an indicator of market integration.

Spatial price differences and transportation costs may be examined between primary and secondary markets (vertical level) and among secondary wholesale markets (horizontal level).

Prices in primary wholesale markets are generally lower than in secondary wholesale markets. The price gap between the primary and secondary markets is an indicator of the inadequate flow of commodities between markets and of the efficiency of the system. If the price gap exceeds the transportation cost by a good margin, this is an indicator of poor integration, and vice versa. Similarly, the price gap between secondary markets in relation to transportation cost is an index of the marketing efficiency of price movements and integration between secondary markets.

The results of a study[5] conducted in Rajasthan on foodgrain prices reveal that after accounting for the transportation cost involved in moving the produce between these markets, the spatial price difference between primary and secondary wholesale markets and between various secondary markets was not very high. The study indicated that prices were higher in 67 percent months in the secondary wholesale markets than in the primary markets, but the price difference outweighed transportation cost in 34 percent months. In 33 percent months, the reverse was true. The price difference outweighed transportation cost only in 10 percent months.

A comprehensive review of these approaches and their merits and demerits are given by Acharya[6] (2001). According to him, the above approaches are very simple but have serious limitations. Therefore, a combination of four alternative empirical procedures have been employed by the researchers for testing of market integration. These are as follows:

1. Correlation Method – Under correlation method, bivariate correlations