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Bridging the gap in farm and fork prices

October 28, 2020 5:45 AM

The new farm reforms will reduce the wholesale-retail price gap for farm produce, giving the farmer remunerative prices and the consumer lower costs



Consumers, as a group, get a raw deal here and end up paying higher prices, while farmers get substantially lower prices.

By Madan Sabnavis



and cash crops also witnesses sharp distortions in prices when there are supply disruptions. While the government has worked towards bringing in agricultural reforms, there is dissent from various vested interests as everyone wants the status quo to prevail. Consumers, as a group, get a raw deal here and end up paying higher prices, while farmers get substantially lower prices. The intermediaries, who bring the two together, add costs and margins and increase the price along the way. This needs to change.

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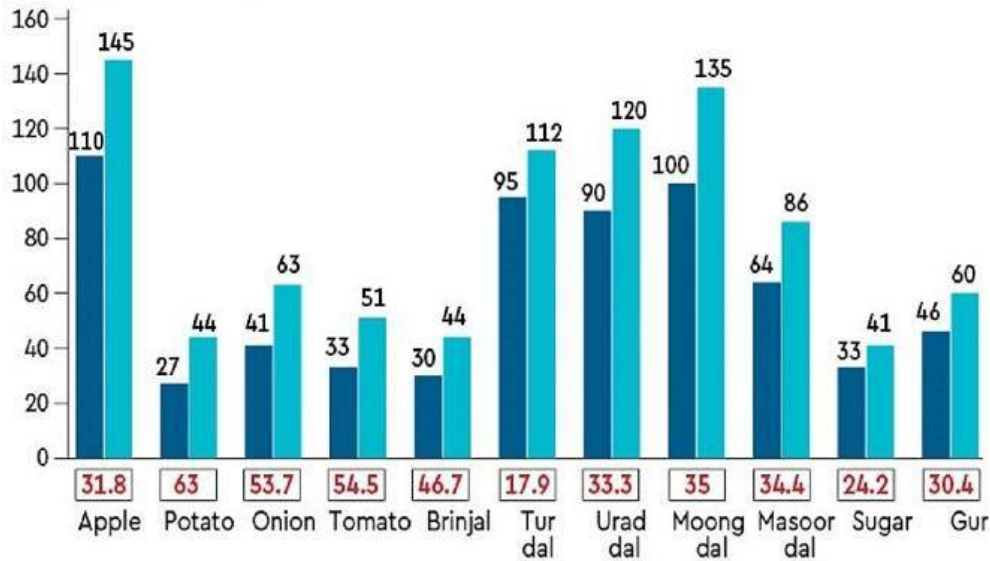
Given the limited investments made in agricultural marketing in the physical area, there can be 3-6 intermediaries involved before the consumer gets the product. This is because firstly crops are grown in different states and must be distributed across the country. Second, the farmer sells in the primary mandi that is within vicinity, after which it travels across other mandis before it reaches the retail end. A farmer in Madhya Pradesh sells soybean in Indore, but it must travel to other parts of the state and country to reach the processors. There are costs involved in terms of transport, storage, damage and

portage, among others.

To get a sense of how divergent the prices are, the accompanying table presents wholesale and retail prices of commodities as per Agmarknet (for wholesale prices) and retail prices (Ministry of Agriculture) in Mumbai. The data is taken for October 15 and, admittedly, prices will vary depending on the quantum of arrivals in the mandis. It can be assumed that the price ranges will be maintained most of the time. For wholesale prices, Mumbai or Vashi are considered, while retail prices pertain to Mumbai. These are the modal prices or average prices, and hence can vary across the city on both ends. The numbers are illustrative of these deep distortions, which are a major concern. All commodities for which both the prices are available have been covered.

The difference between the two sets of prices is very high; and while it is 18% for tur dal, it is generally above 30%. For vegetables it is even higher at 45-65%. For pulses it is mixed and is lower for tur where Maharashtra is a major production centre, while it is one-third in case of other pulses. Sugar is relatively lower at 24-25% and touches 30% for gur.

For pulses, having a higher mark-up is understandable as the retailer must buy through the year when the arrivals take place and make it available until the new stock comes the next year. Hence, the cost of carry is very high as it involves storage charges that can be linked to credit which is passed on to the consumer.



However, for horticulture (both fruits and vegetables that are largely perishables as storage at the retail-end is limited and shelf life is usually not more than a day for vegetables and 2-3 days for some fruits), the difference is inexplicable. Besides, with produce coming in daily, there is an incentive for the retailer to dispose of stocks as there is limited space to pile on the fresh produce. Consumers, too, are discerning and would not choose older stock.

Clearly, the passage of goods is through several channels, which add to cost. Even in a place like Mumbai there would be at least one if not two layers of intermediation before reaching the retailer. All this adds to cost, which builds into the margins. Also, given the proportion of damaged goods that have to normally be sold cheaper to lower income groups or lower range restaurants, the headline prices are kept higher to cover this potential loss on 20-30% of the daily produce. If the volume of damage is lowered, prices can also be better aligned.

The implications of such variance in prices are important. First, the consumer ends up paying a substantially higher price than the mandi rate. While mandis insist on higher quantities being purchased (ranging from 20 kg to a quintal to a retailer/intermediary), the escalation on smaller purchases in quantities of 1 kg or less can account for not more than one-third of this variation that is being witnessed. Second, the same gets reflected in WPI and CPI inflation numbers. Food inflation going by the CPI tends to be higher as the price rise is also sharper here than at the wholesale level. Third, this reflects that what we pay in the market is much higher than what the farmer receives.

Fourth, this means this is a lose-lose situation where neither the producer nor the consumer is gaining. While there is admittedly value-addition by intermediaries, the question is whether this class has proliferated in size and importance due to the inefficiencies in the system that have not been addressed over the last seven decades?

The immediate solution is to allow farmers direct access to the consumer so that the gap is narrowed and both the parties gain. This is already being witnessed in Mumbai for some horticulture products and cereals like rice and wheat. This must be scaled up. The second is state governments must work hard to improve agricultural infrastructure. eNAM is a very good concept but access is limited as roads, transport, knowledge of prices, assaying, weighing and grading facilities must be a bundled facility to make the system work.

This is where the recent reform of contract farming as well as sales outside the mandi system open the doors for alternative models of distribution. To make this effective, states must be facilitators or else these reforms will not progress beyond words. It has been witnessed that the large corporates running retail chains do deliver food products at the lowest prices to consumers. This is the efficient way to go.



get more aggressive in farm reforms and a competitive environment is created. Parameters used can be the number of intermediaries in the value chain, the distance for the average farmer to the mandi, the availability of price information in the village, facilitation of contract farming, the availability of aggregators, etc. Such an index will throw light on how sincere we are in enhancing efficiency in the agricultural sector.


(The author is chief economist, CARE Ratings. Views are personal)



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