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Agricultural Marketing Reforms and Price Stability in India

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Agriculture continues to be a cornerstone of India's socio-economic structure, even as the economy undergoes structural transformation toward industry and services. The sector contributes roughly 15–18 percent to Gross Value Added (GVA) and provides livelihood support to nearly half of the country's workforce. Beyond its measurable economic contribution, agriculture ensures national food security for over 1.4 billion people and supplies essential raw materials to agro-based industries such as textiles, sugar, food processing, and edible oils. The performance of agriculture significantly influences rural purchasing power, aggregate demand, inflation dynamics, and overall macroeconomic stability. In particular, fluctuations in agricultural output and prices often have immediate implications for food inflation, which forms a substantial component of India's Consumer Price Index (CPI).

Agriculture also carries deep social and developmental significance. It sustains rural livelihoods, reduces poverty, and mitigates migration pressures from villages to urban centers. However, despite increases in production and productivity, farmer incomes have remained volatile and often stagnant. Persistent price fluctuations, fragmented markets, weak infrastructure, and inefficiencies in marketing channels have constrained the benefits of higher output. Price crashes during harvest seasons and sharp spikes during lean periods reflect structural weaknesses in marketing systems rather than production shortfalls alone. As Roy (2022) emphasizes, comprehensive agricultural marketing reforms are central to improving price transmission, enhancing farmer income, and achieving long-term income stability. Thus, marketing reforms are not merely institutional adjustments but critical instruments for ensuring both producer welfare and consumer price stability.

Importance of Agricultural Marketing and Price Mechanisms in Welfare

Agricultural marketing encompasses the entire chain of activities that move produce from the farm gate to the final consumer. This includes assembly, grading, storage, transportation, processing, distribution, and price discovery. Efficient marketing systems are essential for ensuring that farmers receive remunerative prices while consumers access food at reasonable rates. Well-functioning markets facilitate transparent price discovery, reduce transaction and intermediation costs, minimize post-harvest losses, and enhance spatial integration across regions. When markets operate competitively, prices reflect real demand and supply conditions, guiding efficient allocation of resources and promoting overall economic welfare.

Price mechanisms play a particularly vital role in agriculture. They signal scarcity, incentivize production decisions, and influence cropping patterns. However, agricultural markets are inherently prone to volatility due to the biological nature of production and external shocks. Seasonal harvest cycles lead to gluts followed by shortages. Weather variability—such as droughts, floods, or unseasonal rainfall—disrupts supply. Supply chain inefficiencies, inadequate storage, and logistical bottlenecks exacerbate price fluctuations. Policy interventions, including export bans or stock limits, can also alter market expectations. Additionally, fragmented markets and limited inter-state integration prevent smooth price transmission, resulting in significant regional price disparities. Consequently, reforms aimed at improving market integration, transparency, and competition have direct implications for stabilizing prices and enhancing welfare outcomes for both producers and consumers.

Significance of Reforms for Farmers' Income and Price Stability

Agricultural marketing reforms are fundamentally linked to income stability and risk reduction for farmers. Traditionally, multiple layers of intermediaries between farmers and consumers reduced the producer's share in the consumer rupee. High commission charges, market fees, and informal deductions eroded farm profitability. By reducing intermediation costs and expanding alternative marketing channels, reforms aim to improve farmers' price realization and bargaining power. Increased competition among buyers enhances transparency and reduces collusive practices.

Market integration across states further strengthens price stability by allowing surplus regions to supply deficit areas efficiently. When markets are integrated, localized shocks are absorbed through trade flows, preventing extreme price fluctuations. Stable and predictable prices reduce uncertainty and income risk, encouraging farmers to invest in quality inputs, technology adoption, and diversification into high-value crops. In this sense, marketing reforms are closely intertwined with broader objectives of agricultural modernization, income enhancement, and sustainable rural development.

Key Policy Objectives of Marketing Reforms

The overarching objectives of agricultural marketing reforms in India include the creation of a unified national market, promotion of competitive and alternative marketing channels, strengthening of transparent price discovery mechanisms, enhancement of infrastructure such as storage and logistics, and reduction of price volatility through improved integration. By fostering competition and reducing regulatory barriers, reforms aim to shift the system from a restrictive mandi-based framework to a more open and efficient marketing environment. These policy goals reflect the broader strategy of transforming agriculture into a market-oriented, technology-driven sector capable of delivering stable incomes and balanced price outcomes.

Historical Background of Agricultural Marketing in India

Pre-APMC Marketing Structure

Prior to the establishment of regulated markets, agricultural trade in India was largely informal and localized. Village traders, commission agents, and moneylenders dominated transactions, often combining credit provision with produce purchase. Farmers, particularly small and marginal cultivators, faced significant information asymmetry and lacked bargaining power. Distress sales were common immediately after harvest when supply was abundant and storage facilities were scarce. Arbitrary weighing practices, unauthorized deductions, and exploitative pricing mechanisms further disadvantaged producers. Markets were fragmented and poorly integrated, leading to wide regional price disparities and limited transparency in price formation.

Emergence of Regulated Markets (APMCs)

To address these issues, the Agricultural Produce Market Committee (APMC) system was introduced to regulate agricultural trade and protect farmers from exploitation. Regulated mandis established standardized weighing systems, transparent auction procedures, and licensing requirements for traders. They provided platforms for dispute resolution and ensured adherence to notified market charges. The institutionalization of regulated markets

marked a significant step toward formalizing agricultural marketing. Paty and Gummagolmath (2019) document how the APMC framework contributed to improved transparency and market organization during its initial decades.

Critiques of the Old APMC System

Over time, however, the APMC system developed structural inefficiencies. Licensed traders often formed cartels, limiting competition and depressing farm-gate prices. High market fees and commission charges increased transaction costs. Restrictions on inter-state trade and mandatory sales through designated mandis constrained market choice. Political interference and inadequate infrastructure further weakened effectiveness. Instead of promoting competition, the system sometimes entrenched monopolistic practices. As a result, the need for comprehensive marketing reforms became increasingly evident.

Major Agricultural Marketing Reforms

Model APMC Act (2003)

The Model APMC Act, 2003 sought to liberalize agricultural markets by permitting direct marketing, private market yards, contract farming arrangements, and electronic trading. Its objectives were to reduce dependence on traditional intermediaries, promote competition, and enhance transparency. However, since agriculture is a state subject under the Constitution, adoption varied significantly across states, resulting in uneven reform progress.

Electronic National Agriculture Market (e-NAM)

The Electronic National Agriculture Market was launched in 2016 to integrate regulated mandis into a unified online trading platform. By enabling online bidding, quality assaying, and inter-state trading, e-NAM aimed to improve price discovery and reduce information asymmetry. Studies, including those by Garg et al., indicate improved price convergence for certain commodities in integrated markets. While the platform enhanced transparency and competition, its impact varies depending on infrastructure readiness and trading volumes across states.

Deregulation under the Essential Commodities Amendment (2020)

Amendments to the Essential Commodities Act relaxed stockholding limits for key commodities except under extraordinary circumstances. The objective was to encourage private investment in storage and supply chains, thereby reducing artificial scarcity and price spikes. By promoting supply chain efficiency, the reform aimed to moderate volatility arising from hoarding and bottlenecks.

Contract Farming and New Farm Acts (2020)

The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020 and the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020 were introduced to expand marketing avenues beyond APMC mandis and promote contract farming with price assurance mechanisms. These reforms aimed to strengthen farmer bargaining power and diversify marketing channels. Selvaraj and Karunakaran (2022) highlight significant state-wise differences in reform performance and infrastructure capacity.

Agricultural Marketing Reforms and Price Stability

Concept of Price Stability

Price stability in agriculture refers to moderate and predictable price movements over time. Stable prices reduce income uncertainty, prevent inflationary pressures, and encourage rational production planning. Marketing structures influence stability through improved market integration, enhanced competition, better storage facilities, and timely information dissemination.

Reforms and Price Volatility

Agricultural price volatility in India is shaped by seasonality, climatic shocks, global market trends, policy interventions, and supply chain inefficiencies. Md. Yeasin et al. (2024) observe significant seasonal volatility in pulses and vegetable markets. Evidence suggests that e-NAM has improved price convergence and reduced local price dispersion in certain commodities. However, the magnitude of volatility reduction varies by commodity, region,

and market participation levels. Structural bottlenecks such as inadequate storage and transport infrastructure continue to limit the full stabilizing impact of reforms.

Case Studies: Price Volatility and e-NAM

Empirical comparisons of pre- and post-e-NAM periods show mixed but encouraging trends.

Commodity	Pre E-NAM Volatility	Post E-NAM Volatility	Remarks
Wheat	High	Lower	Improved spatial price integration
Paddy	Moderate	Variable	State-level differences
Onion	Very High	Slightly Reduced	Seasonal shocks persist

Transparency and information flow improved, but supply chain infrastructure remains a critical determinant of price outcomes.

Price Stabilisation Policies

Minimum Support Price (MSP)

The Minimum Support Price system provides a floor price to protect farmers against sharp price declines. While it reduces downside risk and discourages distress sales, procurement is concentrated in a few crops and states, limiting nationwide stabilization.

Price Risk Management Schemes

The Bhavantar Bhugtan Yojana compensates farmers when market prices fall below MSP levels, while Operation Greens aims to stabilize prices of Tomato, Onion, and Potato (TOP crops). These measures mitigate extreme price swings but require stronger implementation mechanisms.

Challenges and Gaps

Key challenges include uneven state-level adoption, inadequate trading volumes on e-NAM, poor mandi infrastructure, insufficient cold storage capacity, digital literacy gaps, and resistance from entrenched intermediaries. Institutional inertia and infrastructural constraints limit reform effectiveness.

Policy Recommendations

Policy priorities include strengthening e-NAM interoperability, investing in storage and logistics infrastructure, promoting Farmer Producer Organizations (FPOs), expanding warehouse receipt financing, enhancing real-time price information systems, and integrating price risk with crop insurance mechanisms.

Conclusion

Agricultural marketing reforms in India mark a transition from state-controlled, localized mandis toward technology-driven and competitive markets. While reforms such as e-NAM have improved transparency and market integration in several cases, price stability remains influenced by structural challenges including infrastructure deficits and climatic variability. MSP and risk management schemes provide short-term relief, but sustainable stability requires deeper institutional reforms, infrastructure investment, and inclusive digital participation. Future research should focus on commodity-specific volatility analysis, long-term welfare impacts, state-level reform effectiveness, and digital adoption barriers in rural markets

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