

The Karnataka model – policy reforms and implementation

R. Ramaseshan
Vice Chairman
ReMS

Bird's eye view

- ❖ How it began
- ❖ Takeaways of the experiment
- ❖ Challenges ahead
- ❖ The new market structure

Genesis of the Karnataka initiative

- 2010 – Attempt to create a private warehouse based market. Poor response. Just 450 MTs transacted
- Analysis of the project –
 - Confidence building amongst farmers requires time
 - Even an inefficiently operated APMC commands better confidence in them
 - Massive liquidity in the APMC market cannot be ignored
 - Deep pockets required. Time lag to make a difference
- Quick impact – Reform APMCs and make them partners in the game

First baby steps

- MoU with the Government - comprehensive electronic platform deployed in Gulbarga market in December 2011 on pro bono basis
- Very minor reservations by participants. Initiative welcomed.
- Extension of the platform to other markets. Tenth market in November 2012 and 23 markets by April 2013.
- Focus - efficient and transparent price discovery
- Project takeaways -
 - Distributed architecture validated
 - Participants not averse to reform initiatives
 - Rush through - may not yield results

Consolidating the initiative

- More comprehensive reform agenda approved in September, 2013
- Government & NeML promoted SPV to spearhead reforms
- Create a market unbounded by physical presence –
 - Comprehensive electronic platform to be the key for all market operations – price discovery, post trade processes, trade fulfilment, farmer payment, etc.
 - Single state wide licence brought in
 - Quality assaying given emphasis
 - Warehouse based markets conceived
 - Governance reforms – fee collection, e permits, accounting, etc.

Challenges ahead

- Deepening reforms - quality assaying, warehouse based markets, direct payment to farmers, linking institutional finance, governance reforms in APMCs, etc.
- Managing expectations
- Participant reservation on some areas
- Managing the SPV - inculcating private sector organisational culture in a joint venture company
- Sweet spot between government based accountability and expeditious decision making as a private organisation - still elusive.

Points to ponder

- Amended APMC legislation – would it change the farmer world?
 - Private markets may be in niche areas. Cannot serve the mass market
 - Past experience – remained buyer platforms, not a market
 - Unless well regulated – opaque, information asymmetry
- Abolishing APMCs – can abolish markets but not marketing
- In a transaction with two unequal parties – regulation has to support the weaker party, the farmer
- Required – a redesigned market structure

New market structure

- Efficient and transparent APMCs – functioning as markets, not as departments. Supplemented with warehouses functioning as markets
- Encourage private markets. Efficiency and transparency norms on par with reformed APMCs.
- Any market accessible from anywhere in the country. Universal participation. Remove trade irritants
- Transparency in market operations – interoperable electronic platforms & wide dissemination of prices
- Independent regulator for both APMC and private markets
- Interconnected state markets – national market. Appropriate regulatory structure