Essay

Reforms in Agriculture: Promise and Challenges

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The Indian government in June this year announced a series of stimulus packages under 'Atmanirbhar Bharat Abhiyan' (movement to build self-reliant India) to revive the economy, which has been badly affected by the global recession and worsened by the sudden and extended imposition of nationwide lockdown to contain the spread of COVID-19. As part of this package, the central government has provided a package of Rs. 1000 billion ($13.70 billion) to finance agriculture infrastructure projects. Simultaneously, it has also initiated path-breaking agriculture reforms. The reforms aim to provide sufficient liquidity to the economy and put money into the hands of people, as well as use the COVID crisis as an opportunity to bring in much needed changes in the agrarian sector on which a vast number of people are dependent. The overall aim is to modernise India's agricultural infrastructure, boost supply chains, facilitate proper marketing and care of perishables and provide better market access to farmers and build a new and efficient farm to market-to home eco-system

As a quick follow-up, the government brought three ordinances on 5th June to reform some of the laws that were no more suitable for the current context. For example, the Essential Commodities Act (ECA) and Agricultural Produce Marketing Committee (APMC) Act were introduced in to the context of relative scarcity to ensure food security for all citizens. There were other laws that discouraged participation of corporates, enterprises and businesses in agriculture. These led to inefficiency and corruption and became counterproductive. Today, the context has drastically changed. The country has achieved food security and the economy is operating in a market system. Many of the old laws had

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clearly become anachronistic and even regressive. It is in this context that the government initiated, what it called, 'path breaking and futuristic measures' to reform the agriculture marketing value chain through three central Government ordinances. The ordinances were replaced by three new bills that were approved by both the Houses of Parliament in September --the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Bill, 2020 and the Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Bill, 2020 and the Essential Commodities (Amendment) Bill, though opposed by the principal opposition party-- the Congress, and several regional parties that wanted the old system to continue and hold more discussions. Since agriculture is a State (province) subject under the constitution, it was desirable that the central government consult the States before implementing these reforms. However, the Modi Government preferred to bring these ordinances under 'Trade and Commerce,' which is in the 'concurrent list' of the Constitution and thus well within its jurisdiction.

Sweeping Reforms

A brief examination of the new laws and their intent indicates the following:

i. 'The Essential Commodities (Amendment) Bill, 2020' focuses on removing restrictions on stocking of food products. The aim is to shore up supply to the market, bring stability in prices for consumers, promote investments in storage facilities and help farmers to secure better price.

ii. 'The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Bill 2020' seeks to end the monopoly of the APMC and allow anyone to freely participate in the purchase and sale of farm produces. A facilitative legal framework is expected to enable farmers to participate in inter-state trade and e-trade. To avoid any legal arguments with the States, the Central Government has simply designated all areas outside the physical ambit of APMC as Trade Zone. It is left to the states to deal with their APMC Acts and regulated mandis. The central law would provide an additional platform to farmers with adequate safeguards. Unlike the APMC, there will be no market fees or cess or levy in any form on farm produce while farmers are involved in physical or electronic trade of their produces in the Trade Zones. This provision will enable private trade in farm produces as also better prices for farmers by opening up wider choices in marketing and selling their produces. This should in principle at least mitigate the scope of intermediaries eating into farmer incomes and triggering an artificial cost push leading to consumer price inflation. This law has also enabled the Central Government to build up price information and market intelligence on agricultural produce, which in turn will provide a uniform framework for dissemination of information. It has provisions to set up an electronic trading system to provide information on transactions.

This will in turn help farmers in exploring remunerative prices. By removing restrictions on inter-state and intra-state trade of farm produce, the law would create a comprehensive eco-system towards 'One India - One Agri-Market'.

iii. The third new regulation: 'The Farmers (Empowerment and Protection) Agreement on 'Price Assurance and Farm Services Bill, 2020', provides the legal framework for processors, aggregators, large retailers and exporters to directly engage with the farmers in a fair and transparent manner. Farmers and buyers can enter into contracts in which the former is assured of a certain price at the time of sowing while the latter gets to procure the harvested produce at the pre-decided rate subject to quality norms. The onus of compliance of any legal requirement would be on the sponsor or the one entering into an agreement with the grower. State Governments will be required to provide framework of registration and facilitate electronic registration of the Contract Farming Agreement between the parties. Price certainty mechanism backed by a legal framework is a way forward, especially in a monsoon dependent country like India where there is a lack of adequate insurance against crop failures. In its absence, farmers lack an income safety net, causing untold misery and distress if a crop fails.

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These three legislations are meant to serve farmers' interest in different ways, including a dispute resolution mechanism at one level and enhancing competitiveness in agriculture by liberalizing and creating a barrier free regulatory framework at another. In short, they provide a facilitative legal framework that protect and empower farmers to engage with business firms for remunerative price for their farm produce.

Multiple promises

The agriculture sector in India has been starved of capital and investment. The government aims to create a vibrant ecosystem by facilitating private sector participation that could result in a world class agriculture business and marketing chain. Eventually, these reforms are expected to provide a consistent, standardised and predictable policy framework which would attract capital and technology to the agrarian economy.

These reforms would enable farmers to enter into agreement with processors, aggregators, wholesalers, large retailers and exporters. Similarly, corporate houses would also be able to directly engage with the farmers' and producers' organisations. Such

contracts would necessitate timely supply, quality and graded standard of farm produce. This means that farmers and producers would be induced to produce better quality and standardised farm products. Such contracts would also motivate the farmers to use cutting edge and digital farming technology, including drone spray, modern tractors, micro-irrigation systems and so on. Assured remunerative prices of farm produce and timely payment would encourage farmers to use better variety of seeds, pesticides, etc. Farmers would further be motivated to apply superior post-harvest technology and management for getting better prices. Provisions for setting up of private electronic trading platform for farm produce would give larger market access to farmers along with real time information on market prices.

On the other hand, these reforms would induce agro-processing industries such as edible oil solvent extractors, flour mills and food processors to buy superior quality and standard raw materials from farmers. Logistics and warehouse companies could bring larger investments for setting up cold storage facilities at the doorstep of the famers. They would have real time access to demand via e-platform. Further, logistics service providers shall have opportunities to provide innovative transportation solutions at all-India level. It is expected that farmers would be in a position to hold their produce for a longer period for better price realisation. That would lead to greater demand for cold storage across the country. Warehousing players could rely upon predictable demand of their services and can enhance their operations.

Overall, these reforms have the potential to bring about a paradigm shift in the agriculture value chain by enabling greater participation of different actors to create a robust ecosystem. For example, farm machinery manufacturers could launch innovative farm equipment using cutting edge technology at reasonable prices leading to greater farm mechanisation in India. Financial institutions such as National Bank for Agriculture and Rural Development (NABARD), commercial banks and Non-Banking Financial Companies (NBFCs) could play an important role in ensuring finance to farmers as also in enabling 'Farmers-Industry' connect. Banking sector and other credit providers will have opportunities to access an integrated seller and buyer base via e-platform and thereby expand their business in rural areas. Similarly, insurance providers shall have opportunities to widen their offerings, including farm produce specific insurance products. IT companies could create a virtual marketplace based upon electronic platforms and supported by back office operations to provide universal, reliable and faster market access and transaction facilities to farmers. Consolidation and aggregation of farmland and farm produce could lead to economies of scale in agriculture. Farm input suppliers and major partners in the value chain could expect better demand for quality seeds, fertilisers and pesticides. Lastly,

these reforms are expected to also benefit retailers and consumers by way of reduced and predictable prices as a result of elimination of middleman.

In short, it is expected that freeing the agriculture market would unlock opportunities for new investment in multiple domains. Further, new business model based on predictable rules of engagement between the stakeholders could emerge in the entire agriculture value system. It is also expected that these reforms will further enable collaborative farming based upon shared capabilities and shared risks and rewards so as to better compete in a market economy. Farm exports are expected to get a huge boost. Apart from raising competitiveness of Indian agriculture, benefitting farmers, consumers and existing industry players, these reforms could also provide opportunity to new industry entrants and start-ups to be part of the emerging and dynamic agri-value chain. All this could transform the occupation-based agriculture into a service-based system which might eventually bring entrepreneurial spirit among the farmers. All the above are at this point in the realm of possibilities, and dependent on proper policy implementation.

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Challenges

In India, agriculture has been traditionally recognised as an occupation. What is more, small (with one to two-hectare land holdings) and marginal farmers (less than 1 hectare) constitute 86.2% of all farmers and they together account for 47.3% of the total crop area. These holdings are not large enough to produce adequate surpluses to sustain livelihood of small and marginal farmers. In view of these facts, will this vast section benefit from these reforms?

The underlying assumptions behind the reforms seem to be that by creating an enabling ecosystem through the legislations, followed by necessary administrative measures, large investments would flow into agriculture. This in turn would help farmers in getting wide market access, assured and remunerative prices for their marketed surplus, and jobs in new enterprises. Without a strong infrastructure, including better all-weather roads, uninterrupted power supply, and hassle-free allotment of land, industries would be rather shy to set-up cold storage, warehouses, etc., or to provide support services to agriculture. It would also be necessary to set up quality testing laboratories in rural areas to evaluate the quality and standard of various farm produces. The government would have to work with testing and certification agencies to set up labs in villages which can serve farmers and buyers with complete trust. Agriculture Universities could be drawn into facilitating the

setting up of testing and certification labs in villages. These are all challenging tasks that will take some time to be completed.

All stakeholders also need to understand that price discovery of farm produce cannot be left entirely to market forces. There are certain input costs, handling charges and man hour costs that farmers incur but do not necessarily go through the market and these need to be included in the price that farmers get. There is a need to devise a reliable mechanism where farmers will be assured of remunerative price of their produce based upon 'Cost of Production Plus' approach. The Agriculture Minister Narendra Singh Tomar has promised to continue with the Minimum Support Price scheme for farmers and has stated that the bills provide adequate protection to farmers. This will be tested in practice.

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In a federal system like India, where Agriculture is a subject governed by the States, their enthusiastic participation is essential for the success of the reforms. But in the current political situation, securing active participation from some of the opposition party-run State governments could have been a challenge and the reforms could have been delayed. Wider and larger consultations, however, could have reassured the dissenting States and addressed some of their genuine concerns. Further, there already exist several alternative channels in different parts of India which give farmers the freedom to sell their produce. Instead of creating a new trade zone, the Government could have provided an appropriate mechanism to integrate the existing marketing channels by doing away with all kinds of taxes, cess and market fees. However, to do so, the concurrence of the States would have been needed as most of the existing marketing channels are under their purview.

Further, the government has provided a dispute resolution mechanism, through these legislations. Reviewing this, one finds that it involves a complicated process and could be time consuming. While setting up a dispute resolution mechanism, it is useful to note that commercial engagements between farmers and traders (buyers or companies) are between two unequal entities. Therefore, a simple, strong, and independent arbitration mechanism to settle disputes between the parties would be more effective. Penalty related provisions need to be widened to cover the mala fide practices by traders in terms of lowering the grade of farm produce, and inaccurate weighing and unfair price fixing, etc. Traders do not lose as much as farmers in case of disputes.

Conclusion

The agriculture sector plays a significant role in the Indian economy. It contributes around 15% of India's GDP and provides livelihood to around 50% of the population. In all these years, the country has been practising production centric agriculture, meaning emphasis was on ways to increase production and productivity. There was thrust on developing it as a dynamic industry and ensuring farmers get remunerative prices for their produce. These ordinances usher in a much-needed change in approach regarding the agricultural sectors and the rural economy in the current economic context.

To conclude, the far reaching reforms attempted through the new laws are absolutely needed for more than one reason. First, by giving farmers a seamless access to the market and right price for their farm produce together with an enabling environment for investment and innovation is clearly in conformity with a market system as also with the single market that a federal system promises. Second, by creating an enabling eco-system accompanied by provisioning the required agricultural production and marketing infrastructure could indeed lead to a resurgent and competitive agriculture that could attract large industrial investment. However, agriculture being a State subject, their commitment and cooperation alone would make the reform process effective.