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FROM PLATE TO PLOUGH: A 1991 MOMENT FOR AGRICULTURE

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The Narendra Modi government deserves compliments for finally introducing reforms in the country's agri-marketing system. If the fine print of the proposed legal changes follows the spirit of Finance Minister Nirmala Sitharaman's package last week for farmers, the reforms can go a long way in building efficient value chains and ensuring better returns for farmers. The consumers will also be ensured better products without burdening their pockets.

The finance minister's package had 11 major points, of which eight pertain to miscellaneous items, ranging from Rs one lakh crore for building agriculture infrastructure to Rs 500 crore for beekeeping and another Rs 500 crore for tomatoes, onions, potatoes, and other fruits and vegetables. These are steps in the right direction, but we do not have details on how they will be implemented. Most schemes of this government — including the project to double farmers' incomes by 2022 and the programme to complete 99 irrigation projects by 2019 — have had a success rate of less than 50 per cent. So, I am not very enthused by the first eight points in the FM's speech.

What excites me are the last three points in the speech. They relate to amending the Essential Commodities Act (ECA) of 1955, bringing a Central legislation to allow farmers to sell their produce to anyone, outside the APMC mandi yard, and having barrier-free inter-state trade, and creating a legal framework for contract farming — the buyer can assure a price to the farmer at the time of sowing. Let me explain each one of these, and why I consider them as game-changers.

First, the ECA of 1955 has its roots in the Defence of India Rules of 1943, when India was ravaged by famine and was facing the effects of World War II. It was a scarcity-era legislation. By the mid-1960s, hit by back-to-back droughts, India had to fall back on PL480 imports of wheat from the US and the country was labeled as a "ship to mouth" economy. Today, India is the largest exporter of rice in the world and the second-largest producer of both wheat and rice, after China. Our granaries are overflowing. But our legal framework is of the 1950s, which discourages private sector investment in storage, as the ECA can put stock limits on any trader, processor or exporter at the drop of a hat. As a result, the country lacks storage facilities. When farmers bring their produce to the market after the harvest, there is often a glut, and prices plummet. All this hurts the farmer. In the lean season, prices start flaring up for the consumers. So, both lose out because of the lack of storage facilities. The amendment announced last week, if implemented in the right spirit, will remove this roadblock and help both farmers and consumers while bringing in relative price stability. It will also prevent wastage of agri-produce that happens due to lack of storage facilities.

Second, the proposed Central law to allow farmers to sell to anyone outside the APMC yard will bring greater competition amongst buyers, lower the mandi fee and the commission for arhatiyas (commission agents) and reduce other cesses that many state governments have been imposing on APMC markets. Our farmers suffer more in marketing their produce than during the production process. APMC markets have become monopsonistic with high intermediation costs. The proposed law will open more choices for the farmers and help them in getting better prices. So their incomes should improve. By removing barriers in inter-state trade and facilitating the movement of agri-goods, the law could lead to better spatial integration of prices. This will help farmers of regions with surplus produce to get better prices and consumers of regions with shortages, lower prices. India will have one common market for agri-produce, finally. West Bengal Chief Minister Mamata Banerjee can no longer stop the movement of potatoes from her state to Odisha — as she did some time ago. Third, the legal environment for contract farming, with the assurance of a price to the farmers at the time of sowing, will help them take cropping decisions based on forward prices. Normally, our farmers look back at last year's prices and take sowing decisions accordingly. The new system will minimise their market risks.

However, one must bring in some supplementary notes for optimal results. Big buyers like processors, exporters, and organised retailers going to individual farmers is not a very efficient proposition. They need to create a scale, and for that, building farmer producer organisations (FPOs), based on local commodity interests, is a must. This will help ensure uniform quality, lower transaction costs, and also improve the bargaining power of farmers vis-à-vis large buyers. NABARD has to ensure that all FPOs get their working capital at 7 per cent interest rate — a rate that the farmers pay on their crop loans. Currently most of them depend on microfinance institutions and get loans at 18-22 per cent interest rates. This makes the entire business high-cost.

Another thing to watch out for is the fine print of the legislation. I have heard rumours that if the prices of perishables go up by 100 per cent and that of non-perishables by 50 per cent, the stocking limits under the ECA can be re-imposed. Would the government impose stocking limits on onions if the price goes up from Rs 22/kg, the price right now in Safal kiosks, to Rs 44/kg after a month? That would be unreasonable and all the reforms would be undone. One needs to understand how much is the "extra burden" inflicted by the price increase on the food budget of a household.

The government has surely shown a willingness to walk the right path and deserves compliments. The reforms, announced last week could be a harbinger of major change in agri-marketing, a 1991 moment of economic reforms for agriculture. But before one celebrates it, let us wait for the fine print to come.

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