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REFORMS THE FARMER NEEDS

Relevant for: Indian Economy | Topic: Transport & Marketing of agricultural produce

Last week, Finance Minister Nirmala Sitharaman signalled the Union government's intention to enact a new central law that would override existing state regulations that restrict the farmer from legally selling to anyone other than a buyer licensed by the local Agricultural Produce Marketing Committee (APMC). The decision to push for a central law comes after dissatisfaction with two decades of partial and uneven reforms by different states.

In the haste to rid ourselves of old edifices, one must not fail to learn from this long and varied regulatory history and the distinct and diverse realities of agricultural markets on the ground. If this moment is to be a watershed for Indian farmers, we must not begin by overstating the power of legal reform in guaranteeing economic freedom and outcomes. The problems farmers face are not only a result of vested, monopolistic interests, but are rooted in larger structural conditions that significantly weaken their terms of engagement in agricultural markets. The former may be addressed by regulatory intervention. But the latter will need location-specific policies, well-directed investment, and well-functioning agricultural institutions. It is hard to imagine how either can be achieved without a great deal of consensus, coordination and capacity in which the states will need to play a major role.

The dominant narrative laments the fact that farmers are forced to sell their produce only to licensed APMC traders. But the reality is that even today the majority of Indian farmers, especially small and marginal cultivators, sell their produce to small-scale and largely unlicensed traders and intermediaries in the village or in local sites of exchange outside regulated market yards. But, if farmers are bound by law to sell in APMC mandis, why are so many of them selling outside?

At least part of the answer is that India still doesn't have enough mandis. Over the decades, most states in general, and specific regions in particular, have hugely under-invested in the basic infrastructure required to create viable, primary wholesale markets within easy physical reach of farmers. The 2017 Doubling Farmers Income Report estimates that in addition to the current 6,676 principal and sub-market yards under APMCs (also woefully limited in terms of infrastructure) India needs over 3,500 additional wholesale markets. Approximately 23,000 rural periodic markets (or haats) have also suffered long-standing neglect.

So, the new allocation towards market infrastructure must be fully utilised to build up an appropriately designed physical marketing ecosystem, especially in remote regions. Most importantly, unlike in the past, this process should engage deeply with farmers and traders in each location to avoid misdirected and misplaced infrastructure and assets.

Of course, there is no denying that where APMC mandis do exist and have established themselves as dominant market sites, mandi committees have typically done everything in their power to restrict competition. Obtaining a licence for a new entrant — whether a regional trader, processor, national or multinational corporation, or farmer producer organisation — has most often proved to be a bureaucratic nightmare and a costly affair. This is where regulatory reform to remove conflicts of interests, enable the entry of new buyers, and facilitate the flow of trade both within and outside the mandi system is absolutely crucial. No state has done enough in this direction, but here too there are cautionary lessons.

Complete deregulation, as we have seen in the decade following Bihar's repeal of its APMC Act in 2006, does not necessarily transform agricultural markets and spur competition. Even after all

restrictions were lifted, there was little uptake in direct procurement by formal players in the state. When corporations entered the maize market in a big way, they chose to buy from larger traders and aggregators and not from farmers. Most farmers have seen little change in marketing practice and continue to sell to village traders as they had done before the repeal. Where private markets have emerged — mainly for horticultural produce — they are constituted and run by local traders and commission agents. But across the system, traders complain about deteriorating infrastructure while the regulatory vacuum has led to the proliferation of brokers to deal with counter-party risk in growing and dynamic commodity markets such as maize.

Where states have undertaken some degree of regulatory reform instead of repeal, for instance in Madhya Pradesh and Karnataka, we do observe, at least to some extent, the fruits of competition. In the early 2000s, when MP granted ITC a licence to set up procurement hubs outside mandi yards, farmers not only gained from price competition, but also from electronic weighing and quick payments, as mandis upgraded in response. But ITC's procurement channel was understandably restricted to select commodities (and qualities), seasons and farms within its own commercial strategy. These limitations revealed the mandi's comparative advantage as a permanent multi-buyer, multi-commodity market for all local producers. The key lesson to draw from studies of direct procurement and contracting is the need for a regulatory architecture that enables both new and existing systems to respond, adapt, and compete.

The same holds true for intermediation. Against the popular demonisation of small traders and intermediaries, over a half-century of scholarship on India's agricultural markets has shown that they exist — and persist — because they are able to respond — in cash, credit, time and place — to the multiple needs of farmers and firms across the interconnected domains of production, marketing, processing and consumption. This is not to say that they do not exploit farmers when the opportunity arises. It is to point out that new, organised and technologically driven procurement and marketing systems will only work as actual options for producers if they manage to address the real constraints that farmers face on the ground, especially access to credit, inputs, storage, transport, and timely payments. Most of these constraints originate in the relations of land ownership and access and the limits and exclusions they impose on smallholding farmers and landless cultivators. Simply put, farmers will not be in a position to exercise any newly granted regulatory freedom in the market if they cannot overcome these constraints. Equally, while increasing competition for intermediaries is desirable, their elimination is a misguided — and indeed dangerous — objective if one does not respect or replace the roles and risks that they cover.

Finally, as we can clearly see today, agriculture is at the very heart of the essential economy and our food system runs on the backs of small-scale producers, traders, commission agents, processors, wholesalers, retailers, and labourers. Regulatory reform to increase competition must not degenerate into re-regulation that unduly favours large-scale consolidation and channel control by erecting new barriers to entry and operation for agro-commercial MSMEs. We must recognise and strengthen the diversity, dynamism, enterprise, and resilience of India's agricultural markets.

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