Source : www.livemint.com Date : 2018-11-07

OPINION

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

Over a quarter of a century after the liberalization process was launched, the sector that employs the largest labour force remains perversely untouched. The Maharashtra government's recent amendment of the Maharashtra Agricultural Produce Marketing (Development and Regulation) Act, 1963, aims to bring the state's agricultural economy up to speed. It is a valuable experiment at a time when various states are attempting, if in desultory fashion, to incorporate the changes proposed by the Centre's model Agricultural Produce Market Committee (APMC) Act. However, it won't be an easy one.

In 2016, the Devendra Fadnavis government delisted horticultural produce like fruits and vegetables from the purview of APMCs. It has now taken the next step, allowing farmers to trade in the open market for all produce and livestock. APMCs' authority to regulate sales and levy a cess, which had earlier covered all activity in the *talukas*, has now been restricted to "principal market yard, sub-market yard and market sub-yard".

The extortionary nature of the *mandi* system is an open secret. The Dalwai Committee on Doubling Farmers' Income, set up in 2016, has noted that farmers' share in consumer prices range from as low as 15% to an anaemic 40%. Cartelization by middlemen and traders prevents price discovery mechanisms from functioning in *mandis*. Poor *mandi* infrastructure feeds into the problem. Only a quarter of them have common drying yards, less than a third have grading facilities and less than a tenth cold storage. The upshot is post-harvest losses in the 6-18% range. This combination of factors leads, unsurprisingly, to farmers demanding higher minimum support prices (MSPs), degrading the fisc and enriching traders who are able to mop up most of the gains from higher MSPs.

The rot is too extensive for piecemeal reform within the APMC framework to be effective. The Centre's Model Agricultural Produce and Livestock Marketing (Promotion & Facilitation) Act, 2017 recognized this with its attempt to bring private actors into the sector in order to provide competition for APMCs, although it didn't go far enough. A recent extensive study (*https://goo.gl/s5ZH6Z*) by Sandip Mitra, Dilip Mookherjee and Sujata Visaria, looking at potato sales in West Bengal, showed how critical such reform is. It found that relaying price information to farmers—a focus of various government initiatives—had "negligible average effects on farm-gate sales and revenues" in the absence of adequate competition among buyers.

The Fadnavis government's move has ostensibly done all the right things, then. It will dismantle APMC monopoly and open up the state's agricultural sector to private actors. In practice, it isn't that simple. For one, the rules for implementing the changes have yet to be notified. According to reports, the government intends to do this soon. Past experience—the delisting of fruits and vegetables in 2016—doesn't inspire confidence. Besides, the lack of basic and agricultural rural infrastructure makes farm gate sourcing and storage a costly proposition—one that may well lead private markets, companies and the like to rely on the same old middlemen cartels. Buyer licences outside the *mandi* system could be another choke point and opportunity for rent extraction. The same goes for acquiring land and licences for setting up private markets.

In the absence of supporting policies here, delisting all produce and livestock is likely to remain a notional reform. This can be seen in a number of other states where the *mandis* continue to dominate trade in horticultural products despite their being delisted.

The larger policy ecosystem undermines reforms of the kind the Fadnavis government has

implemented as well. Take the Essential Commodities Act (ECA). As long as agricultural commodities remain within its ambit, corporates will face major disincentives for investing and trading in them. The Atal Bihari Vajpayee government had removed them from the ECA list in 2003. Unfortunately, the United Progressive Alliance government rolled this back in 2007. If the present administration is serious about boosting farmer incomes, it could do worse than emulate its National Democratic Alliance predecessor. Likewise, it makes little sense for agricultural markets to remain constrained by state boundaries when the goods and services tax has created a common market in other sectors.

Agricultural reforms are never easy given the number of votes at stake. Political dynamics have helped the Fadnavis government here; the APMCs in the state are largely controlled by the Congress and Nationalist Congress Party. Nevertheless, given the importance of trader lobbies to the Bharatiya Janata Party (BJP), it is a brave step. Now, Maharashtra must go further. And it remains to be seen if BJP-controlled states such as Madhya Pradesh, where APMC dynamics may be less favourable, have the will to implement similar reforms.

How can corporates be incentivized to invest in agriculture? Tell us at views@livemint.com

END