



A webinar on agricultural sector reforms

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Context

On June 5, three ordinances aimed at reforming agricultural markets were promulgated with the overall objective of improving farmers' incomes. These were:

- *Farmers' Produce Trade and Commerce (Promotion & Facilitation) Ordinance 2020* – To promote a barrier-free inter-state and intra-state trade and commerce of farmers' produce, so a farmer can choose where he wants to sell his produce, beyond physical markets notified under state agricultural produce market legislations.
- *Farmers' (Empowerment & Protection) Agreement on Price Assurance & Farm Services Ordinance 2020* – To provide for a national framework on farming agreements that enables farmers to engage with parties for farm services and sale of future farming produce at mutually agreed prices.
- *Essential Commodities (Amendment) Ordinance Act, 2020* – To remove regulations and liberalize stock limit requirements of food items.

On Wednesday, July 1, the Indian School of Business (ISB) organized a panel discussion to bring together different perspectives of key stakeholders, namely the government, farmers and private sector, in order to identify a way forward for implementation of these reforms. The speakers were:

1. Dr. Abhilaksh Likhi (IAS), Additional Secretary, Department of Agriculture, Government of India (GOI)
2. S. Sivakumar, Group Head, Agri and IT Businesses, ITC Limited
3. Ajay Vir Jakhar, farmer and chairman of Bharat Krishak Samaj

The session was moderated by Prof. Sripad Devalkar, Associate Professor of Operations Management, ISB and Prof. Aaditya Dar, Assistant Professor of Economics, ISB.

Summary of panel discussion

Dr. Abhilaksh Likhi opened the discussion with PM Narendra Modi's target to double farmer incomes by 2020. He emphasized the importance of partnering with state governments and highlighted the need for consistent efforts to identify and plug bottlenecks. With the aim to ensure accountability and transparency especially to small farmers, he referred to schemes like PM-Kisan, MSP, PM Fasal Bima Yojana, which have been critical for micro-irrigation, organic farming, soil health etc.

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Dr. Likhi mentioned the important transitions in the agricultural sector and broader economy that underscore the importance of these reforms. These were as follows:

- Shifting focus from food security to farmers income.
- Emphasis on nutritional security.
- Structural shift from rural to urban economies and from agriculture to service sector.
- Identification of agri-business value chains as source for future jobs such as electric warehousing, storage etc.

He cited the example of a marginal farmer from Chitrakota, Jharkhand who sold watermelons on National Agriculture Market (eNAM), that led to huge revenue generation, to highlight the need to empower farmers via these barrier-free markets and online platforms. Dr. Likhi clarified that the first ordinance provides farmers the freedom to trade in a marketplace of their choice. The ordinance also facilitates spot buying and access to e-platforms. The second ordinance provides for flexible pricing and price protection to farmers.

Referring to the Atmanirbhar Bharat strategy, he outlined that GOI plans to undertake the following steps to ensure a seamless transition to a farmer-centric ecosystem:

- Agricultural infrastructure fund of INR 1 lakh crore to be set up by GOI to incentivise large-scale investments and encourage agro-startups to contribute to the value chain and private sector to take projects to farmgates.
- Credit boost schemes with special focus on post-harvest activities.
- Switch to eNAM due to inefficiency of the Agricultural Produce Market Committees (APMCs)
- Bring together forums like kisanmantri.com, mandi.com among other suppliers to one consolidated platform.
- Identify and alleviate agri-logistics bottlenecks; find solutions like kisan rath (which provided 7 lakh trucks in partnership with private transportation providers) during the lockdown.
- Ten thousand Farmer Producer Organizations (FPOs) to be set up with INR 2 crore of credit guarantee. These are commodity-based business organizations that would help bringing in private players.
- Enhancement of the farmer database, digital Agristack which already contains compiled data for 9 crore farmers data.

Dr. Likhi also threw light on some limitations that need to be taken care of:

- Inefficacy of the one-size-fit-all strategy in a country like India and the need for state level partnerships. He exemplified this via a successful case from Haryana, where a crop cluster development program operated with FPOs alongside the private sector.
- The need to stress on delivery of healthy food, nutritional problems, stunted growth, obesity and changing climate.

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Mr. S Sivakumar followed up on Dr. Likhi's talk by elaborating on the Trade & Commerce ordinance and contrasting it with the APMC ecosystem. He opined that limitations of the latter are removed via the first ordinance. He proceeded to describe the concept of APMC which was conceived around 50 years ago and aimed to:

- Help farmers discover price and enable competition amongst buyers.
- Improve logistics efficiency with mandis enabling aggregation.
- Provide support via Minimum Support Prices (MSP).

While these measures, along with others, have led to surpluses in food grain production, there are important challenges which need to be viewed from the following twin perspective:

Consumers' perspective:

As consumers became more sophisticated, they were willing to pay more for greater value. The need for greater value, increased focus on nutrition and wellness and rising consumer expectations increased the need for identity preservation for food products. For example, for a product such as atta, consumers look for specific traits (they do not consider all atta the same).

The APMC mandi system does not enable agricultural supply chains to deliver the above benefits to customers. For instance, rising incomes and awareness led to an increase in consumer demand for specific wheat traits, which the APMC mandis could not preserve due to their inherent nature of aggregating agricultural produce. Therefore, identity preservation became a limiting factor. Individual states improvised and amended the APMC Acts, allowing private sector agri-businesses such as ITC to source directly from farmers and deliver value to customers. ITC's e-Choupal initiative was instrumental in the success of the Aashirvaad brand of atta, which has witnessed rapid expansion. However, requirements of annual renewal of licenses in different states and uncertainty about the renewals make it a risky investment for private players.

Farmers' perspective:

During planting, farmers should have a clear demand and price signal, allowing them to make informed choices for production. In other words, supply chains need to become demand responsive. However, the APMC mandis reduce the interaction between buyers and farmers to a transaction, preventing such exchange of information.

Dr. Sivakumar believed that these ordinances provide scope for direct interaction between farmers and the rest of the value chain. Start-ups can come into the space, leverage technology, and deliver integrated services for farmers. Farmers are protected and empowered if they are aware of the demand signals.

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He concluded with an emphasis on the critical nature of these ordinances for achieving the agenda of multiplying farmer incomes and creating larger value for consumers.

Mr. Ajay Vir Jakhar brought the perspective of the farmers to the fore. With regards to the latest ordinances, he stated that the farmers and the states were not consulted before reforms were announced. He expressed his concerns on the motivation of GOI in announcing the reforms and suggested that they seem to assume India had achieved food security. He argued that it is, in fact, more appropriate to characterize the state of Indian agriculture as being cereal secure, but given that purchasing capacity for nutritional food items is low, India is far from being 'nutritionally secure'.

He acknowledged that the APMC markets were not a complete success and pointed out that exploitation by middlemen and aggregators with much political clout poses a hurdle. However, dismantling the APMC market system is not the solution and instead GOI should take steps to improve the efficiency of the APMC markets.

He also pointed out that GOI had not yet fulfilled its previously announced reform measures. He claimed that there was not sufficient investment in farm extension services and that 50 percent of the positions in such services and research institutions remain vacant.

He felt that the ordinances show that the government is abdicating its responsibility towards agriculture and raised the following concerns regarding the ordinances:

- **Unregulated markets:** the ordinance implies that 15 crore farmers will sell their produce in markets where mandi rules won't apply and farmers would have easy recourse to address their grievances. This is a cause of concern as farmers do not have the time to follow up on delayed payments and there will be no easy system to plug shortcomings. There is therefore a need for regulation to protect the farmers.
- **State finances:** The ordinances would reduce collections of mandi fees which would in turn discourage states to invest in rural infrastructure that is crucial for well-functioning markets.
- **Lack of clarity in the ordinance amending the Essential Commodities Act:** The definitions are ambiguous. For example, the ordinance states that an exporter can keep stock of whatever orders it has from abroad but without clear definitions of export/import. Similarly, it is not clear what happens to commodities whose prices fluctuate by more than 100 percent within a year (like onion and potato recently).

Mr. Jakhar went on to suggest a few measures he thinks are necessary in the current scenario:

- A necessity to design a sustainable business model for price discovery. He feels that state governments are well equipped to contribute towards the same.

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- Recommends restructuring of Food Corporation of India and supports the establishment of electronic warehouses where the government can keep track of the stocks of different commodities procured. He points out that the latter move is opposed by the corporates as it hinders their price speculation activities.
- Government cannot bypass its responsibility to regulate markets to ensure protection of farmers. Direct engagement of farmers with corporates is not feasible and farmers will need to be protected from exploitative middlemen/aggregators.
- A metric to measure the success of the reforms undertaken.

Mr. Jakhar concluded by saying that GOI is right in its intention to reform agriculture but needs to shoulder more responsibility to ensure effective implementation of rules and efficient regulation of markets.

Conclusion

The ordinances promulgated on June 5, 2020 are the first steps towards securing farmer welfare, especially in the wake of the COVID-19 pandemic. The reforms welcome large investments from the private sector and attempt to remove trade barriers by providing channels for farmers to directly engage with buyers.

The discussion pointed out a few areas of concerns such as ambiguity in definitions and inadequate attention to welfare of tenant farmers. These need to be addressed when the rules governing the implementation of the reforms are put in place. Further, consultations with all the stakeholders, especially various state governments and farmers are necessary to address some of these concerns.

An efficient dispute redressal mechanism is important to ensure the protection of the farmers and must be set up by GOI. The current mechanisms included in the ordinances make it onerous for small farmers to follow-up regarding any disputes they may have. Finally, the advancements made to enhance digital Agristack data on farmers must be continued to ensure formulation of effective policies. GOI, in partnership with the states and private sector players, have a landmark opportunity to usher positive economic benefits to the farmers.

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