THREE FARM BILLS:

INDIAN AGRICULTURE WATERSHED MOMENT?

Policy Brief

October 2020

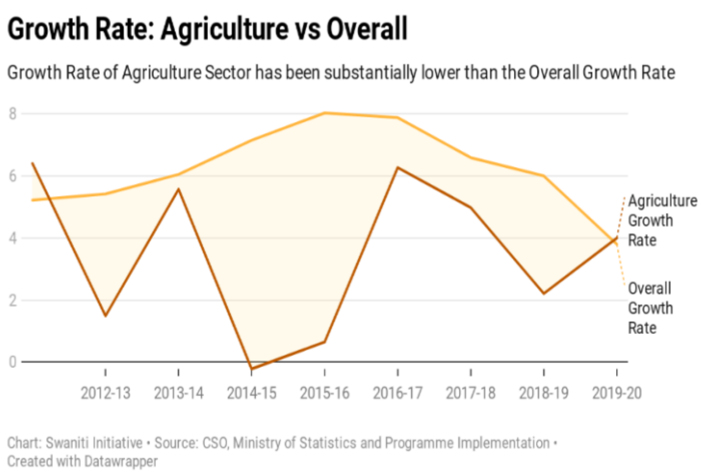
Swaniti Initiative

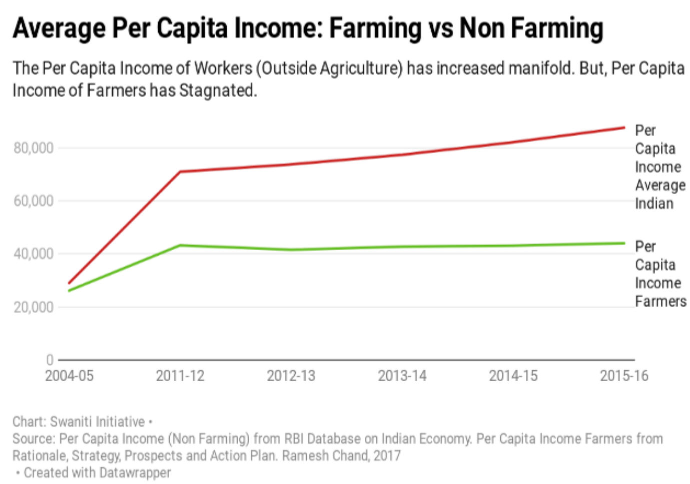
Image credit - AgriOrbit

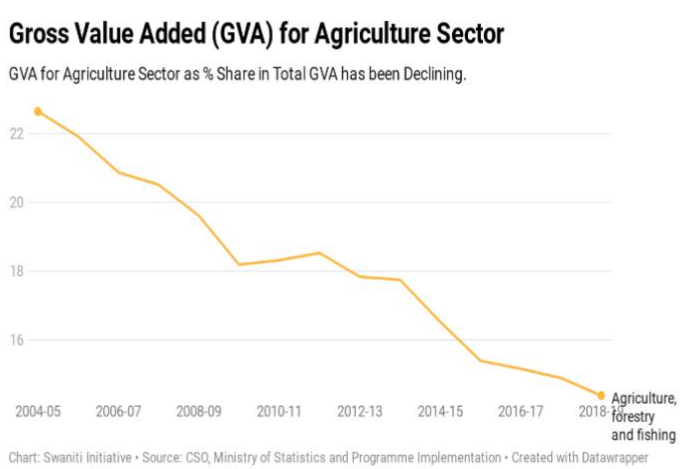
The Three Farm Bills: Indian Agriculture Watershed Moment?

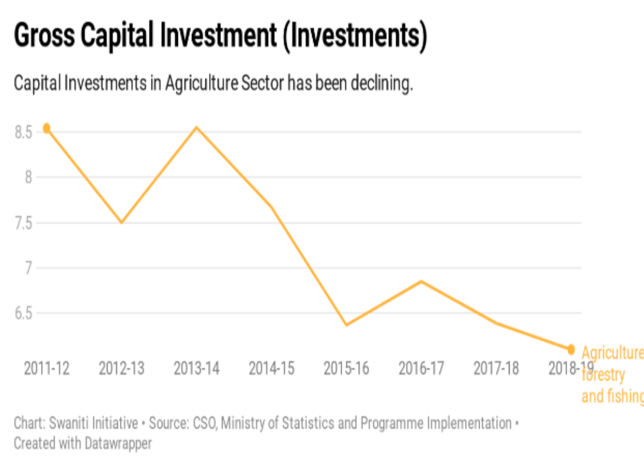
Illiberal Agriculture Policies: Stagnating Incomes, Declining Growth

For long in India, the laws governing agriculture markets remains anarchic. The State has found reasons to overregulate the agriculture sector- regulating prices, banning exports, restricting private trade, regulating markets etc. Excessive regulations and lack of freedoms hampered the growth of the agriculture sector, making it one of the World's most uncompetitive activity. The result of statist policies is lacklustre agriculture growth, stagnant farmers' income and declining public investments in agriculture, lack of investment in post-harvest infrastructure and technology.









The Three Farm Bills – Context

On July 5, 2020, amidst concerns of economic recession and spread of the COVID pandemic, the Finance Minister (FM) announced a slew of measures to reboot the economy under "Atmanirbhar Bharat" loosely termed *"Self-Reliant India"* program. An important pillar of the new "Self-Reliant" economic strategy was a complete overhaul of the country's agriculture markets (Ashok Gulati, 2020).

In the following days, the Union Government promulgated three farm ordinances - **amending the Essential Commodities Act of 1955, new Central Law that allows farmers to sell their produce outside Agricultural Produce Marketing Committee (APMC) Mandi yard by liberalizing Inter-State trade for agricultural commodities and new legislation to permit contract farming and corporate entry in the agriculture marketing** (Indian Express, 2020).

Fast Forward to **20th September 2020**, amidst much uproar in the Parliament, the Government introduce these ordinances as three legislative bills, namely **Farmers' Produce Trade and Commerce (Promotion and Facilitation) Bill, Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Bill and Essential Commodities (Amendment) Act, 2020**. The three bills have been passed by both the houses of the Parliament and received the President's assent on 27th September 2020 (Siraj Hussain, 2020).

Collectively, the three bills are designed to reduce the barriers from the agriculture supply chain and **share a roadmap to liberalize India agriculture from the controls of the middlemen**. The Government claims that the bills will enhance competition by allowing the private players to invest in agriculture sector especially marketing infrastructure- food supply chains, leading to efficiency gains, higher productivity and higher remunerative prices to the farmer (Ashok Gulati, 2020).

While the Government hailed the bills as a watershed moment, the critics called them anti-farmers. The critics fear that the bills will result in untimely withdrawal of the Government from the agriculture sector. They **highlighted the following concerns:**

1. **The state will no longer support the farmers through Minimum Support Prices and dismantle the state procurement system** of wheat and paddy.
2. Without an adequate regulatory framework, the **farmer will be left at the mercy of large corporate buyers**, who will eventually assume monopsony power, reducing the farmers to price takers.
3. The government will **weaken the PDS system by reducing the coverage of the National Food Security Act (NFSA)**.
4. **The Union Government appointed Shanta Kumar Committee in 2015 have recommended reduction in the coverage under PDS from present 67% to 40% of the population.** A move instigating fear amidst COVID pandemic (Sukhpal Singh, 2020).

Given all the structural problems with the functioning of agriculture markets. The bills are indeed laudable with the potential to drastically transform the agriculture marketing system. However, are they going to resolve the complex problems of the agriculture sector? This outcome remains highly uncertain.

The rest of the Brief attempts to analyze the three bills, focusing on various aspects of Indian agriculture- sector performance, implications of Minimum Support Price (MSP) policy and APMC Mandis.

Key Features of the Bills

Farmers' Produce Trade and Commerce (Promotion and Facilitation) Bill, 2020: The bill limits the jurisdiction of APMC mandis, allowing the farmers to **sell their agriculture produce outside the APMC mandi yards in the newly created "traded areas"**. In the *"Traded areas"* any buyer with a PAN card **can buy directly from farmers without any restriction- no requirement of licenses and commission fees**. The bill also permits electronic trading platforms to buy directly from the farmers, a move likely to benefit e-commerce players like Ninjacart, Big Basket and Groffers etc.

Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Bill, 2020: The bill provides an architecture for the **"Contract Farming"** allowing farmers and corporate buyers to enter into **"written agreements"** obligating the parties to transact agriculture commodities at a predetermined future date and price.

The two bills taken together will **increase the competition among buyers**, **dismantle the monopoly of AMPC mandis and will mark an end to the dominance of arhtiyas** (registered commission agents). The bills will open up new avenues for farmers and help them in getting better prices. Similarly, the enabling of a **legal framework for contract farming will help in price discovery**, **assuring farmers a pre-determined price at the time of sowing** (acting as an insurance against price risks) and **minimizing the effect of cobweb phenomenon** (last year's prices determining current year prices).

Essential Commodities (Amendment) Act, 2020: The bill fulfils the long-standing demand of farmers and traders. Henceforth, there will be no restriction on stocking, movement and export of agriculture commodities. The Government will not suddenly impose the Essential Commodities Act to control prices or output in the market. This will encourage the private sector to invest in agriculture supply chains mainly in the post-harvest infrastructure like cold chains and warehousing facilities.

The Anxiety and Apprehensions

The legislation on contract farming and amendments to essential commodities act have been least controversial. The **main apprehension of the farmer is related to the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Bill** (Sudha Narayan, 2020). The present mandi system is undoubtedly opaque but essentially serves two main purposes; One, the *arhtiyas* or mandi middlemen are part of the larger agriculture ecosystem-

they act as local moneylenders, aggregators and risk managers. Two, price discovery - in the absence of a well-functioning market mechanism, the private players are guided by the APMC prices for their transactions. Thus, helping in price discovery even outside the APMC markets.
In the absence of an alternate mechanism for price discovery and arhtiyas (*who will perform the functions of money lender, aggregators and risk managers?*) a unified agriculture market will remain a distant dream. The APMC will continue to influence and guide the price discovery in new traded areas.

Moreover, given the highly fragmented land ownership structure with **an average landholding size of 1.08 Ha** (Agriculture Census Division, Dept. of Agriculture, Cooperation and Farmer's Welfare, 2015-16), the power of the marginal farmers seems greatly dwarfed against the big corporate buyers and private traders. The criticism of the bill is largely made on this ground that the relaxation has opened another channel of exploitation in the hitherto protected agricultural sector. (Nikhil Inamdar, 2020). Without APMCs it will be harder to keep track of the procurement and stock of food grains produced in the states.

The legislation on **Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services,** has many misses. **One,** there need to be more details on the way price is ascertained and the contract agreement should cover the details of the pricing process. This is important since farmers need to understand the process to make an informed decision about the agreement instead of passively accepting the price. **Two**, grading the produce and setting the price range for the different quality of agricultural produce also needs to be worked out in the process of determining prices in farm agreements. **Three,** payment period in private trading should be covered in the public mandate on contract farming, and penalties to delayed payments should be laid out to secure interests of small and marginal farmers. **Four,** the dispute reviewing panel should be constituted in a manner where it is immune to the local power dynamics and influences from big corporations. The interest of the small and marginal farmers should be considered where the case arises that they are at a disadvantage. (Siraj Hussain, 2020). Perhaps, the most problematic aspect of the bills is that there is a complete absence of regulatory oversight for new traded areas and contract farming.

The Misplaced Debates: MSP and APMC Mandis

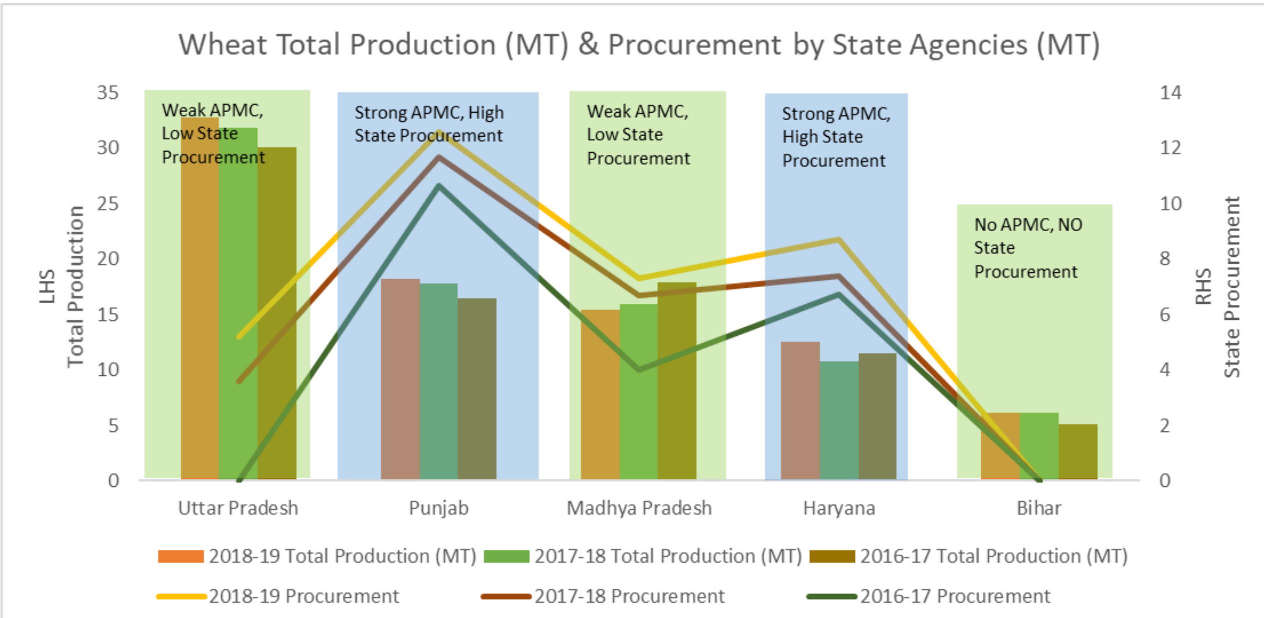
The debates around the bills have unfortunately been reduced to only two issues; Minimum Support Prices and APMC Mandis. As a result, critics are demanding rollback of the bills and inclusion of legal provisions ensuring MSP for farmers, irrespective of place of sale and buyer. However, none of these demands reveals an understanding of the true nature of distress faced by farmers. It is unlikely that farmers will get remunerative prices even if the government announce MSP for private players. The farmer's distress is deep-rooted and is a result of multiple policy failures over the decades.

Myth 1: Agriculture trade happens through APMC Mandis?

According to NSS, 70th round, 2013 only **25% of agricultural households sold their produce in the APMC mandis, whereas 65% of households sold to private players** (National Sample Survey Office, 2013-14). Even before the enactment of new farm bills, **a total of 17 states and Union Territories have moved towards some**

level of modification of the APMC based market regulation opening the sector for private trade. Most states have moved beyond APMC and public procurement. (Department of Agriculture, Cooperation & Farmers Welfare, 2018-19)

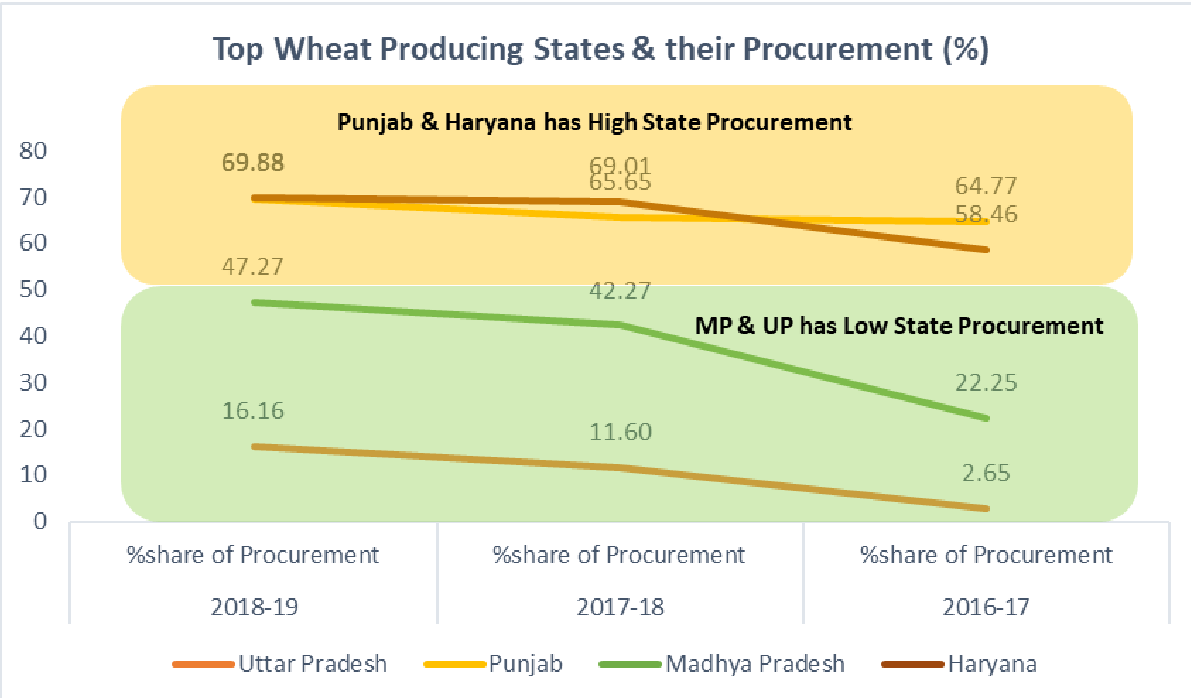
Figure 1: Production and State Procurement for Wheat



Source: Directorate of Economics and Statistics, GOI

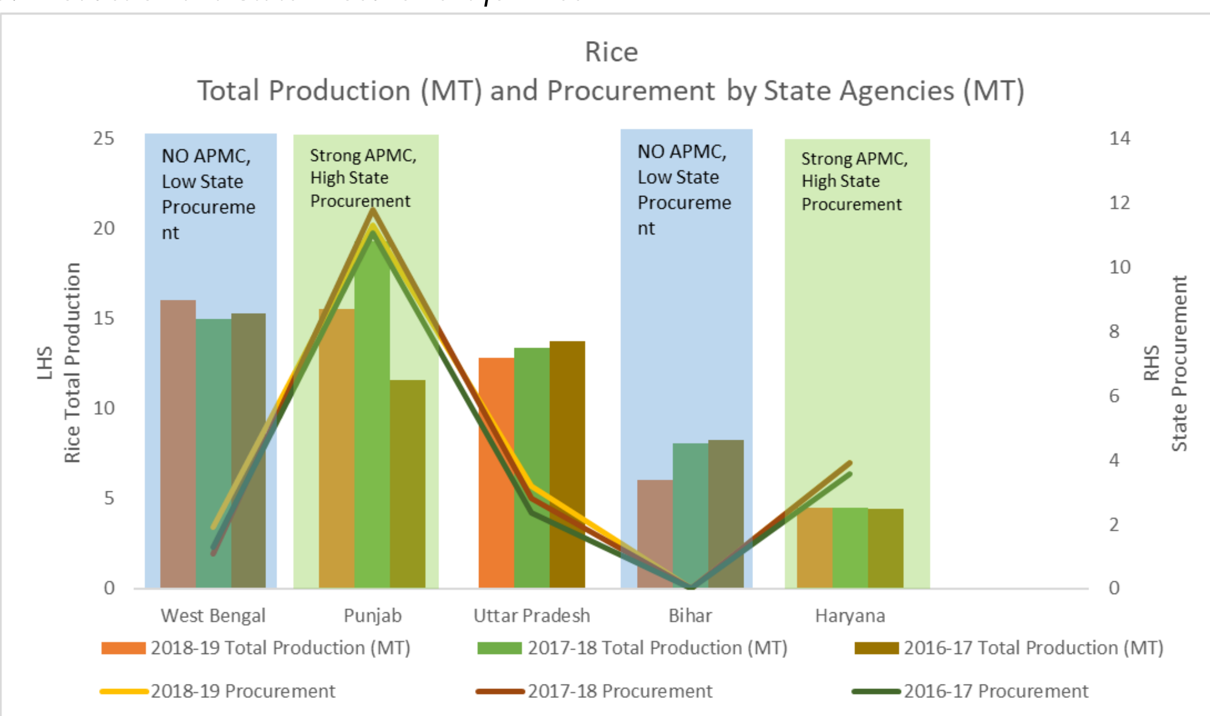
The top wheat-producing states in the country are Uttar Pradesh, Punjab, Madhya Pradesh and Haryana. Out of these states, Only Punjab and Haryana have a high procurement share in its total production due to the strong state APMC infrastructure as well as complementary government schemes that facilitate the process. States like UP, MP and Bihar have already moved beyond the APMC. For instance, Uttar Pradesh, despite being one of the top producers of wheat does not have a high procurement share because of the lower reliance on the APMC system. Bihar, on the other hand, having done away with the system completely in 2006, has a strong inclination towards private networks for the marketing of agricultural produce (Sayantan Bera, 2020).

Figure 2: Production and State Procurement for Wheat (%)



Source: Directorate of Economics and Statistics, GOI

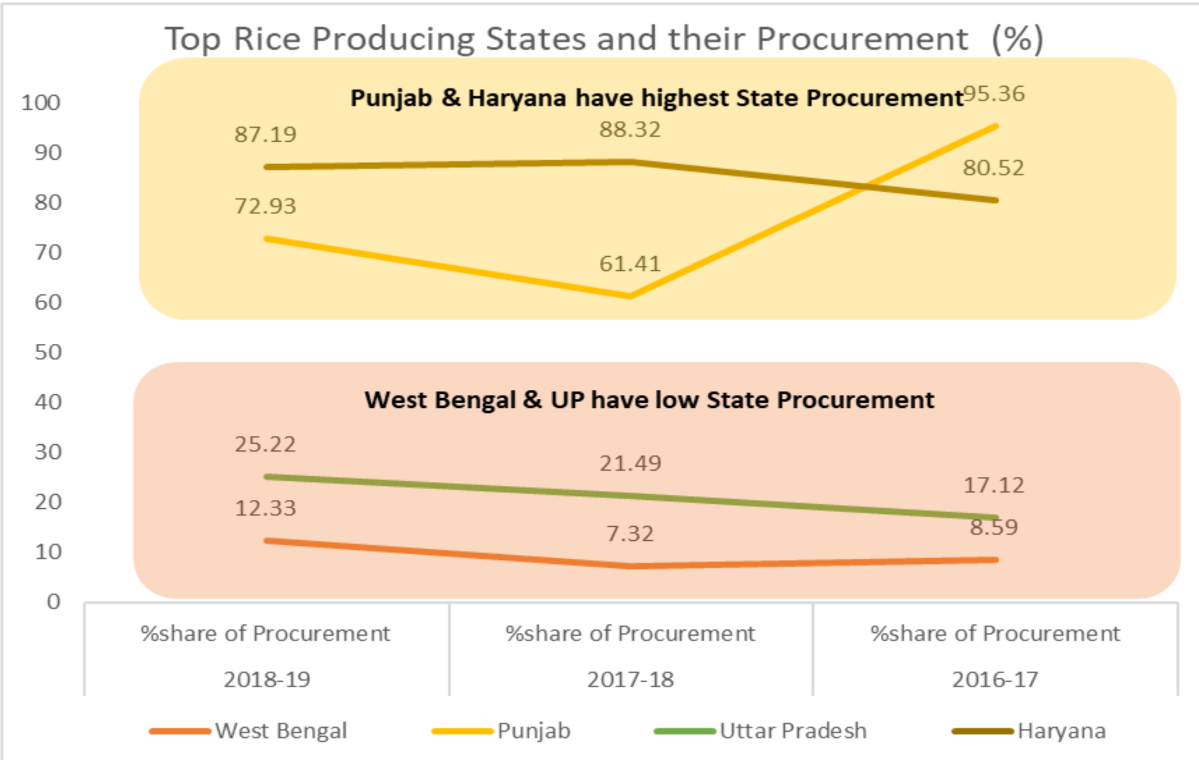
Figure 3: Production and State Procurement for Rice



Source: Directorate of Economics and Statistics, GOI

Rice, another major food crop, reveals a similar trend. West Bengal is the top producer of rice, yet it has abysmally low procurement records as compared to states like Punjab or Haryana. West Bengal and Bihar have had no APMC, hence, farmers do not look to the public procurement system. Only Punjab and Haryana have had high procurement share in its total production due to the strong state APMC.

Figure 4: Production and State Procurement for Rice (%)



Source: Directorate of Economics and Statistics, GOI

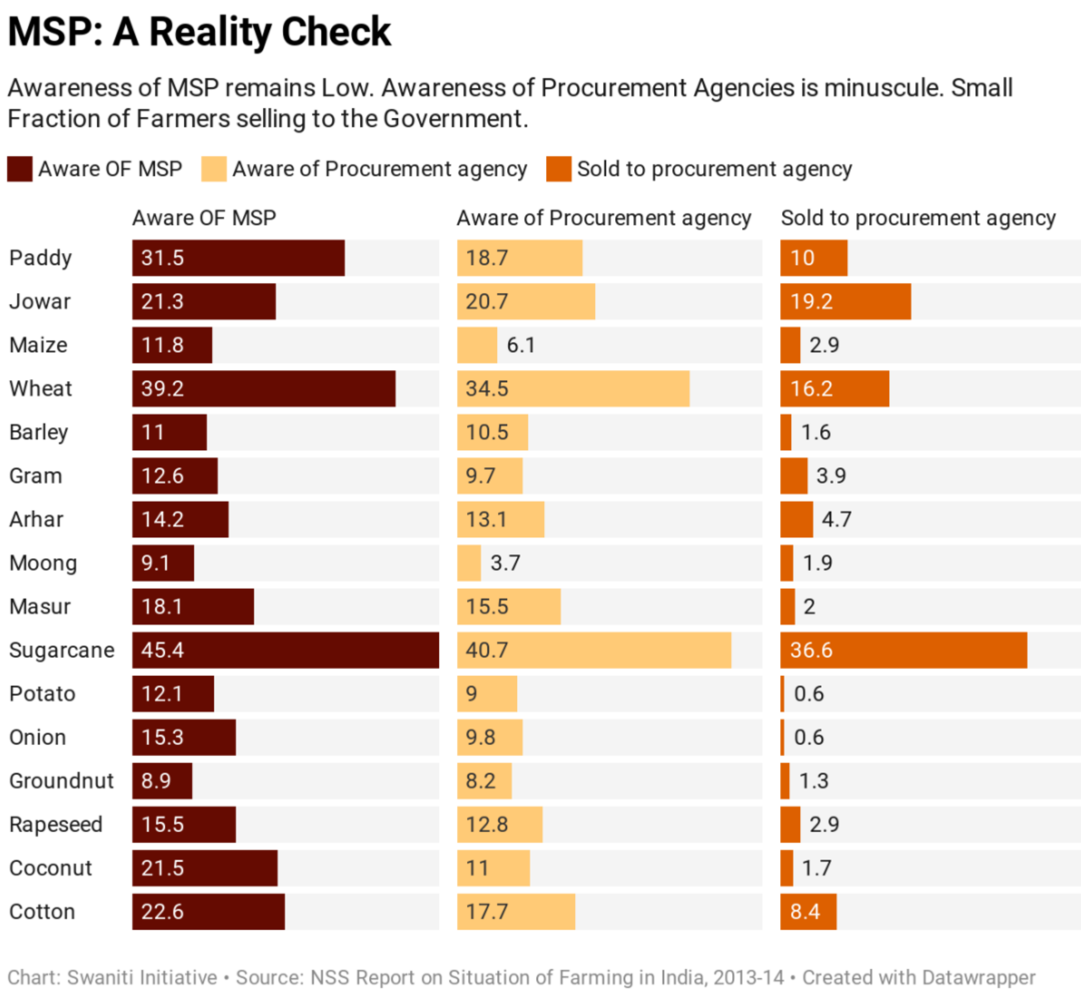
In the nutshell, for Wheat and Rice, the government of Punjab and Haryana practice monopsony powers. Farmers in these two states sell 90% of their produce to the AMPC mandis through arhtiyas at MSP prices. The two states have a strong APMC mandi system, thanks to the legacy of the Green Revolution.

On the other hand, states like UP, Bihar, West Bengal, Bihar have either no APMC or weak APMC implying unrestricted free trade outside APMC mandis.

Therefore, it is not the case that APMC or the Government is the sole buyer of farm produce in India. With the changing spatial pattern of crop production, non-APMC channels now account for an increasing share of crop purchase.

Myth 2: Majority of Farmers depend on MSP?

Data from various sources showcase that the level of awareness about MSP among farmers in the country remains abysmal. Multiple rounds of NSS survey as well as the NITI Aayog study conducted in 2015-'16, showcase that MSP awareness remains low and farmers have not relied on public procurement channels for the sale of the crop. These reports further reveal that the MSP regime favours only a small proportion of farmers (6%) and has been largely unavailable to the majority of the small and marginal farmer (94%) (Shanta Kumar Committee, 2015). The regime benefitted few crops - wheat and rice in only some states like Haryana and Punjab.

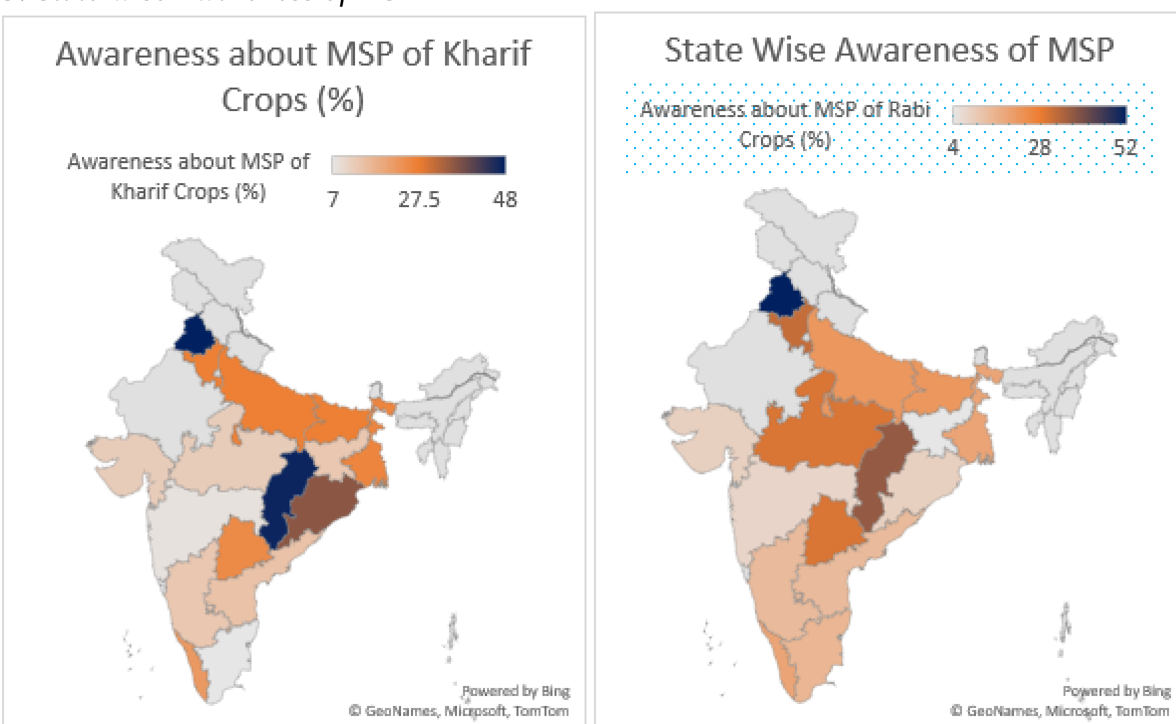


The reasons for the low reliance could be attributed to multiple factors, but out of those some of the influencing factors are the time of learning about MSP, the ease of payment, the accessibility to local public procurement channels and the transaction costs. If the alternative trading options are lucrative or if the existing channels of sale are convenient to the farmers, then they never really look to receiving the MSP support from the government.

The disaggregated data at the crop level reveal that the MSP awareness stands at around 17% and 18% for Rabi and Kharif crops respectively. Similarly, the share of households aware of MSP stands at 28% and 23% for Rabi and Kharif crops respectively. Even for crops like Wheat and Rice, the awareness of MSP remains low at 39% and 31% respectively. The only crop for which farmers have a significantly high awareness is sugarcane. The reason being, for sugarcane the government declares a mandatory statutory price (SAP), a legally binding price that must be paid to farmers by sugar mill owners.

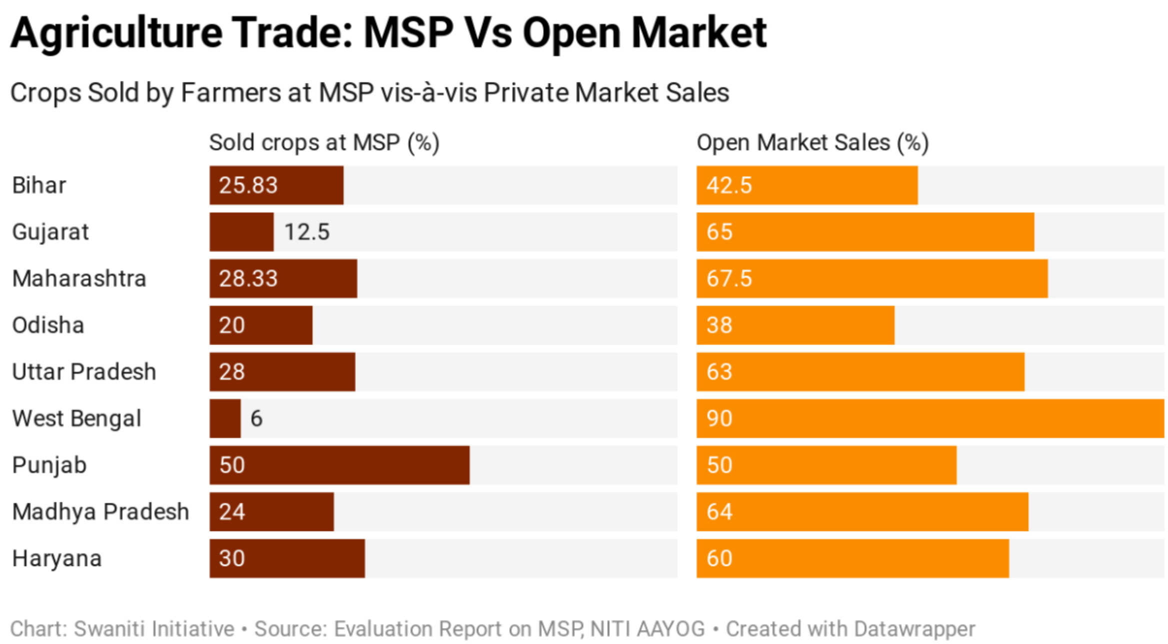
At all India Level, for crops like Wheat and Rice, the awareness of procurement agencies stands at 34% and 18% respectively. Another robust indicator to assess the impact of MSP is the actual sale made to procurement agencies. For crops like Wheat and Rice, the figures remain abysmally low at 16% and 10% respectively.

Figure 5: State-wise Awareness of MSP



Source: NSSO Data, Multiple Rounds

50 years after its implementation, less than a quarter of farmers knows the MSP of crops they grow. Despite being announced for the whole of India, the MSP is limited only to a few states (Green Revolution Belt) where the government agencies procure the produce from farmers. State-wise data on farmers' knowledge of MSP of crops support our proposition. In states where the procurement of food grains through designated agencies is more active, like Punjab, Haryana, Chhattisgarh, Uttar Pradesh, the awareness of MSP is between 30 to 45%. In the rest of the states, awareness is as low as 10-15%.



Conclusion

The three bills are the culmination of already existing efforts by Union and State governments to reform the agriculture marketing system. The present debates on MSP and dismantling of APMC mandis are highly misplaced. **Our analysis and data from Government agencies reveal that both MSP and mandi system is significantly weakened and most of the agriculture trade now pass through private channels.** Farmers are price taker in the agriculture trade with little or no bargaining power.

The legislations have caused most resentment in Punjab and Haryana that has invested heavily in the APMC infrastructure. The two states produce and procure nearly half of the country's wheat and rice. The farmers in Punjab and Haryana fears that free trade will be disastrous for them and they will lose out in the process. In the rest of the country, the MSP regime had favoured only a fraction of farmers in select crops. The evidence suggests that MSP and agro-trade liberalization are mutually exclusive. No private player will enter the market if forced to buy at MSP. No legislation can ensure this outcome. An alternative for the government is to come with a new mechanism, for instance, an **income support scheme** taking a cue from **Telangana's Rhytu Bandhu or Orissa Kalia scheme.** The Government already had the administrative experience of running such a scheme **(PM Kisan)**.

The big question- Are the three farm bills a watershed moment for the agriculture sector? The simple answer is we don't know. We must wait for few years to see the implementation of the bills on the ground. To sum up, the bills are the necessary first step to increase the productivity of agriculture and greater farm diversification. However, they are not a magic bullet.

References

Agriculture Census Division, Department of Agriculture, Cooperation and Farmer's Welfare. (2015-16). *Agriculture Census.* Ministry of Agriculture & Farmer's Welfare, GOI.

Ashok Gulati. (2020, July 5). A 1991 Moment for Agriculture. Indian Express.

Department of Agriculture, Cooperation & Farmers Welfare. (2018-19). ANNUAL REPORT. Ministry of Agriculture & Farmers Welfare, GOI.

Indian Express. (2020, September 30). Farm Bills are a step in right direction. Indian Express.

Krishnamurthy, Mekhala (2012), "States of Wheat: The Changing Dynamics of Public Procurement in Madhya Pradesh," Economic and Political Weekly Vol XLVII (52): 72-83.

Mitra S, D Mookherjee, M Torero and S Visaria (2015), 'Asymmetric Information and Middleman Margins: An Experiment with Indian Potato Farmers', Working Paper, Institute for Economic Development, Boston University.

National Sample Survey Office. (2013-14, December). Some Aspect of Farming in India. NSSO 70th Round.

NITI Aayog. (2016, January). Evaluation Study on Efficacy of MSP on Farmers. NITI AAYOG, Report No 231.

Nikhil Inamdar. (2020, September 23). Farm bills: Are India's new reforms a 'death warrant' for farmers? No easy answers. BBC News.

Sayantan Bera. (2020, October 2). It's business as usual after the farm reforms. Live Mint.

Shanta Kumar Committee. (2015, January). Report of the High Level Committee on Reorienting the Role and Restructuring of Food Corporation of India. Government of India.

Siraj Hussain. (2020, June 16). Will India's Contract Farming Ordinance Be a Corporate Lifeline for Agriculture? The Wire.

Siraj Hussain. (2020, October 15). Farm Bills: Potential for Positive Outcomes. International Growth Centre.

Sudha Narayan. (2020, September 30). Farm Bills. India Forum.

Sukhpal Singh. (2020, October 13). Farm Bill: Design Leave Much to be Desired. Ideas for India.

Swaniti Initiative is a non-partisan social enterprise that delivers development solutions to legislators and governments. The organisation focuses on the issues of health, education, gender, livelihood, human welfare and governance. The vision of the organization is to facilitate evidence based policy reforms and further help the government utilise its resource with utmost efficiency to ensure development of the community at the last mile.

Swaniti Initiative
13/14, Sarvapriya Vihar, New Delhi, India