

Indian Economy: Some Contemporary Perspectives
Professor Wasim Ahmad
Department of Economic Sciences
Indian Institute of Technology, Kanpur
Lecture 11
Indian Economy: Agriculture Policy 3

Hi everyone. So, we are now going to start the next session and in this particular session we will be talking about agriculture marketing what are the issues and what are the challenges and why we have reached to this stage where we are talking about how we can improve our agriculture sector basically the marketing side of the agriculture sector. And it is an interesting topic so that is why I thought that I should be devoting more time.

And I should have one separate lecture on this, and this is why lecture 11 and lecture 12 we will be dealing with agriculture marketing. So, agriculture sector as I told it is the backbone of the economy though the share in employment has come down. It is now almost close to 42% and the contribution in terms of agriculture output is immense. We have reached from 15 million ton or we had 55 million tons in 1950s to we have reach around 298 million tons in terms of food grains.

So, we are completely self reliant on the food items though on some occasions because of mismatch between demand and supply we have to import from somewhere, but in rest of the cases we are self sufficient and we have seen the transformation of agriculture from being one of the most conventional sectors to relatively modern sector. So, there is a lot of diversity across India in Punjab, in Haryana, in UP.

And in some part of the Western states like Maharashtra and Gujarat these states have done well especially in terms of cash crops. Then we also see lot of diversity towards the South part of India where we have Karnataka, Tamil Naidu, Andhra and then we have a Kerala and these states have also done well and there is a whole lot of effort now to streamline certain rules and regulations that were not conducive for the development of the agriculture sector.

So, there is a whole lot of effort to bring new synergy and there are also some concerns regarding the need for such drastic changes because we have already gone through policy changes at a state level and then we have also gone for certain changes even at Central level. So Central level always advices the states to implement certain norms. So, there is always a scope for gradual change, but now we have gone for a drastic change.

So, that is why we are saying a lot of upheavals across the country talking about agriculture marketing. So, now this particular lecture I hope it will be useful for those who want to know more about the agriculture sector.

(Refer Slide Time: 03:15)

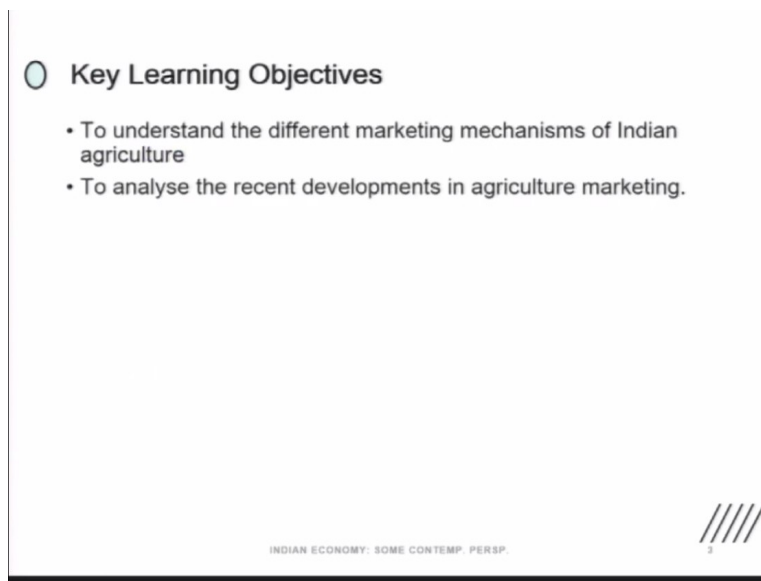


The references of this particular lecture are interesting so it is OECD ICRIER 2018 so that we referred in the last session also. Then I found a very good write up article by Mahendra Dev. He is currently the director of IGIDR. He has written recently on agriculture reforms in India. It is appeared in Indian Public Policy Review then we have Gulati, Kapur and Bouton it is also on reforming Indian agriculture.

It is appeared in Economic and Political Weekly then we have Sudha Narayanan she has also written it has appeared at the India farm three farm bills then we have Rawal, Patel and Pais. He has also written on this the political economy of agriculture market reforms monograph and it is located at society for social and economic research. Then as we have referred in the last lecture also 20 years of economic reforms in India new century publication.

So, these are the references if any of you are interested in knowing more about the topic that I am going to discuss then these are the immediate references wherever I have borrowed some details from some papers I have cited explicitly. So, you can also click on those links and have some more idea about it.

(Refer Slide Time: 04:37)



0 Key Learning Objectives

- To understand the different marketing mechanisms of Indian agriculture
- To analyse the recent developments in agriculture marketing.

INDIAN ECONOMY: SOME CONTEMP. PERSP.

3

So, the key learning objective is that how we can think about, how we can have the comprehensive idea about the India's agriculture marketing what are the rules and regulations and the recent laws that we have enacted in the area of agriculture marketing how we can see the pro and cons of this particular law and to what extent we can analyze it in the contemporary context.

So, this is the underlying idea behind this particular lecture and I hope it will be quite useful for everyone.

(Refer Slide Time: 05:14)



0 Indian Agriculture Policies Since Independence

- **Agriculture Marketing**
 - Agriculture marketing has been a contentious issue due to state-regulated markets and widespread inefficiencies
 - Agriculture and its marketing fall in the "*State List*"
 - Inter-state trade falls in "*Union List*"
 - Contracts fall in the "*Concurrent List*"
 - The harmonious rules to govern the agriculture market is another major issue.
 - The recent amendments in the farm laws deal with some of these issues.

INDIAN ECONOMY: SOME CONTEMP. PERSP.

4

Now, here we have the agriculture marketing. So, agriculture marketing since beginning, since independence it has been so when we were thinking about expanding the agriculture sector so at that time we were looking for capacity and in capacity the distribution was one of the major challenges for the policy maker. So, that is why at that time we have enacted certain laws.

So, that there should not be any black hoarding or there should be a smooth distribution of the food products whatever was available at that point of time. But in late 70s, 80s, we started realizing that now we are having a sufficient food production so we should go for expansion of these particular marketing structure and then we had implemented certain laws. During post reform era we had almost neglected this particular sector because our focus was more on industries and all.

But still we had implemented certain laws in the area of agriculture also at that point of time and especially in the areas where we were not making that much effort we were deficient. We improve the pulses production, then we have the poultry, then we had the dairy farming. So, all these sectors got attention at that point of time and there is lot of industrial scope for the sector.

So that is why government also had gone through that, but 2000 we saw a development particularly special attention were paid on this agriculture sector because there is a lot of scope of agriculture to eradicate poverty and rural development. So, if you look back in the constitution as per the article 264 7 schedule. So, agriculture and marketing fall in the state list. Interstate trade falls in union list. So, you have three lists.

One is called union list which is the Central government list. The central government has to take care (07:13) of the state list, certain activities which fall under this state list and state has to take care and has to govern on those activities then the contracts fall in the concurrent list which is the subject for both state and the union and the central government. So, agriculture becomes a quite complex, agriculture marketing becomes quite a complex topic because of these three.

And that is why whenever we have Central government trying or making effort to bring new changes in agriculture sector. It becomes really tough task for the Central government to convince the state government that you have to implement certain changes, certain norms in agriculture sector because the agriculture falls in a state subject. So, state may be requested

and they will be suggested under certain norms with certain incentive to implement some majors.

And so far since independence it has been the case that there in some states the Central policies or Central suggestions whatever was suggested by the Central government it has been implemented. But in certain states this has not been the case and that is why in some states we find that the rules which were suggested by the Central government have not been implemented.

So, the harmonious rules to govern the agriculture market is a major issue. The recent amendments in farm laws are also related to this and that is why it has become one of the hotly debated topics in the print media as well as digital media.

(Refer Slide Time: 08:46)



So, in the beginning when we are thinking about expanding the agriculture capacity at that point of time we had enacted something called essential commodities act 1955. What was this act? So, this act was designed to make sure that some commodities especially food grains and other items were available and there should not be any kind of black marketing and hoarding of these items.

And that is why some list was prepared and that even food items were included. So that there should not be any higher variation in prices and even the lowest income strata people can have the access to food. And then we had also gone for enactment in 1960s we had gone for

enactment of agriculture produced market committee because when farmers are going to produce certain items.

And we have already discussed that we had established in 1963 and even 1965 we had to commissions we had a food corporation of India and then we had the CACP so committee on agriculture price. So, on these two agencies help in terms of procuring the food items from the farmers and that is why APMCs becomes important. In the beginning, since we had a limited food production.

So that point of time we thought that we should be having everything under the government control because it was as with the planning. So, every year whenever we have gone for some kind of enactment of credit or banking credit expansion, we have two types of credit in India. One is called food credit another is called non food credit. So, government of India gives money to the food corporation of India to buy food products.

The farm products from the farmers and farmers really paid to that. So, that is why the money that goes to the food corporation of India it is called food credit and the money which is invested in non-agri activity it is called non-food credit. So, APMC provided access to food grains to FCIs and farmers are expected to come to this market, they will have to register and then they will be also subject to certain fees.

And then there is a regulation that once we have a minimum support price decided then farmer will be selling only at that price and it is up to the farmers also to go to the market anyway. But if he or she is accessing to the APMCs then he will be allowed to sell only to the APMC market. So, APMC market are highly regulated and some states it has different names.

But APMCs are the primary market where farmers reach and sell their produce to the traders or committees which are buying so that was called primary agriculture commodity.

(Refer Slide Time: 11:55)



Indian Agriculture Policies Since Independence

- **Essential Commodities Act (ECA), 1955**
 - ECA controls the production, supply distribution and pricing of essential commodities. The Act helps in smoothening the supply of essentially identified commodities and acts against hoarding and black marketing.
 - Since agriculture is a state subject, therefore, states are more empowered to take decisions on food items except Sugar in which central government exercises some controls.
 - Commodities covered under ECA are revised time to time depending upon the economic conditions and the availability or supply of a particular item.
 - List of commodities under ECA has reduced from 70 in 1969 to just 7 in 2006. Currently ECA has 9 items. Latest items added are facemasks and sanitisers.

INDIAN ECONOMY: SOME CONTEMP. PERSP.

So, I will be highlighting the essential commodities act. So, it was essential commodities act 1955. It was implemented to control on the production, supply distribution and the pricing of essential commodities. So, this was the idea and then it was also decided that it was just to make sure that there should be smooth supply of food grains and there should not be any shortage.

So ECA was implemented and since agriculture is a state subject. So, therefore states are more empowered to take decisions on food items except sugar because government has a special arrangement for the distribution of sugar. So, sugar is quite subsidized and Central government pays money to the sugar suppliers and as per the C Rangarajan Committee in 2013 there was a certain change made, but till buy and sell of sugar from the Union government is a different exercise.

Commodities covered under ECA are revised time-to-time. So, right now ECA has been reduced from 70 in 1969 to just 7 in 2006. Now, we have 9 items and recently because of the coronavirus pandemic we have also added face mask and the sanitizer in the ECA list essential commodities act otherwise the petroleum, seeds, different types of seeds then we have food grains then we have a jute item. So, all these items are part of this ECA list.

And ECA list is basically it was good to have a control on the distribution or supply of these items otherwise there would be always a case of manipulation. So, ECA was enacted just to make sure that there is no manipulation.

(Refer Slide Time: 13:44)

Indian Agriculture Policies Since Independence

Agriculture Marketing

- Agricultural Produce Market Committee (APMCs) were introduced in India during 1960s for a better price discovery and fair transactions.
- APMCs were designed to create necessary infrastructure for auctions and storage out of the cess paid by the buyers and not by the taxpayers.
- Many APMCs invested the funds in creating marketing infrastructure.
- APMCs were designed to function as a democratic, decentralized with physical auctions as the basis for price discovery and licensing of traders.
- But over the years, the vested interests took over and system deteriorated.

INDIAN ECONOMY: SOME CONTEMP. PERSP.

Then we have an agriculture produce market committee, as I told it has very big role in deciding the price discovery of particular farming product or particular food grain. So, APMCs were designed to create necessary infrastructure for auctions and storage because for selling agriculture produce you need certain infrastructure, you need a place to stock items then you need a place to locate and the (14:14) then there will be meetings.

So, all these infrastructures were supported and then APMCs were designed to create necessary infrastructure as I told that whatever the money that they receive from the farmers they reinvest in creating the necessary infrastructure in terms of different mandis that we have and many APMCs especially in case of Punjab it has been a great success because there the culture of mandis has evolved in a very mature manner.


And that is why we see a very well-developed market in case of Punjab and most of the farming communities they enjoy a good amount of service from the APMCs. Whereas in some other states in terms of progress it has been mixed, but especially the Punjab case has been highly reported by agriculture economist. APMCs were designed to function as a democratic decentralized so there will be market committee and the farmers who are not going to sell their produce to APMC they will lose the voting rights.

So, they will not be participating in the marketing committee elections so that is why it become one of the incentives for the farmers to go there and sell the produce. And then there will be traders license by the government and then there will also subject to certain taxations,

but over the years the manipulations have taken place especially in terms of selection of the members and market committee deciding about the price discovery process.

So, the whole lot of information about the information asymmetry has taken place and that is why this particular APMC have been blamed for a lot of inefficiencies that we always have found.

(Refer Slide Time: 16:03)



The slide is titled "Indian Agriculture Policies Since Independence" and features a blue circular icon with a white 'O' to the left of the title. Below the title, there is a blue bullet point labeled "Agriculture Marketing". Under this, there are five black bullet points detailing the role of state governments, collusion between politicians and traders, the inefficiency of APMCs, the redesign of the APMC Act in 2003, and the addition of a chapter on "Contract Farming". The slide has a white background with a black footer bar at the bottom containing the text "INDIAN ECONOMY: SOME CONTEMP. PERSP." and a small logo of four slanted lines.

Indian Agriculture Policies Since Independence

- **Agriculture Marketing**
 - State governments also interfered as they get revenue have nominees in the boards of *Mandis*.
 - It became difficult to crack the collusion between politicians and trader/middleman.
 - As a result, the APMCs became an inefficient market facilitating institution, dominated by the traders and middlemen.
 - APMC Act was re-designed in 2003 and APMC rules in 2007.
 - A new chapter on "Contract Farming" was added.

INDIAN ECONOMY: SOME CONTEMP. PERSP.

The state government also interfere as they get revenue and have nominees in the board of Mandis. So, for instance, it was reported that the Punjab government gets around more than Rs. 3,500 crores from the tax and (16:21) it imposes on different Mandis. So, it is a big source of income and that money they invest to have or to develop the infrastructure from village to Mandi or different linking roads or different types of infrastructure for storage and distribution. So, there is a whole lot of ecosystem working in this particular Mandi system.

And in case of Punjab it has been also reported that there were around more than 1,600 people employed under formal and informal category of employment and there is also a case that whosoever goes there they are also some kind of relationship exist between the trader, license trader and the farmer and there is some kind of borrowing and lending happening between these two.

The APMCs become an inefficient market so then you have a trader union playing role then you have the middleman also playing a role then the state nominees also sometime destroy the two purpose of APMCs the Mandis. As a result, APMCs become an inefficient market,

facilitating institution dominated by the traders and middleman. APMC act was redesigned in 2003 and there was a separate chapter on the contract farming.

And contract farming is a new development in case of India though it has been implemented long ago in some states especially in western part of the country, but Punjab and Haryana have a separate provision for this and that is why these two states do not see that much progress, but in case of Maharashtra it has been a great success.

(Refer Slide Time: 18:13)

Indian Agriculture Policies Since Independence

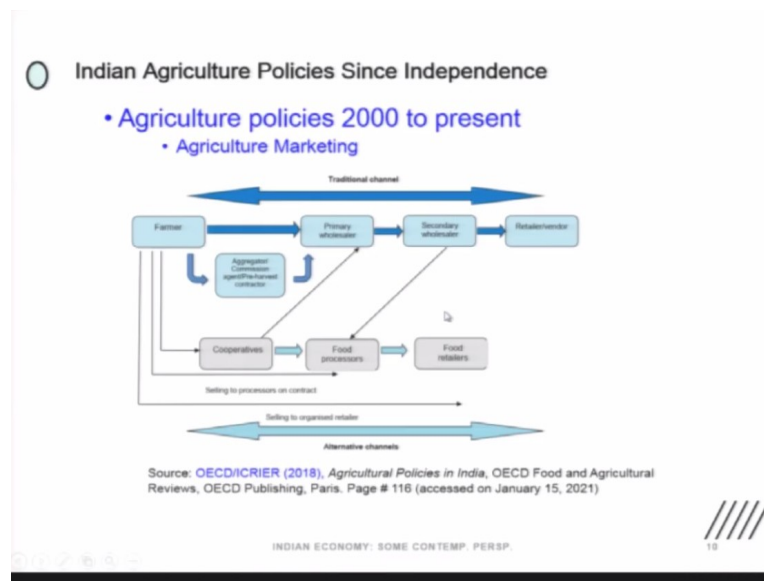
- **Agriculture Marketing**
 - The prominent agricultural market institutions in India are: Food Corporation of India (FCI), Cotton Corporation of India, Jute Corporation of India and the Cooperatives with National Agricultural Co-operative Marketing Federation (NAFED)
 - NAFED and FCI were established in 1958 and 1965, respectively, to exercise the procurement and support price activities.

INDIAN ECONOMY: SOME CONTEMP. PERSP.

If you look at the infrastructure support then you find that we had established at that time two important institutions. So, FCI was established in 1965 we also had one more institution called national agricultural corporative marketing federation NAFED. So, NAFED has been given now so this is the nodal agencies to facilitate the agriculture marketing. It has offices in 4 metros and then you have the state level agency is also dealing with.

In the modern era, the NAFED role has increased, but special task has been given to operation green. And under that the potato onions and tomato that we have (18:56) to improve the production or to enhance the production of these vegetables, green vegetables there is a special focus from the government. So, NAFED is playing a role in that.

(Refer Slide Time: 19:09)

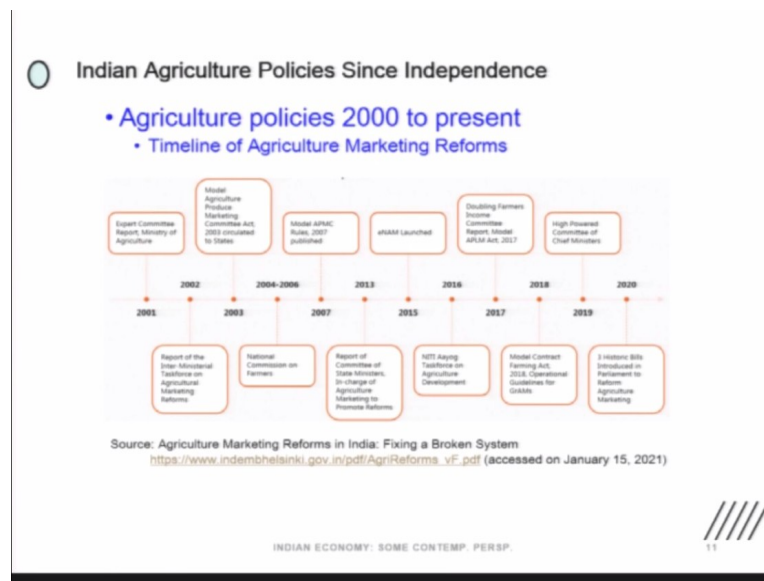


If you understand the marketing structure of agriculture. So, it works in this way so here you have the farmer, farmer is going to the selling to producer on contract if there is already a contract and otherwise the normal route is that it will go to primary wholesaler which is the market and then in between here you have the if there is a pre-harvest contract or if there is a middleman helping this particular farmer aggregators and all.

And then you have the secondary wholesaler and ultimately it goes to the retailers and all. So, that is what is the primary wholesale is the most important part and then here you have different cooperative of working in case of primary wholesaler. In secondary wholesaler you have the aggregators, food processors and all coming into picture. And then it goes to food retailer so that is the chain that you have.

So, if the farmer is having already a contract some kind of contract farming then of course it can sell to the contract holder and otherwise this become the normal chain for this market. I have taken it from the OECD ICRIER because I found this quite useful. So, you can think about and just to make things simpler I have just put it here.

(Refer Slide Time: 20:25)



I have also summarized the major developments that we had experienced at that time. So, as I told that here you have the primary wholesaler. So, in this primary wholesale whosoever goes they are supposed to buy and sell at the minimum support price decided by the government, they cannot buy below because buying below it becomes an illegal act and in certain cases if they are found to violate this rule.

Then there will be certain imposition and their licenses will also be reworked, but after this they are free to do whatever they wish, but this primary wholesaler market becomes really market. So, here you have the role of minimum support price playing a role. Then here we had a post 2000 developments. So, what all acts we have enacted so this particular expert committee in a nutshell I would say that all these schemes till 2007 it talks about harmonious relationship between center and states.

The center had certain obligations to enhance the agriculture productivity and that is why center had gone for implementing such measures and taking such measures. So, for example, report on intermenstrual task force on agriculture marketing reforms. In this particular task, the task was that how the contract farming can be promoted, what kind of marketing reforms can be done so that farmer should get a fair price.

So, it was all about the fair price discovery and about the contract farming and then in 2007 we had a 2006 we had a major cases of farmer suicide. So, that time government had implemented or suggested a policy measures just to make sure that the rate of suicide should come down and that is why at that point of time the committee had recommended certain

measures on each and every aspect right from the money availability to the irrigation, to the technological assistance given to farmers.

So, this national commission on farmers becoming one of the (22:43) of the time. It was also highlighted in the budget of 2007. Then model APMC rules were published and under this it was decided that there should be some norms to be implemented and some private market can be established apart from APMC and in some states especially in Maharashtra in 2005 and 2006 Maharashtra had gone for implementation of certain measures.

And that is why some aggregators were allowed to buy from outside the APMCs market also. Then report of committee of minister in charge agriculture marketing (23:19) reforms. So, in this also this was the task to harmonize the relation between Central and states then we had eNAM. eNAM was launched in 2015 and this particular platform gives us the idea that how the Central government had convinced the states to have the uniform rate and single rate to sell the produce in the state and not beyond that.

And there is a particular website where there is an ePortal and on the ePortal certain goods prices or the food grain prices will be reported and there will be dissemination or information. So, the prices discovery process should be quite small. So, one India one price concept starts with eNAM, the ePortal launch. Then, the taskforce of 2016 the most important reform that government of India took was in 2017 when we had gone for doubling farmers income committee report.

Model APLM act under this whole lot of effort has been made right from the storage creation to the technological enhancement, crop intensity and then there is also a norm to synchronize the market into one platform so that farmer should not have to pay a more money or they do not have to incur a higher cost in terms of paying taxes even in terms of transfer good. So, this committee headed by the additional secretary of agriculture.

His name starts with Ashok and then he has helped a lot in terms of deciding about this doubling farmer income committee. In 2018 also, the model contract farming act was passed in 2018 and this act also become important and it was for the first-time government had gone for enhancing such type of act scope in terms of participation. So, there was a particular instance given on not just having the contract between farmers and this.

There is a whole lot of effort to synthesize the role of farmer because when it was enacted it was assumed that the farmer is a weak as compared to the aggregator or the traders. So, there are certain safety norms introduced for the farmer so that in case of dispute farmer should not be targeted. Then high powered committee of Chief Minister headed by former Chief Minister Mr. Devendra Fadnavis he had recommended certain measures to improve the livelihood of the farmer in terms of productivity.

In terms of output and also giving promotion or encourage the contract farming. In 2020, we introduced, we passed three bills historic bills it is called on agriculture marketing reforms and this has been topic of debate among the policy makers and even the farmers are not happy with this because this has been a quite dramatic change in the historic setup and it is expected that this particular bill may have a whole lot of effort to bring a change.

So it is called like in case of industrial sector it is called like 1991 moment when we had gone for a certain ruthless measure to revive the economy and it is expected that these three measures will also help, but there are some concerns which government has not been able to address so far and it has not been conveyed to the stakeholders and that is why there is a whole lot of controversy arising out of this. We will discuss this in the next session. Thank you so much.