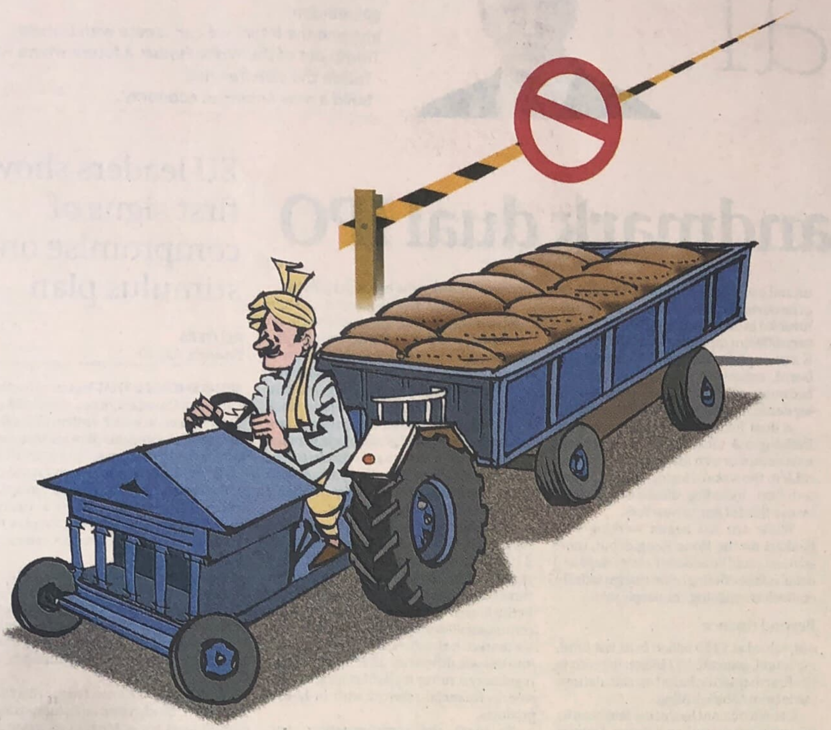

ILLUSTRATION: ROHNIT PHORE

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REFORMING AGRICULTURE

Good seed makes a good crop

The ordinances that came into effect on June 5 can lead to more income and wealth generation for farmers, and the vast arbitrage in agricultural commodities usurped by a range of middlemen will slowly vanish

IT IS TIME to kindle the entrepreneurial flame of our farmers to significantly boost their income, change their lives, and provide an impetus to rural areas. Gone are the days when Indian farmers could only sell their produce in designated *mandis*.

Until recently, farmers had no bargaining power. At the *mandis*, they would be assisted by commission agents called *arthiyas* for a fee, who decided the prices amongst themselves. Left with no choice, farmers had to sell at the set prices, which barely covered their cost of cultivation. There was no scientific basis to the quality grade given to their produce. All the expenses for cleaning, sorting and storage were paid by farmers. Wholesalers and retailers were unable to buy from farmers directly.

The system that was designed to protect them ended up severely harming them. Yet these laws remained, ostensibly to 'protect' their rights from vested interests.

This led to the consumer paying higher prices and the farmer not receiving his share. Depending on the crop, the share of the retail price received by farmers ranged from 28% in the case of perishables such as onions or tomatoes, to 75% in the case of non-perishables such as soyabean or groundnut. In the case of cereals such as rice and wheat, the gap was around 50%. A fragmented value chain resulted in these price gaps. Each link in this chain would charge its own mark-ups, not to forget the *mandi* fees charged at the beginning. Distress sales during bumper crops, monopolisation of markets and collusion between traders were all common practices.

On June 5, 2020, however, three ordinances came into effect that changed the landscape of agriculture forever. These allowed barrier-free trade and movement of farm produce; introduced contract farming that could lead to assured prices on agricultural produces for farmers; and amended the Essential Commodities Act, removing cereals, pulses, onions, potatoes, edible oil and oilseeds from the Act.

> **Barrier-free trade and movement of farm produce is now allowed; contract farming that could lead to assured prices for farmers introduced; and the Essential Commodities Act has been amended**

Radical changes have been initiated and the government has transited away from a subsidy-based approach to structural reforms that the sector was crying out for.

No longer bound to selling their crops at the *mandis* for predetermined prices, farmers can now sell their produce directly at the farmgate, factories, warehouses, silos or cold storages, free of commissions, and to anyone. In fact, the amendments to the Essential Commodities Act will prompt large-scale investments in warehouses, silos, cold storages, and create more markets to sell the produce.

Farmers will be further empowered by direct payments made to their bank accounts, which will be opened during a drive towards financial inclusion. They will get better prices, and consumers will benefit from lower prices owing to fewer middlemen.

The government has also successfully broken the unhealthy cycle of dependence of farmers on *arthiyas* for credit to cover their costs of sowing and harvesting. By enabling selling through multiple avenues, a robust mechanism has been created to disseminate and collate data. Banks and other formal lending institutions can use this data to determine creditworthiness. Just as people in cities are assigned a credit score based on various parameters, farmers can now aspire to improve their credit scores as it will lead to better rates of interest and faster processing of loans. Rather than asking for collateral, banks can now lend to farmers based on cash flows. This also means that many farmers will no longer have to put up their land and assets as collateral to the bank.

In a first, technology will finally reach farmers. They will be provided with price and market intelligence. Previously, farmers never knew that there was demand for their crops in another state or country and the prices being offered for them elsewhere. Now, they will be provided with the expected price of their crop at the time of sowing, thus making their decisions more informed. This will further lead to increased productivity and substantial enhancement of their incomes.

With contract farming, farmers can now negotiate directly with wholesalers, processors, retailers and exporters. Parameters such as quality, grade, price and quantity will all be decided upon mutually. This will provide further price security, as farmers will be assured of receiving the agreed-upon price at the time of harvest. They will also be saved the hassle of transportation costs, as the produce would be picked up from their farms directly.

Farmers will be able to enter into agreements with farm service providers. These service providers would provide them advice on which seeds to use, the amount of fertiliser needed, which pesticides to use, and in what quantity. The advice would be tailored to the crop they are producing and the requirements of buyers. They would be given information about weather movements and soil condition, leading to increase in their yields. With multiple avenues to sell their produce, price crashes will become less and less frequent.

Another change I am particularly hoping for is, land leasing. If we can aggregate landholdings, without impinging on the rights of owners, our productivity will shoot up considerably. Imagine what we will be able to achieve if we were to aggregate our contiguous plots. Investing in modern irrigation systems, for example, will make economic sense owing to scale.

What do these changes imply for Indian farmers? A farmer living in a remote village in Uttar Pradesh, for example, will now be able to deposit his produce anywhere in the world at the click of a button.

Take bananas, for instance, of which India is one of the largest producers. According to *mandi* data, farmers in Maharashtra and Gujarat were receiving ₹10/kg in January-March 2020. At the same time, the price in global markets was eight times higher, at ₹84/kg. Similarly, in potatoes and tomatoes, farmers in India were being paid ₹10-12/kg for potatoes and ₹7-10/kg for tomatoes between January-March 2020. At the same time, prices at shipping points as per the United States Department of Agriculture (USDA) were between $1.5-1.7/kg (₹106-121) for potatoes and $1.6-2.1/kg (₹114-150) for tomatoes, a price differential of 10-12 times.

Global agriculture is huge, and it has the potential to open doors for new jobs and a completely new consumption boom in rural areas of India. Therefore, as farmers access global markets, their incomes will rise enormously. These timely and long-due structural reforms will lead to more income and wealth generation for farmers, and the vast arbitrage in agricultural commodities usurped by a range of middlemen will slowly vanish.