Agriculture's Watershed Moment

New farm bills will unshackle 43% of India's workforce that is engaged in the sector

Amitabh Kant

1991 is remembered as a watershed moment in India's history. The licence raj was dismantled. India opened its markets to international trade, investment and competition. As a result, in the 30 years since then, we quadrupled our per capita incomes. In the 40 odd years between Independence and the 1991 reforms, per capita incomes only doubled. However, an important group was left out of the reform process. India's agriculture sector remained regulated by the archaic Agriculture Produce Marketing Committee (APMC) Acts. 2020 will be remembered as a watershed moment in India's economic history, much in the same way 1991 was, as this year marks the year where India's agriculture sector was finally unshackled and set on the path towards modernisation.

Under the existing APMC Acts, all agri produce was procured through mandis to which farmers transported their produce. Initially meant to protect farmers, these mandis transformed into local monopolies. Transparent price discovery through auctions was replaced by collusion and price fixing. Therefore, the mechanisms designed to protect farmers ended up severely harming them. Rent seeking behaviour was common, as commission agents, known as arathiyas, and middlemen commanded substantial influence, through being both buyers of produce and providers of informal credit.

Raising minimum support prices was not the solution. Experts have pointed out that only 6% of all farmers benefited from public procurement at MSP. However, this has led others to conclude that 94% of the remaining farmers must be selling their produce in the open market. To the contrary, these remaining farmers in fact did not have that benefit. Little effort was made in developing infrastructure for collection close to the farm gate. Nor were there enough incentives for investments across the cold chain and the food processing industry, as policy actively discouraged aggregation of produce and bargaining power of farmers. The result is that we process less than 10% of our food production and lose approximately Rs 90,000 crore annually due to wastage of produce, owing to a fragmented cold chain.

Uday Deb

As India transitioned from a food deficit nation to a surplus one, the focus of policy has rightly shifted to surplus management from deficit management. To this end, successive government committees, task forces, reports have all made the same recommendations. First, the local mandi system was in need of competition. Farmers required multiple avenues to sell their produce to wholesalers and retailers, which the APMC system discouraged. Second, contract farming needed an enabling framework to boost backward linkages with the food processing industry. Contract farming would also allow farmers to plan investment decisions, with assured income in the form of an enforceable contract. Third, the regularity with which the Essential Commodities Act was invoked discouraged investments in the cold chain.

These major concerns are exactly what the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Bill, 2020; the Farmers' (Empowerment and Protection) Agreement on Price Assurance and Farm Services Bill, 2020; and the Essential Commodities (Amendment) Bill, 2020 address.

Initially meant to protect farmers, these mandis transformed into local monopolies. Transparent price discovery through auctions was replaced by collusion and price fixing

Farmers will be able to enter into agreements with food processors to grow processable varieties and sell them at assured prices. Nor will they be restricted in to whom and where they sell their produce. They can also enter into agreements with farm service providers. This will give the 'Farming as a Service' (FaaS) a huge fillip. Several agri-tech startups operate in this space, utilising technologies such as AI to provide crop intelligence as well as grade and assay produce. Enabling technological interventions in Indian agriculture has the potential to transform this sector, based on the strong foundations these reforms enable.

Policy action in agriculture must be seen in conjunction with the initiatives taken in the manufacturing sector. Production linked incentive schemes, the tabling of three labour codes in the Lok Sabha that rationalise the myriad labour laws at the central level, a thrust on ease of doing business and inviting foreign investment are all aimed at generating jobs in manufacturing. Investments in infrastructure and the associated spillover effects will further drive non-farm job creation. The development of food-processing industries creates rural, non-farm jobs.

Reforms in marketing have been complemented by a commitment to developing rural infrastructure. A Rs 1 lakh crore Agriculture Infrastructure Fund (AIF) has been launched to facilitate the development of farmgate infrastructure, that includes collection centres and pre-processing facilities amongst others. A continued thrust on aggregating farmers through farmer producer companies/organisations will increase their bargaining power and develop community assets under AIF. Funds for the development of the animal husbandry and fisheries sector have also been launched to diversify the sources of farmer income.

India is already the largest producer of milk, the second largest producer of cereals, fruits, vegetables and fish. This is when our productivity levels are well below comparable nations. Yet, India's share in global food export markets stands at 2.3%, with low value addition. Therefore, as India's productivity levels converge to global best practices, India can emerge as an important link in global food supply chains. These reforms ensure that an enabling environment is created for India becoming a food export powerhouse in the future.

The next step is to bring the benefits of these reforms to the doorstep of the farmers. It is here where technology can create a bridge. With 43% of our 500 million plus strong workforce engaged in agriculture, the lives of millions stand to be transformed as a result of these reforms, ushering in an era of modernisation and prosperity for Indian farmers.

The writer is CEO, Niti Aayog. Views are personal