RECENT AGRI MARKET REFORMS IN INDIA-

A Practitioners' Perspective

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1. Executive Summary

Government of India (GOI) had recently enacted three acts related to agriculture marketing in the country; these acts have come closely on the heels of other agriculture related measures from the government; these measures include Model Land Tenancy Act (2016), Agriculture Infrastructure fund, and Program for development of Farmer Producer Organisations (FPOs). These measures together form a part of government's larger mission to double farmers' income by 2022-23.

In this backdrop Intellecap had organized a panel discussion on the recent agriculture market reforms; the session was organized as a part of Intellecap virtual Sankalp Global Summit 2020. The panel discussion titled "Recent Agri reforms- Shifting grounds for FPOs, Agri startups, and Philanthropic capital" was organized on 2nd November 2020. The panel consisted of experts from i) World bank ii) NGOs working with small holder farmers and FPO formation iii) Agri e-market makers and iv) Agri start up working with FPOs. . The panel came up with pertinent points with respect to opportunities and challenges emerging from the recent agriculture market reforms.

The experts in the panel stressed that the market reforms had to be equally complemented by improvement in farm production systems, especially infrastructure development at the farm level. Farm infrastructure like irrigation, land development and R&D support for seeds & better farming practices were prominently highlighted. Though there are provisions for development of collective farm assets under Agriculture Infrastructure Fund and Contract farming arrangements, however their limited relevance for small and marginal farmers was pointed out as a concern by the experts.

On the FPO front the panelists acknowledged that the farmer collectives have the potential to leverage the benefits of economies of scale to small holder farmers. In that regard, the FPO promotion program, which includes the formation of 10,000 new FPOs, was considered as a welcome move by the panelists. At the same time the panelists also recognized the sustainability challenges faced by the FPOs beyond the project support period. Some working models of FPOs coopted by the private sector were also positioned as a viable alternative for achieving FPO sustainability. Experts also highlighted that since the agri market liberalization has paved way for private sector players to actively collaborate with FPOs, this collaboration can strengthen business capabilities within the FPOs.

On the agri-market place front, the experts highlighted the policy gap in addressing aspects related to agri e-marketing and agri e-market place. The panelists also highlighted the potential scope for buildup of "concentration of risk" and "conflict of interest" in the new regime, wherein private entities in their pursuit of higher margins, may be tempted to take up multiple & conflicting positions in the agri market. Hence the need for a Sebi like market regulator was highlighted, especially to protect the interests of farmers and to prevent formation of monopolies, oligopolies and monopsony in the new age agri markets.

These perspectives and insights this on topical issue are elaborated further in this document under following categories: a) Small Holder Farmers' perspectives; b) Production system perspectives; c) FPO perspectives; d) Agri market place perspectives; and e) Agri startup perspectives. This article aims to take these insights to a wider audience and to take forward some of the pertinent issues for further policy deliberations.

2. Understanding "New farms act 2020" in the larger context

Before getting in to the specific insights, it is important to understand the recent agri market reforms in the larger context of other measures taken by the Government of India. This larger context setting will help the reader to locate "New Farms Act, 2020" within the larger landscape reforms that are happening in the agriculture sector.

The Government of India has recently enacted three farm legislations- 1) Farmer's Produce Trade & Commerce Act, 2020; 2) Farmers Agreement on Price assurance & Farmer service Act, 2020; 3) Essential Commodities Amendment Act,2020; these three acts together are called as "New farms Act, 2020". These acts aim to liberalize the agriculture markets both at primary level and secondary level.

Farmer's Produce Trade & Commerce Act, 2020 enables direct purchase from farmers without going through the APMC regulated mandis. Farmers Agreement on Price assurance & Farmer service Act, 2020 enables direct contract farming arrangement with farmers and has provisions to prefix agri commodity prices at the start of the cropping season. Essential Commodities Amendment Act relaxes erstwhile stocking limits of certain commodities (erstwhile classified as essential commodities) by agri commodity traders, processors & exporters, thereby increasing their scope to increase commodity purchases.

These acts are envisaged from a "laissez faire" approach and they have relaxed the erstwhile government restrictions for private players to participate in the agriculture markets. These acts have paved way for increasing the participation of private players (traders, processors, exporters; and agriculture service providers) in the agriculture sector and the acts also encourage farmers' participation through collective institutions like Farmer Producer Organisations (FPOs). This Agri market reforms from the Government of India makes better sense when one looks at it from the larger context of other agriculture initiatives taken by the government- both recent measures as well as future measures that are under active consideration.

Apart from the recent legislation, there has been a set of recent measures from Government of India (GOI) that aims to support "doubling farmers' income" agenda.

- GOI has recently set up a 13.5 billion USD Agriculture Infrastructure Fund to finance creation of collective farm assets and post-harvest infrastructure in the country. The fund will provide low cost debt over the next 10 years to different stakeholders in the soil to fork value chain.
- The government has also recently given a budgetary push to farmers' collectivization efforts in the country; GOI has dedicated 669 million USD towards Farmer Producer Organisation (FPO) promotion program. This program also includes formation of 10,000 new FPOs in the next three years.
- Niti Ayog had already released Model Land Lease act (2016), and many states have now moved towards the model law. The act provides provision for legal registration of agri land tenancy and this will ensure that tenant farmers can now access subsidies and relief measures directly from the government.

Further there is also some common understanding among the experts about a set of future measures that are under active consideration by Government of India. These measures, listed below, are set to positively impact the agriculture sector

- Measure to enhance market intelligence infrastructure and enable access of reliable market information to farmers
- Measures to reorient e-NAM including horizontal Expansion of e-NAM to cover warehouse receipts, financing and logistics modules
- Measure to expand agro logistic networks in the country
- Increase the use of Risk mitigation measures to address the systemic risks in agriculture

Thus the recent farm acts, which are essentially agri market reforms, come closely on the heels of other government reform measures in the agriculture sector. These sets of measures together strive to create a robust ecosystem for active participation of private players (Agri MSMEs, Agri startups, large corporates) as well as farmers and farmers' institutions (FPOs).

3. Perspectives from Sankalp Panel discussion:

The objective of the panel discussion was to capture perspectives from different practitioners in agriculture ecosystem development space: NGOs, FPOs, Agri e-market makers and agri startups. As part of the session, panelists shared their perspectives on critical aspects of the recent agri market reforms and discussed emerging opportunities and challenges in the larger context of other measures from the government. The views emerging from the panel discussion are synthesized and presented below as a) Small holder perspectives; b) Production system perspectives; c) FPO perspectives; d) agri market place perspectives; d) Agri start-up perspectives; and e) other ecosystem perspectives.

3.1. Small & Marginal farmer perspectives:

As per Agriculture census 2010-11[1], about 82% of the farm holdings in India fall under small and marginal category (up to 2 hectares), this small and marginal land holding contribute to about 53.5% of the total agriculture land area under cultivation. Given the prominence of small & marginal farmers and their share in production it is important to understand the new farm acts from their perspective. Broadly there are two critical perspectives that best represent small & marginal farmers' interest

- Agri market reforms alone will have little effect on small and marginal farmers as many of them are in to subsistence production
- The provisions under contract farming and the infrastructure development support available under Agriculture Infrastructure Fund have the right incentives to move small & marginal farmers from subsistence cereal crop to commercial cash crop farming.

The agri market reforms are considered as a welcome move by many constituencies within agriculture sector, and it is also hailed to play a major role in increasing farmers' income. However from a small & marginal farmers' perspective, especially in areas where green revolution didn't take root, there seems to be little excitement. This is primarily due to the fact that many of the small & marginal farmers are in to subsistence farming. Most of them follow a traditional paddy wheat cropping cycle and only a small fraction of the produce is sold in the market, and these small volumes do not reach the regulated mandis and they are sold in the weekly markets (haats). The sale proceeds from weekly market sale are then used to meet household cash requirements, such as purchasing goods like salt, oil, soap and other basic household consumption.

Hence many provisions under the agri market reforms do not make much sense to small and marginal farmers' interest in these geographies. But the provisions under contract farming has some reasons to cheer up, the contract farming arrangements has the potential to bring in investment support for improving farm level infrastructure like irrigation facilities, poly houses, trellis etc. These infrastructures along with the price assurance provisions in contract farming can provide the right incentives for small holder farmers to move away from subsistence cereal crop farming to commercial cash crop farming. This market oriented incentives for small and marginal farmers has the potential to replace the existing need for support from development interventions agencies like NGOs & government departments.

Further the Agriculture Infrastructure fund incentivizes private players to invest in infrastructure development; this can create the much needed post-harvest infrastructures like warehouses, cold storages & marketing yards in the vicinity of farms. The benefits of such post-harvest infrastructures will definitely have an upstream effect on small and marginal farmers' farm productivity & farm income.

[1] http://agcensus.nic.in/document/agcensus2010/allindia201011H.pdf

3.2. Production system perspectives:

While market reforms are being hailed as a positive step towards doubling farmers' income, nevertheless the market reforms alone may not be a sufficient condition. It is in this context the role of increasing farm productivity becomes critical and hence the provisions under recent market reforms were looked at from the farm production system perspective. Critical points emerged under this category include

- Agri market reforms by Government of India have adopted a market led approach for development of production & marketing infrastructure
- Though the recent agri reforms have paved way for market players to invest in improving production & marketing infrastructure, however they cannot completely replace the deficit public investment long overdue in the agriculture sector.

Market based development of production system has been the underlying approach adopted in these market reforms. Under this approach there is a due acknowledgement for the new age market demand, the new age consumers demand fresh, safe, nutritious & healthy foods. To meet this new age demand, the current reforms have created provisions for attracting private investments in to development of farm assets and post-harvest infrastructure that can bring in improvement in quality of farm produce. Apart from quality of the produce there is also a dire need to increase production & productivity to meet the future food demand. Therefore there is definitely a need to increase private investments in agriculture, but there will still remain a large scope for public investment in improving the productivity of farms. Public investments are still insufficient for creation of public infrastructure like roads, electricity, irrigation, land development and agroforestry; and there is also investment deficit in Research & Development (R&D) in terms of seed development, and package of practice development. These public goods also likely to attract private investments and hence they cannot be a substitute for public funding in agriculture.

3.3. FPO perspectives:

In the new scheme of liberalized agri markets, Farmer Producer Organisations (FPOs) is positioned as a key institution to represent farmers' interest and to leverage the benefits of economies of scale. The recent market reforms and the FPO promotion program by the Government of India promulgate this proposition as well and hence it is important to analyze the reforms from FPO perspectives. Some of the critical perspectives on the FPO front include

- Agri market reforms have increased FPOs' ease of transaction with farmers and FPOs are now increasingly recognized as entities that represent the collective interests of their member farmers (in contrast to a private enterprise)
- Though the FPO formation has been taken up aggressively by the Government of India, however the sustainability of these business enterprises still remains largely unaddressed

- The role of support ecosystems become critical for sustainability of FPOs beyond government's mission mode of FPO formation
- As market forces are ruthless and weed out players who aren't resource efficient , any form of government support or ecosystem support are only a necessary condition but not a sufficient condition for FPOs to prosper
- Alternatively established corporates and business houses can co-opt FPOs in to their supply/distribution chain and can help them to build capacities & create efficiencies.
- There are successful working models of joint ventures between FPOs & large private players that are creating value for farmers at the same time competing successfully with other players in the market

Experts weighed in on the recent agriculture market reforms, specifically the removal of APMC regulation on direct procurement and the programmatic push on FPO promotion as favourable proposition for FPOs. These measures have enabled large & medium farmers to directly deal with private buyers. In case of small holder farmers with limited scale, they can deal indirectly through FPOs, which in turn can aggregate from small holders and deal at large scale. The government procurement policies have also started recognizing, FPOs as an equivalent agency to that of farmers and the new reforms have taken it forward by encouraging private players to deal with farmers through FPOs.

In addition to the market reforms, the recent program for FPO promotion has provisions that include formation of 10,000 new FPOs in the next three years. There are already about 7500 FPOs existing in the country[2] and so we are looking at about 17500 registered FPOs in the country after 3 years. To put things in perspective there are about 6,612 blocks in the country, and we are looking at about 3 FPOs per block on a rough average. This is definitely an encouraging sign but we also have a better understanding about the sustainability challenges faced by the FPOs after the end of project support. The emerging lessons suggest that to transform FPOs in to sustainable, there is a need for much stronger support at the block, district, state & national levels. Given the magnitude of FPO formation and the small holder population in the country, there isn't sufficient support ecosystem for FPO development. The support ecosystem services include sufficient financing services (readily accessible & reasonably priced), capacity building (board, management & field teams), hiring of staff, market linkages & technology transfer to FPOs. Though the FPO promotion program has elements for creating support ecosystem, however they remain obscure beyond the project period. While designing intervention to build lasting support ecosystem (beyond the program period), the experts highlighted the roles of institutional models like NDDB (milk value chain), NECC (egg value chain) that can provide valuable insights for policy makers.

[2] As per Azim Premji University study, as of March 2019 (https://azimpremjiuniversity.edu.in/SitePages/pdf/Farmer_Producer_Companies_Past_Present_and_Future.pdf)

There is also an alternate perspective from the experts, wherein FPO is considered as another institutional form of collectives, similar to other collective forms like cooperative or a joint liability group. When these collectives take up a position (either as supplier, trader or a processor) in the agriculture value chain, their efficiency/competitiveness determines their survival. Any form of government support cannot become a substitute for their operational efficiency; this perspective also suggests that focusing more on the number of FPOs rather than their quality can cost us dear. Going by this perspective the government has paved the way for private players to directly collaborate with FPOs and now new ways have to be found for large corporate and other agri Micro Small & Medium Enterprises (MSMEs) to partner with FPOs and make them competitive.

There are already some working models of private players co-operating with the FPOs, for example in Uttarakhand a joint stock company is established jointly by FPOs dealing in apples and a private player. The private player will build the necessary capacities within the joint stock company and it shall exit the company at the end of 4 years. Similar joint ventures between private players and FPOs are also operational in pomegranate value chain in Nashik. In these models FPOs' control over production system complements the marketing prowess of private players, creating an entity with better competitive advantage over other players in the market.

The FPO promotion program has acknowledged this critical need for building business expertise within FPOs and accordingly they have opened up the empanelment process for private players to participate and become Community Based Business Organisations (CBBOs), these CBBOs will support formation of FPOs and develop their business expertise. Further there is definitely an opportunity for CBBOs to collaborate with FPOs through joint venture models like joint stock companies in future.

3.4. Agri marketplace perspectives:

The focal point of the agri market reforms is the decentralized market place, the APMC mandis. The Farmers Trade and Produce Act, 2020 has reduced the role of APMC mandis thereby giving policy push for development of centralized markets under "one country one market" principles. As market place forms the keystone for success of free market principles, it is necessary to look at the market reforms from the market place perspective. The key points emerging from the agri market place perspective include

- By limiting the role of APMC, the Government of India has created a policy push for "one nation one market" initiatives
- APMC mandis played a critical role in price discovery for certain essential commodities. The price discovery mechanisms that shall play out in the new age markets will require further attention.
- As the agri market reforms have now enabled direct procurement from farmers, there is an increasing need for legal provisions & legal counsel to protect farmers in the case of buyers not honoring payments.

- Though the New Farm Acts, 2020 have defined aspects of e-trade however crucial elements like e-marketing and e-market places have not been covered.
- New age agri market players in their pursuit of higher margins, may end up taking multiple position in the agri value chain, thereby creating "conflict of interest" or/and "concentration of risk"
- These forces may lead to market failures which in turn has the potential to destroy the trust in the functioning of agriculture markets

The New Farm Acts, 2020 – specifically The Farmers' Trade and Produce Act had been enacted with intent to liberalize the agriculture commodity market and it has enable direct procurement from farmers without the interventions of regulated APMC mandis. Though these decentralized APMC mandis had regulations for direct procurement from farmers, however they played an effective role in price discovery (through commodity auction process) of certain essential commodities at block/district level. As the role of APMC mandis has now been limited, the market mechanisms set forth for price discovery in the emerging scenario requires further attention. This will be critical as any information asymmetry will create situation for exploitation of farmers, who are the most vulnerable in the value chains.

Though the New Farm acts have covered the key aspect of e-trading between farmers and direct buyers, however the act had failed to address the critical role of e-marketing & e-market places. In contrast to the e-trade, which is a transaction between a buyer and a seller, the e-marketplace is a necessary market building institution, which facilitates e-trade based on a predefined set of rules & regulations. For e-trade to flourish, it is necessary to define the role of e-marketplace in the new market reforms.

There have been instances in the past, wherein farmers as well as FPOs were taken undue advantage by buyers, wherein they failed to honour payments for the purchases. These events call for legal route to deal with the buyers and these legal processes are beyond the reach of farmers' capacity. Hence as direct purchases are now enabled, there is also an increasing need for creating legal provisions and legal counsels to support farmers & FPOs to deal with such eventualities.

Another important dimension which needs attention is that in their pursuit of earning higher margins, there are many players who are aspiring to take up multiple positions in the agri value chain. Some are lured to take the position of both facilitator and the functionary role in the agri market place. For example- a private player or an FPO might provide agri warehousing services and at the same time double up as a financier & commodity purchaser through multiple entities. This may lead to build up of two critical risks: a) conflict of interest, and b) concentration of risk. Conflict of interest may lead to creation of moral hazard and creation of wrong incentives, whereas concentration of risk may lead to market failures & wipe out principal deployed. These risks are more pertinent in the agri commodity market as the gross margins available in the markets are as low as 1% and the lure of making better margins usually comes at the cost of principal risk.

These critical aspects of market functioning requires further attention and deliberation. As the agri market reforms are set to liberalize the agri markets, there is also a dire need to prove that free market principles can translate in to improvement of farmers' welfare.

3.5. Agri startup perspectives:

In the recent times, startups working in different sectors have disrupted conventional markets through innovations. As the agri market reforms opens up the space for all private players, it is important to understand agri start up perspectives on their opportunities and challenges created by the agriculture market reforms.

- Like in the case of FPOs the agri market reform have also enable Agri start up to deal directly with farmers, thereby reducing the transaction cost and time
- The agri market reforms have also created an opportunity for all types of private enterprises including agri startups to participate in primary agriculture production and primary agriculture marketing
- As agriculture markets are getting liberalized, there is a need for a market regulator to create level playing field and prevent creation of oligopolies and other forms of collusion

From an agri start up perspective, the agri market reforms are a welcome move as it has paved way for their direct engagement with FPOs and farmers. Many states had an APMC regulation regime, wherein any direct purchase transactions with farmers have to go through APMC regulated mandis and any inter-state transactions had further complexities including harassment from interstate government agencies. This APMC regime had also resulted in increased transaction cost and it has also been widely criticized for creating cartels that had suppressed the net realization for the farmers. The recent agriculture market reforms had now abolished this monopoly of APMC mandis and has enable direct purchase from farmers anywhere in the country and any inter-state transactions and movement of agri commodity is also set to become hassle free.

This new regime is expected to remove barriers to market entry for new entrants in the agri marketing & other post-harvest space. This increase in number of players should set in motion the market forces that can result in better farm realization for farmers. Nevertheless to make agriculture markets a level playing field for all and to prevent creation of monopolies and oligarchies, there is a definite need for a market regulator. Capital markets in the country have been cited as an example for market efficiencies and if agriculture markets have to reach the same level of efficiencies then there is a definite need for SEBI like market regulator for agriculture markets in the country.

3.6. Other ecosystem Perspectives:

Apart from the above perspectives there were some other critical ecosystem perspectives which are elaborated below, these perspectives include the following

- Among the different set of private players, corporates and large enterprises are better positioned to make investments in improving agriculture infrastructure
- Though the agri market reform have created sufficient incentives to attract private investment, there are limited use cases readily available for private investment
- It is also worthwhile to observe how the existing value chain players consolidate their positions and take advantage of the emerging new age value chains.
- In the recent past organized markets like cotton has suffered from the influence of speculative market forces, which have found their way to influence commodity prices.
- As farmers are the most vulnerable, there is a need for agencies to protect farmers' interest from the adversities of complex market dynamics

The agri market reforms and the Agri Infrastructure Fund have the potential to stimulate private investment in to agriculture marketing infrastructure like marketing yards, storage godowns etc. This private investment can either come from existing players in the agriculture sector or from new entrants to the sector. Even among the existing players, large enterprises and corporates are better poised to make investments in developing this post-harvest infrastructure in the country. Other players like micro, small and medium enterprises which have organically evolved are most likely to consolidate their position as intermediaries in the emerging value chains.

On the other hand, because of disaggregated farm production systems, the unit economics for investing in developing marketing infrastructures is available only in certain geographies and production clusters. This is owing to the fact that the expected commercial scale of commodity aggregation, that is required to make commercial investment viable, is possible only in a few contiguous production clusters. Hence the existing APMC infrastructures, which are operating on depreciated cost, could not be completely discounted in the new regime. Given this lack of ready use case for large corporates to invest in post-harvest infrastructure, it will also be interesting to observe a) the disintermediation and development of new intermediaries in the new value chains; and b) whether market development create the necessary pull factor for production increase or vice versa in the new regime.

There is also another critical point that needs further deliberation: the development of e-markets and e-trading can lead to emergence of new speculative market forces and emergence of secondary derivative market. In the recent past commodity derivative instruments (futures) were aggressively promoted as an investment option for different class of investors, these speculative market forces in secondary market had slowly found their way in to primary markets and influenced the commodity prices. Some well-established commodity markets like cotton have suffered from these nuanced market dynamics. As farmers are at the most vulnerable stakeholders from the market perspective, any market failures like the one described above will have a negative impact on farmers' welfare. Hence there needs to be some protection mechanisms to safe guard farmers from these complex market dynamics.

4. Credits & Acknowledgements

Intellecap team is grateful to all the panelists and the moderator for their participation and for sharing their key insights. This document has strived to synthesize all their insights and present them for wider consumption. We believe that this document will help in taking these insights to larger audience and we sincerely believe that some of the critical insights will set the context for future policy considerations.

Panelists:

1) Mr. Manivannan Pathy, Senior Agriculture Specialist, World Bank
2) Ms. Madhu Khetan, Program Director, Professional Assistance for Development Action (PRADAN)
3) Mr. Ashis Mondal, Founding Director, Action for Social Advancement (ASA)
4) Mr. Rajesh Sinha, Agri e-market expert, Former CEO of NCDEX e Markets Limited (NeML)
5) Mr. Rajeev Kaimal, Co-founder & MD, PayAgri Innovations Pvt Ltd

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