TIF - Making Markets Work for Farmers During and After the Lockdown

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At a procurement centre of a farmer producer company in Dewas district, Madhya Pradesh (April 2020) | MB Consortium of Farmers Producer Companies

The lockdown disrupted agricultural markets just when the rabi crop was harvested. To support farmers the states & the centre need to devise policies to expand procurement to cover more crops & small farmers. Support is needed for rabi & the kharif seasons.

Given the precarious nature of livelihoods in rural India, Covid-19 and government responses like the lockdown are likely to make conditions more challenging in the short- and medium-term. Among other things, there will be disruptions to the working of agricultural markets. It is therefore necessary to devise appropriate policies to first restore the functioning of agricultural markets and then to improve them.

To begin with: what do we know so far about the effects Covid-19 has had on the agro-based and rural livelihoods during the first month of the lockdown, particularly during the harvest and marketing of rabi crops? And what can we reasonably speculate about the post-lockdown effects on the sowing of summer crops in some states, and the approaching kharif season in most parts of India?

The impact of the lockdown needs to be examined from the angle of production and market risks. Here, we focus on the post-production and market risk management for farmers during and after the Covid-19 lockdown.

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Many experts have expressed the opinion that farmers should switch back to growing food crops as India is likely to experience food shortages in the months ahead. That there will be a food shortage is a far-fetched argument, for India's government granaries already have large surplus stocks. As of 20 April, there was a stock of 52.45 million tonnes (mt) of foodgrains: 28.95 mt of rice and 23.5 mt of wheat. There is another 28.7 mt of unmilled paddy, which is equivalent to 19 mt of rice. All this adds up to a total stock of 71 mt of grain. Wheat stocks would further rise with procurement from the rabi marketing season that is now going on. The stocks are much higher than the buffer stock norms (drawn up in 2015) mandating 21 million tonnes on 1 April of each year and 41 million tonnes on 1 July. The stocks will be more than comfortable even after the distribution of 5 kg of cereals per beneficiary household for three months under the Pradhan Mantri Garib Kalyan Ann Yojana.

The advice to switch to food crops also contravenes the strategy of increasing farmer incomes by cultivating high-value crops as incomes from wheat and paddy are constrained by yield gaps, Minimum Support Price (MSP) levels and government procurement that distorts the food grain markets.

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This is primarily the season for wheat, mustard, and chickpeas in most states, where the harvest (commencing end-April) is either almost complete or is underway. According to official data, as of 22 April, most of the wheat crop in Madhya Pradesh (MP), Rajasthan, and Uttar Pradesh (UP) had already been harvested. In Haryana and Punjab (where harvesting was delayed by sudden rains) 40% of harvesting had been completed (GoI, 2020). As for the harvesting of pulses, it is over in most states.

It is important to remember that unlike (unmilled) paddy and many other perishables, wheat, mustard, and pulses can be stored by the farmers as they need not be processed before sale. Also, these crops are covered by the MSP programme and are procured by the Food Corporation of India (FCI) and NAFED. They have been procured regularly and on a large scale, more than any other crop with the exception of paddy. By 21 April, these agencies had already purchased more than 3 lakh tonnes of pulses and oilseeds valued at Rs 1,447 crore from 1.83 lakh farmers across 20 states (GoI, 2020).

Are *Mandis* Functional?

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A survey in April to examine arrival and price trends in 1,331 Agricultural Produce Markets Committee (APMC) mandis across 20 states for seven commodities—wheat, mustard, *chana* (chickpea), and four major vegetables—revealed that during 15 March–14 April, in some states most of the mandis were not operational. Compared with the average numbers in the same period in the previous three years (2017, 2018, and 2019), in

MP only 17% of the mandis were operational, in Gujarat 30% and in Rajasthan 43%.

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When we look at crop-wise arrivals, only 40% of the mandis reported arrivals of wheat, 43% of chickpea, and just 33% of mustard, again compared with the average number of mandis reporting arrivals in the previous three years. As against only 5% of the mandis being non-functional in 2019, as many as 38% of the mandis were non-functional this year during the period of the survey (Rawal and Verma, 2020).

But, by 21 April, the situation had improved. Eighty percent of the main APMC markets (2,069 out of 2,587) had become operational, almost double the percentage (42%) at the beginning (26 March) of the lockdown (GoI, 2020). However, this data leaves out another 5,000 markets which are small in size, less regulated, and located in distant rural areas but are crucial for a large mass of small and marginal farmers who are in villages far away from major markets in district/block headquarters.

Is Government Procurement Helping?

The government procurement of various farm produce at MSP levels is a half-century old system. It is also a known fact that only a very small percentage of farmers (about 6%) are able to sell their produce to the government and that too, only in a few states such as Punjab, Haryana, UP and MP.

For the kharif and rabi seasons of 2020–21, there should be more diversified procurement across many more states, especially those with a high proportion of marketable surplus and in states such as Bihar and UP that have a large population of small and marginal farmers. Eight states grow wheat in India with a significant marketed surplus. In a crisis, farmers in these states must not only hope to sell their produce but should be able to do so at the MSP. It is important to focus on marginal and small farmers across these states for MSP procurement and local distribution. That would be a real benefit of intervention by a state agency, which cannot be blind to regional economic inequalities in the implementation of the procurement system.

> *Why should a private player be penalised for a decision and a promise made to the farmers by the government?*

Some states like Punjab and Haryana had proposed to the Union Government an incentive price for wheat for deferred sale, to reduce the pressure on markets at the time of a harvest. This should have been accepted immediately as wheat can easily be stored at homes or at the local level. Of course, the actual incentive amount per quintal must allow farmers to be able to cover the cost of storage and also the interest on repayments due.

In the long-term, the question to be asked about FCI procurement is if monopsonistic interventions should be concentrated in just a couple of states. In fact, Punjab procures more than 70% of its production at MSP for the FCI, not leaving much for private trade. When the government is trying to bring new channels for farmers to choose from, monopsonistic procurement in wheat threatens to kill private trade in this commodity altogether. Some states are now listening to the demands of some farmer unions that even private agencies and traders should mandatorily procure wheat at MSP, failing which they would be fined or jailed. This kind of legal provision backfired in Maharashtra last year, where it had to be withdrawn after trader protests. Why should a private player be penalised for a decision and a promise made to the farmers by the government?

> *[T]he provision of collateral-free loans … under priority-sector lending can go a long way to meet the credit needs of tenant, marginal, & small farmers.*

Even after four years, the much publicised e-National Agricultural Market (eNAM) is not making headway. Despite being around for four years it still covers only a small percentage of markets, transactions, and farmers. Although 75 lakh farmers, 1 lakh buyers and 53,000 commission agents were registered on this platform across 585 markets as of April 2018, only 5% of the farmers had transacted on the platform and less than 1% of the total arrivals in these markets had passed through the eNAM (MSC, 2018).

On the other hand, another farmer-interest protection measure—the Bhavantar Bhugtaan Yojana (a deficiency price payment programme) — that was discontinued after experimenting with it in a few states and with a few crops, could have been useful now when any farmer selling in any channel could be paid the difference between the MSP and the price sold, if the farmer was not able to retain the harvest for later sale. This can be implemented by states or the union government for major crops like wheat, pulses, and oilseeds, if they feel the FCI and state agencies cannot procure beyond a limit. It can also be an option in the next season for another set of crops and, of course, for the summer season's vegetables and fruits. We already have adequate experience with this scheme that can be used to redesign it for better effectiveness.

Interlocked Farm Produce and Credit Markets

It is well known that despite all the penetration of institutional credit (which currently stands at about 60% of total credit provided), farmers continue to depend on traders and moneylenders, including commission agents who also provide loans. The farmers, especially the tenants and marginal land holders, who are not part of the formal credit system, are compelled to sell at distress prices due to this interlocking of credit and product markets. They have to repay their loans and then seek new loans for the next crop season. As an immediate measure in this season, the provision of collateral-free loans of up to Rs 50,000 for individuals and up to Rs 5 crore for Farmer Producer Organisations/Companies (FPOs/FPCs) under priority-sector lending can go a long way to meet the credit needs of tenant, marginal, and small farmers.

> *It is important to remember that agriculture & agricultural markets are state subjects under the Constitution. Hence, it is the states that should explore the use of schemes that are relevant to their context.*

There is need to use warehouse receipts[1] by recognised local warehouses like those of the Primary Agricultural Co-op Societies (PACs) and other local body storage spaces for providing farmers with loans against their produce to help them avoid making distress sales. There are interesting experiences in states like Bihar where private agro start-ups are creating such facilities that are being used by small farmers.

The PACs and other FPOs have been procuring successfully for the FCI in many states like MP, UP, Bihar and Chhattisgarh. They need to be brought in wherever possible to procure from farmers at their doorstep and thus avoid crowding of mandis. Some of them even share the commission with farmer sellers. Recently, Haryana has issued commission agency licenses to 30 FPOs to procure wheat and mustard for the government, though apparently in order to tackle the resistance of the *arthiyas* (commission agents) to make direct payments into the bank accounts of farmers. Further, the FPOs would now be allowed to work as commission agents to procure for the government in new purchase centres where arthiyas are not present.

> *[T]he poor, especially migrants & those without ration cards, should be given foodgrains free... The excess stocks should be put to good use before they rot.*

It is high time that Punjab ropes in its 3,500 PACs and provides them with credit support to procure for the FCI. It is a bit surprising that through all these years Punjab has not thought of involving them in procurement and is still battling the arthiyas even in this season when they are dictating terms as a lobby. The state is trying to set up new market and submarket yards in local areas to ensure physical distancing. Many of the PACs have storage facilities and this infrastructure should be leveraged for procurement. This would also help their viability. This is already being practiced in Bihar, MP, and UP.

It is important to remember that agriculture and agricultural markets are state subjects under the Constitution. Hence, it is the states that should explore the use of schemes that are relevant to their context. In fact, the states should proactively implement the existing Market Intervention Scheme (MIS), in partnership with the union government, for crops that are neither under the MSP programme nor covered by the procurement mechanism[2]. This can be done for perishables by state-level agencies like Karnataka's HOPCOMS, (Himachal Pradesh's HPMC, or autonomous central projects like SAFAL.

Beyond Crops and Farmers

Milk producers, especially pastoralists, have been facing difficulties because of transport restrictions during the Covid-19 lockdown in selling milk to dairies, other bulk buyers and to individual consumers. This is because there can be problems in preserving products made from unsold milk. Amul has been procuring not only cow but also camel milk from pastoral communities in Gujarat. Incidentally, since many of these pastoral communities belong to a particular faith, they have been facing social stigma and are not able to sell milk in local markets. These communities are also finding it difficult to dispose of their cattle and other animals as the markets for these animals are closed. All this has affected their earnings in a big way. The market access for their products needs to be urgently facilitated so that they continue to earn some income to carry on with their daily lives during the lockdown.

> *There is no trade-off between lives and livelihoods as both are important and need to be protected.*

On the demand side, the poor, especially migrants and those without ration cards, should be given foodgrains free from the local warehouses of the FCI and of other local agencies. The excess stocks should be put to good use before they rot. Right now, the focus should be on saving lives from hunger and not on the fiscal implications of such free distribution of foodgrains to the poor or to those NGOs and panchayats that agree to provide the poor with cooked meals. The portability of ration cards that was to be implemented this year would have been a big relief if had already been in place. But at least now it should be done as soon as possible.

Finally, there is no trade-off between lives and livelihoods as both are important and need to be protected. The sooner this is realised the better it would be. For protecting livelihoods, the role of functional and effective agricultural markets for delivering benefits to marginal farmers should not be underestimated.

The India Forum *welcomes your comments on this article for the Forum/Letters section. Write to editor@theindiaforum.in.*

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Footnotes:

1.
This refers to a provision under the Warehousing (Development and Regulation) Act, 2007 which came into force in 2010, wherein any producer can store the produce in a recognised warehouse and obtain loan of up to 70% of the value of stored produce. They can this avoid distress sale and can sell at the better prices that prevail in non-peak months, and still manage all credit needs for the next cropping season from such loans. In 2006, loans worth only around Rs 5,000 crore were made to farmers against warehouse receipts. which later increased with banking institutions in 2016 advancing Rs 40,000 crore against such receipts through 793 WDRA accredited government and private warehouses. But this was still only 5% of total agricultural credit in India (Agrawal, 2016).

2.
MIS is implemented in those crops that do not enjoy MSP purchases It is implemented when there is overproduction (at least 10% higher than last year production) or underpricing (at least 10% lower than last year price) This provision allows a state to request the union government to procure the crop at mutually pre-agreed prices from farmers when they face a market glut or low prices. Losses, if any, are shared equally by

the union and state government. It has been successfully used in the past by many states for non-perishables as well as perishables, to protect farmer interest (Jha, 2018).