Addressing the Agrarian Crisis in Punjab

Role of Agro-markets and Policy

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The state of agricultural markets, the agricultural market policy and regulatory reforms in Punjab are reviewed in the context of the agrarian crisis. The farmer and farm worker manifesto of the Aam Aadmi Party is critically assessed. Policy mechanisms for agro-industrial development of the state are suggested.

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There have been various attempts in the past to address the agrarian crisis mostly in the form of relief measures and some attempts at agricultural diversification by the state in the absence of any other institutions. But, the result has been only the perpetuation of the crisis. The much-needed agro-industrial development happens as a natural corollary of agricultural development, with some lag, as higher food/fibre demand and supply generated by agricultural prosperity and output growth respectively.

But, when a provincial economy is a part of a larger national economy which is increasingly globalising, the issue does not remain one of straightforward linearity between the two, that is, agricultural development and agro-industrial development, other than basic processing and value addition. In such a scenario, just having raw material supplies or local demand does not ensure agro-industrial development for the local regional economies such as Punjab.

This article reviews the state of agricultural markets, agricultural market policy and regulatory reforms followed by a critical assessment of the farmer and farm worker manifesto of the Aam Aadmi Party (AAP) for its take on agriculture market development and reforms, and agro-industrialisation. Finally, it suggests a reorientation of strategy and mechanisms for bringing about the desired type and level of agro-market/industrial development in the state which is in tune with globalisation as well as the local needs and aspirations of the people of the state.

Agricultural Commodity Markets

Punjab's agricultural markets comprise of the wholesale grain and perishable produce markets known as Agricultural Produce Market Committee (APMC) markets and are supposed to be regulated, by and large. But, the most important stakeholder in these markets today is the commission agent (*arthiya*) who is the product of the green revolution and the state-led procurement of foodgrains and cotton by the union government agencies from the state for decades now. The estimated number of commission agents (CAs) in the grain and cotton (APMC) markets in Punjab is 20,232 and average number of farmers per CA is 52 (Singh and Bhogal 2015). The interlocking of the credit, input and output markets by the arthiyas in the state has led to farmer indebtedness in the absence of institutional credit which is inadequate and costlier due to higher transaction costs despite its lower interest rate.

The system of payment for the farmer produce through the CAs is the root cause of trouble for farmers. This is so because the CAs do unregistered and informal moneylending at high rates of interest, and supply farm inputs and groceries to farmers on seasonal credit. Besides this, they get commission from public and private agencies for facilitating sale of farmer produce to them. The CAs recover their loans through this system of payment, though the farmer produce is mostly bought by state agencies, that is, the Food Corporation of India (FCI) and Cotton Corporation of India (CCI) or those authorised by them (Singh and Bhogal 2015).

That CAs have become well-entrenched in the agricultural marketing and credit systems of the state as they account for 36% of total agricultural credit in the state is well known (Singh and Bhogal 2015). However, this fact provides no logic for the relevance of the CAs in the agricultural marketing system, but reflects the failure of another system, that is, credit. Rather, there could be a case for the abolition of the CAs in the state's grain and fibre markets where a large proportion of the produce (in all major crops of wheat, paddy and cotton) is bought by the state agencies.

The existence of CAs is undesirable for both farm produce markets as well as credit markets as interlocking practised by CAs makes these markets non-competitive and exploitative. The abolition of the very institution of CAs is needed and states like Madhya Pradesh had taken such steps during the 1980s itself (Krishnamurthy 2014). This should be much more feasible now as there can be more alternate agencies like producer companies (PCs), primary agricultural cooperative societies (PACS), warehouse receipt system and private wholesale markets or other electronic marketing platforms at APMC level which can take up the role of facilitating farmer produce handling in *mandis* or outside and obviate the need for informal sector credit due to prompt payment for produce or loans against the produce. In fact, the PACS already buy from farmers at their doorsteps in many states like Bihar and Madhya Pradesh and payments are directly made into farmers' bank accounts (Krishnamurthy 2014).

The APMC Act Amendment

Punjab is among a few states in India which have not still amended the APMC Act and at the same time enacted a completely unnecessary separate Contract Farming Act in 2013. The state, a pioneer in undertaking various measures to promote contract farming during the 1990s, is now stuck on the APMC Act amendment due to the political economy involved in the policy reform and the role of various vested interests involved in the mandi system.

It is yet another matter that the state has still not operationalised the contract farming commission and its machinery even three years after the enactment of the act. But, the other two reforms, that is, AMPC permission to farm/allied produce buyers to purchase directly from farmers without going through the mandi, and to any private entity to set up a wholesale market to facilitate buyer–seller transactions in a local area (as it happens in APMC mandis) and make wholesale markets more competitive, are still pending as they need amendment of the old APMC Act. Even allowing contract farming did not need a separate legislation as many other states including neighbouring Haryana have legalised contract farming by providing for it within the amended APMC Act itself. Therefore, it is important to understand why Punjab took the route of a separate legislation on this aspect instead of doing all the required reforms in the APMC Act (Singh 2013).

The major reason for Punjab going for a separate act on contract farming can be found in the political economy of the state's agribusiness sector wherein the farming and the trading interests are at loggerheads in protecting their (vested) interests. If buyers are allowed to purchase directly from farmers, farm produce volumes in APMC mandis will be reduced. It would also reduce the earnings of the arthiyas from commissions on sale of such produce, as well as their capacity to interlock credit and farm input supply, thus reducing their hold on farmers. In such a case, the private wholesale markets would create competition for the arthiyas/traders, thus reducing the volumes handled by them in these mandis. This would also affect the State Agricultural Marketing (Mandi) Board interest, which earns revenues in the form of market fees and various cesses due to its exclusive legal monopoly over handling of farm produce through the APMC mandis. This is perhaps the reason why the APMC Act was not amended as it would upset the apple cart of the arthiyas and the mandi board itself, and instead, a separate act route was taken for contract farming.

The state needs to decide the primary stakeholder of the state's agricultural marketing system and the agricultural sector, and then propose solutions—and not take the existing power play as given—if long-term and sustainable solutions are to be sought. The best bet for making the CAs irrelevant would be to diversify the farm sector of the state. When wheat, paddy and cotton reduce in importance, the CAs as well as the state would tend to wither away on their own.

AAP's Farmer and Farm Worker Manifesto

It is for the first time in Punjab, and perhaps in India, that a political party has issued a separate manifesto for farmers and farm workers. This is praiseworthy, but not surprising. Given the nature of agrarian crisis in the state, it was natural that a new party would be sensitive to the crisis. This has led to other established political parties, especially the Indian National Congress, also promising some relief to farmers and farm workers in the form of waiver of farm and other loans. But, it is important to analyse the goodness and practicality of the AAP manifesto (AAP 2016) proposals related to addressing the agrarian crisis from an agribusiness markets perspective.

A major promise the manifesto makes is the amendment of the APMC Act which has been pending for 15 years now though the objective that the farmers will then be allowed to sell their produce outside the mandi and the state, seems outdated and misplaced at the same time. It is ignorant of the fact that there is already a policy provision (as an ordinance/contract farming act) to sell directly or undertake contract farming. This provision is exercised by many farmers everyday by selling to food supermarkets and contracting agencies/companies.

The other issue is how a state APMC Act can allow selling outside the state unless the other states allow sale in their states? This kind of provision in the manifesto shows lack of understanding of agro-marketing policies and relevant laws. The most important provision of the new APMC Act would be allowing private wholesale markets. This is completely ignored by the manifesto.

One of the major proposals of the AAP manifesto with marketing implications is the implementation of the Swaminathan Committee report which suggested a minimum support price (MSP) of 50% above the cost of production by December 2020. This has been a long-pending demand of many farmer unions in the state and the country. The issue here is: how can a state determine a different MSP from what is announced by the union government? So far, various state governments have only offered bonus over and above the MSP to their growers from time to time. Even if it is assumed that it can be done, how would the state mobilise resources to implement it?

Further, it would leave out all those farmers who grow non-MSP crops. This will go against the very objective of crop diversification promised in the manifesto as it would perpetuate wheat, paddy, and cotton crops. It also means that the farmers would have to wait for 2020 to get it! And whatever progress can be made by then on the diversification front would be undone by this measure. Infact, the manifesto on the diversification front, talks of paying the differential between the MSP of the crop and its prevailing market prices to the farmers, but only for three crops—maize, Basmati and pulses. The rationale behind this move seems to be that without MSP, diversification cannot take place. This is a faulty understanding as the lack of diversification itself is perpetuated by the MSP, and the procurement policy in wheat, paddy and cotton. As long as the diversification plan is MSP based, it does not promise much. There is a need to bring new channels of procurement and other incentives to encourage new crops in the state, and not state-led MSP based measures.

Another major issue for 15 years is the direct payment to farmer for their produce sold in the APMC mandis. There has been a constant battle on direct payments to farmers for their produce by buying agencies between the two lobbies. Farmer lobby would like to have direct payments, while the arthiya lobby opposes it tooth and nail. This is because direct payments hit the business of interlocking of credit, input, and output markets run by arthiyas where a *parchi* (slip) system prevails for lending in kind to farmers and recovery of payments at the time of sale of produce (Singh and Dhaliwal 2011).

Despite a committee of the Punjab government recommending direct payments by procuring agencies besides lowering the number of CAs in APMC markets in 1998, there has been no progress on this issue (Singh and Bhogal 2015). The AAP manifesto promises faster payment within 72 hours after purchase of produce but ignores the real issue of delinking produce payment from loan repayment in the interlocked agricultural marketing system. The faster payment provision is more relevant in the case of sugar cane, as sugar mills delay payment. This is not the case with APMC mandis where central agencies like FCI and CCI are quite prompt in payments to farmers, though indirectly (through the CAs).

Agro-industrial Development

On the agro-industrial front, the manifesto promises tax holiday for agro-units and promotion of agro-industrial unit clusters with a 10-year tax holiday and interest-free loans for units that employ 80% of their workforce from Punjab. The latter promise is parochial in a globalised economy and market context. The manifesto does not seem to have looked at the agro-industrial policies of other states like Gujarat or Madhya Pradesh or even Chhattisgarh which are much more aggressive. It also proposes state-run cold storages in all 20 districts. This is a regressive step, as why the state should run cold storages is not clear. Rather, it should have proposed to incentivise the private sector to invest in this sector on a viable business model basis. Another crucial infrastructure is warehousing which cereal farmers can use to avail of loans against their warehouse-stored produce. This has been missed out completely by the AAP manifesto.

Most importantly, the manifesto still focuses on cooperative societies, talks of freeing them of political interference, and of enhancing subsidy to the societies for plant and machinery from 40% to 60%. Surprisingly, when India is in the exciting phase of promoting producer companies of farmers under the Companies Act, the manifesto does not even recognise them. It, therefore, puts Punjab at the risk of missing the available union government and other development/promotion agency incentives which could be leveraged for promoting such entities in the state. It also mentions push for private investment in markets and processing centres, but without any details, and does not identify any specific set of industries in the agro-industrial sector which would be encouraged.

Agro-industrialisation Policies

There is no doubt that Punjab needs to agro-industrialise as it would support agricultural production, especially of high-value crops and products, lower post-harvest losses, and add value to raw materials flowing out of the state. It would also generate employment (especially for women) as it is labour intensive, needs lower capital to generate employment, can be undertaken on small scale, and can spin off other industries in the manufacturing and tertiary sectors.

What is needed on agro-industrial front is to understand the global context of value chains and production and trade networks as most of the agribusiness happens through such networks (Suryanata 2002). These are driven by *competitive* advantage, not comparative advantage. Just having raw materials and infrastructure is not good enough. The competitive advantage comes from marketing, business systems, and research and development. The latter requires accessing biotechnology and information technology and building a capability in these areas. Besides technology, it also requires institutional, structural and legal changes that allow networks to be established and to operate (Suryanata 2002).

For such agro-industrialisation to be locally relevant, it should be bottom-up, not top-down, both in process and policy. This would mean rural households are not only suppliers of raw materials but also participate in higher levels of the value chain/production and trade network which would also involve examining and enabling a different kind of agribusiness enterprise ownership, organisation, and management, and not just private corporate, which is the characteristic of top-down model (Waldron 1999).

Further, other policies like those on infrastructure and markets would need to support such potentially competitive agro-industrialisation, especially in terms of enabling quality and tailor-made raw materials which would be in the nature of strengthening mechanisms like contract farming, quality production incentives, high quality modern inputs, and systems and institutions to deliver them. Presently, the state has market infrastructure only in the form of APMC market yards, warehouses (used for foodgrains) and cold storages (used mostly for table/processing potato and seed potato), many of the latter not being warehouse receipt eligible.

There is a need to move beyond present cropping pattern driven agro-industries to more market-oriented ones. Punjab's vibrant seed potato sector suffers from quality issues as most of the seed potato sector is in the hands of informal traders and big farmers, as potato is not regulated under the seed act being a tuber. For this reason, many state governments like Odisha are trying to create their own sources of quality seed potato supply. All this would require institutional innovation within and outside the state (public) sector including at local production and marketing levels for vibrant agro-industrialisation to take place and sustain itself.

Finally, what is needed for Punjab to achieve a vibrant agro-industrialisation and diversified agriculture, with both being mutually reinforcing, is revival of, and innovations in, the institutional space. This could include not only more vibrant role for PACs but also thrust on PCs and group contracts. Besides this, the innovative participation of the state agencies is crucial in enabling the private enterprises and agri-startups to achieve a competitive yet inclusive agribusiness sector for sustainable agricultural and rural development of the state.

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