Mandi System In India

This article is based on **"The perils of deregulated imperfect agrimarkets"** which was published in The Hindu on 01/12/2020. It talks about the recent farmers' protest in New Delhi.

Recently, the **massive farmers' protests** erupted in New Delhi and adjoining areas against the newly introduced Farm Acts. According to the government, these **new farm laws** (particularly Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020-FPTC Act) are intended to benefit farmers by establishing private markets, elimination of middlemen and farmers would be free to sell to any buyer.

However, the protesting farmers do not accept these claims. They believe that if mandis weaken and private markets with no commitment to MSPs expand, this would lead to a gradual erosion of the guaranteed pricing i.e. **Minimum Support Price (MSP) system.**

Therefore, these farmer's protest demand for a deeper analysis of the **mandi system in India and associated reforms** to ensure the viability of agriculture for Aanadata (Farmers) of India.

Intended Benefits of Liberalising Mandis

- **Level playing field:** The new legislation will empower farmers for engaging with processors, wholesalers, aggregators, wholesalers, large retailers, exporters etc., on a level playing field without any fear of exploitation.
- **Transfers the risk:** It will transfer the risk of market unpredictability from the farmer to the sponsor and also enable the farmer to access modern technology and better inputs.
- **Attracts private sector:** This legislation will act as a catalyst to attract private sector investment for building supply chains for supply of Indian farm produce to national and global markets, and in agricultural infrastructure.
- **Eliminates intermediaries:** Farmers will engage in direct marketing thereby eliminating intermediaries resulting in full realization of price.

Why Replacing the Mandi System May Not Help?

An important assumption behind the FPTC Act is that mandis controlled by Agricultural Produce Marketing Committees (APMC) are monopsonies in rural areas and liberalising agricultural markets will provide higher pricing for farmers. **However, the organizational structure of Indian agriculture forces farmers to sell outside the mandis.**

- **Large Proportion of Produce Sold Outside Mandi:** Official data show that for paddy and wheat, respectively, only 29% and 44% of the harvest is sold in a mandi, while 49% and 36% is sold to either a local private trader or an input dealer.
    - In other words, de facto, a large proportion of Indian harvest is not directly sold in a mandi.
- **Inadequate Number of Mandis:** The National Commission on Agriculture (NCA) had recommended that every Indian farmer should be able to reach a mandi in one hour by a cart. Thus, the average area served by a mandi was to be reduced to 80 square kilometres.
    - However, there were only 6,630 mandis in 2019 with an average area served of 463 square kilometres.
    - Therefore, India needs not less but more mandis.
- **Marginal Farmers Domination:** In India, nearly 86% of landholding are owned by small & marginal farmers. These farmers, given their small marketable surplus, do not find it economical to bear the transport costs to take their harvests to mandis.
    - Thus, they end up selling their harvest to a village trader even if at a lower price.
    - Even if private markets replace mandis, small and marginal farmers will continue to sell to traders in the village itself.
- **Poor Private Investment In Liberalised Agricultural Markets:** The freedom to sell outside mandis already exists in many States.
    - Already, 18 States have allowed the establishment of private markets outside the APMC and have allowed the direct purchase of agricultural produce from farmers.
    - Despite such legislative changes, no significant private investment has flowed in to establish private markets in these States.
    - The reason for poor private investment in markets is the presence of high transaction costs in product collection and aggregation. Moreover, due to a large number of small and marginal farmers, this cost will be higher.
    - This is why many retail chains prefer purchasing bulk quantities of fruits and vegetables from mandis rather than directly from farmers.

- **No Evidence of Higher Prices:** In the existing private markets too, there is no evidence of farmers receiving higher prices than in the mandis.
    - In fact, if transaction costs exceed mandi taxes, the costs would be transferred to the farmers at a lower price.
    - This, then, would imply a stronger squeeze on the farmer than at present.
    - Further, if mandis weaken and private markets do not sufficiently replace them, there are fears that the void would be filled by unscrupulous and unregulated traders.

Way Forward

- **Quantitatively Improving Mandi Infrastructure:** At the current stage of agricultural marketing in India, there is a need to increase in the density of mandis, expansion of investment in mandi infrastructure and a spread of the MSP system to more regions and crops.
    - For this to happen much of the mandi taxes should be properly reinvested by APMCs to improve market infrastructure.
    - In this context, the Punjab Mandi Board example is worth emulating, whereby it uses these revenues to construct rural roads, run medical and veterinary dispensaries, supply drinking water, improve sanitation, expand rural electrification and provide relief to farmers during calamities.
- **Qualitative Improving Mandi Infrastructure:** There is a need for not just more mandis, but also better mandis.
    - APMCs need internal reform to ease the entry of new players, reduce trader collusion and link them up with national e-trading platforms.
    - The introduction of unified national licences for traders and a single point levy of market fees are also steps in the right direction.
- **Improving Economies of Scale:** The bargaining power of Indian Farmer's vis-a-vis corporates will change only if economies of scale rise substantially at the farm-level.
    In order to achieve this, there is a need to strengthen **Farmer Producer Organisations.**

Conclusion

Indian agricultural marketing reforms should derive inspiration from Barbara Harriss-White, a scholar of India's agricultural markets, who once observed, "deregulated imperfect markets may become more, not less, imperfect than regulated imperfect markets".

WHAT'S IN THE BILLS AND WHY THE OPPOSITION

BILL ON AGRI MARKET

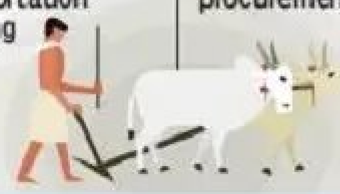
Farmers' Produce Trade and Commerce (Promotion and Facilitation) Bill, 2020

Provisions

- To create an ecosystem where farmers and traders enjoy the freedom to sell and purchase farm produce outside registered 'mandis' under states' APMCs
- To promote barrier-free inter-state and intra-state trade of farmers' produce
- To reduce marketing/transportation costs and help farmers in getting better prices
- To provide a facilitative framework for electronic trading

Opposition

- States will lose revenue as they won't be able to collect 'mandi fees' if farmers sell their produce outside registered APMC markets
- What happens to 'commission agents' in states if entire farm trade moves out of 'mandis'?
- It may eventually end the MSP-based procurement system
- Electronic trading like in e-NAM uses physical 'mandi' structure. What will happen to e-NAM if 'mandis' are destroyed in absence of trading?



BILL ON CONTRACT FARMING

The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Bill, 2020

Provisions

- Farmers can enter into a contract with agri-business firms, processors, wholesalers, exporters or large retailers for sale of future farming produce at a pre-agreed price
- Marginal and small farmers, with land less than five hectares, to gain via aggregation and contract (Marginal and small farmers account for 86% of total farmers in India)
- To transfer the risk of market unpredictability from farmers to sponsors
- To enable farmers to access modern tech and get better inputs
- To reduce cost of marketing and boost farmers' income
- Farmers can engage in direct marketing by eliminating intermediaries for full price realisation
- Effective dispute resolution mechanism with redressal timelines

Opposition

- Farmers in contract farming arrangements will be the weaker players in terms of their ability to negotiate what they need
- The 'sponsors' may not like to deal with a multitude of small and marginal farmers
- Being big pvt cos, exporters, wholesalers and processors, the sponsors will have edge in disputes

BILL RELATING TO COMMODITIES

The Essential Commodities (Amendment) Bill, 2020

Provisions

- To remove commodities like cereals, pulses, oilseeds, onion and potatoes from the list of essential commodities. It will do away with the imposition of stockholding limits on such items except under "extraordinary circumstances" like war
- This provision will attract private sector/FDI into farm sector as it will remove fears of pvt investors of excessive regulatory interference in business operations
- To bring investment for farm infrastructure like cold storages, and modernising food supply chain
- To help both farmers and consumers while bringing in price stability
- To create competitive market environment and cut wastage of farm produce

Opposition

- Price limits set for "extraordinary circumstances" are so high that they are likely to be never triggered
- Big cos will have freedom to stock commodities – it means they will dictate terms to farmers, which may lead to less prices for the cultivators
- Recent decision on export ban on onion creates doubt on its implementation

Drishti Mains Question

Recent farmer's protest demand for a deeper analysis of the mandi system in India and associated reforms. Analyse.

Watch Video At:

https://youtu.be/bXAp7UzbR5E

This editorial is based on **"Reaping the whirlwind: On farmer protests"** which was published in The Hindu on November 30th, 2020. Now watch this on our Youtube channel.
