REPERCUSSION OF NEW FORMER’S BILL ON AGRI BASED SECTOR

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Introduction:
In Rajya Sabha, the Agriculture Bill will possibly pass, opening the way for the first time for contract farming, open market for agricultural produce, and private capital + FDI in agriculture!
This is the 1991 moment for India's agriculture industry, which will ultimately evade the APMC Act's license raj.
What are the major changes on the cards?
What are the changes that you anticipate?
Is this a game-changer for agrotech companies?
Will this mean our agriculture and food export can grow rapidly now?

We have one of the world's most inefficient and backward farming systems. The Netherlands, a nation smaller than the size of the Delhi NCR, exports more food than we do to the rest of the world! The Netherlands is the world's 2nd largest exporter of grains, the US is the largest, and India is just 11th!
Basically, when we use advanced Agri technologies and private capital, we have immense potential for growth here. We may be the world's largest exporter of food. We'll be able to stop world hunger.
And this is a sector that is increasing barely 1% year on year, while 50 percent of Indians are employed in this industry!
It's a drag on GDP for us. If this industry expands as quickly as it can, we will have a higher GDP than we have ever had.
It was not possible because of archaic laws. It can finally change now!
Would love to hear the thoughts on this.
But first, let me share a few more details with you:

What are these farm bills or agriculture bills?
There are four bills that were passed in Lok Sabha yesterday, and will be presented in the Rajya Sabha tomorrow, i.e. Saturday:

1. The Farmers’ Produce Trade and Commerce (Promotion and Facilitation) Bill, 2020;
2. The Farmers (Empowerment and Protection) Agreement of Price Assurance;
3. Farm Services Bill, 2020; and

They will replace an ordinance already in place.

What will change in the agriculture sector?

- The Farmers’ Produce Trade and Commerce (Promotion and Facilitation) Bill aims at opening up agricultural sale and marketing outside the notified Agricultural Produce Market Committee (APMC) mandis for farmers.
- Earlier these mandis had a monopoly on the trade of agricultural produces! You needed a license from them to be in the business. The mandis can regulate the trade of farmers’ produce by providing licences to buyers, commission agents, and private markets. They also levy market fees or any other charges on such trade.
- If you ever wondered why vegetables, rice, and pulses are so expensive but farmers are so poor and heard about middlemen making all the money and wondered who these middlemen are, here is your answer. It is the mandi system that made money in the middle. Removing the middleman will increase the money in the hands of the farmers, and make it cheaper for you to buy food, at least that is the idea!
- Contract farming is legal in India, provided you register them with mandis. Despite huge potential, the mandis never allowed contract farming to take off in India. Free from the clutches of local mandi committees, contract farming can now finally flourish in India.
- This law removes barriers to inter-state trade of agricultural produces, creating a unified market across India.
- This law provides a framework for the electronic trading of agricultural produce.
- It also prohibits states from collecting any fee, cess or levy for trade outside the APMC markets.
- The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Bill introduces contract farming in India for the first time. It provides a framework on trade agreements for the sale and purchase of farm produce. The mutually agreed remunerative price framework envisaged in the legislation is touted as one that would protect and empower farmers.
- The important thing is that businesses can now bypass the mandi and directly procure from farmers, provide capital and assured procurement, and even pay for insurance, ensuring a better outcome for farmers!
• The Essential Commodities (Amendment) Bill removes cereals, pulses, oilseeds, edible oils, onion, and potatoes from the list of essential commodities. The amendment deregulates production, storage, movement, and distribution of these specified commodities.

• This reform is intended to attract private sector capital/FDI into the agriculture sector as it will remove fears of private investors of excessive regulatory interference in business operations. We can also expect more investment for infrastructures like cold storages, agritech startups, and food supply chains.

• 20-25% of India’s horticulture produces simply get wasted! This happens due to a lack of supply chain and cold storages. Since the private sector was not really allowed to participate in the agriculture business or trading of these commodities, private capital was hard to come by in the supply chain. With these new changes, we can see a lot of capital flowing into this sector over the coming years, which puts an end to this wastage.

• It is important for corporates to get involved in farming from stage 1 if agricultural export is really going to take off. Indian farmers do not use advanced technology, uses a lot of chemical fertilizers and pesticides that make a lot of the produces impossible to export, and cannot ensure delivery of produces due to flood, rain, draught etc. Use of advanced technology that large corporations can fund will end these problems, as there are many ways to save produces from inclement weather, and produce high-quality food items without using much water through techniques like aquaponics.

• Most importantly, this is going to create a competitive market environment in agriculture for the first time through a unified market and cut wastage of farm produce.

Most sections of the industry and key stakeholders in the agri trade reckon that the Farm Bills are progressive and “visionary”, and a definitive step towards realising the government’s mission of doubling farmer incomes by 2022.

The new reforms are particularly beneficial for small and marginal farmers, who own less than two acres of farmland each. These smallholder farmers make up over 80 percent of the agrarian population, and are not the ones protesting.

Puneet Sethi, Co-Founder and Director, Farpal (an agritech platform that organises the post-harvest supply chain), says, “We have discussed the bills with our farmers, and by and large, there does not seem to be any opposition to them. Large farmer dynamics are very different from small farmers with marginal landholdings who constitute most of Indian agriculture. The larger farmers who tend to benefit more from the earlier scenario might have more reason to protest.”

The legislation allows them to sell produce directly to any buyer as opposed to restricting them to the local mandis. These additional channels could be anyone from large corporations and agritech startups to food processors, wholesalers, modern retailers, and B2B customers like hotels and restaurants.

Transactions taking place outside mandis will not be charged the APMC (Agricultural Produce Market Committee) cess. Add to that, farmers will benefit from direct market linkages and better supply chains that will impact their incomes positively.

The Bills also bring in a slew of benefits for agritech startups and organised players who connect farmers to agribusinesses, food processors and exporters; agri warehousing companies and cold storage providers; supply chain and logistics operators that ensure transparency and timeliness; online agri trading marketplaces, and practically anyone in the agri value chain that works towards eliminating inefficiencies in ‘farm-to-table’.

Mark Kahn, Managing Partner, Omnivore (an agrotech-focused VC), says, “The Farm Bills will definitely create tailwinds for agrotech start-ups. Anyone working on market linkages, post-harvest services, or digital farmer platforms will benefit from the new laws, which enable direct interfacing with farmers. The Bills take much of the regulatory uncertainty in the agri value chain away, and agrotech start-ups will be more nimble-footed than large agribusinesses in building farm-sourcing systems and related infrastructure.” While there are several evolving threads in the Farm Bill discussion, in this piece, this article attempts to separate the wheat from the chaff — quite literally — and establish the on-ground impact of the new legislation.

HOW AGGROTECH START-UPS GAIN

Many agrotech start-ups had already been working towards digitising farmers, offering them data-led crop advisory, helping them with improved market linkages, and reducing intermediaries for better price realisation of crops. Some platforms also improve demand visibility for farmers, and help reduce post-harvest loss and wastage, especially in perishables. The Farm Bills expedite this and make tech intervention in agriculture more formalised.

“Many companies already work with farmers, but it is based on relationships. Now, those relationships will get storiﬁed into contracts across crops, regions, etc. And we’ll have more private sector involvement,” says Avinash BR, Co-founder of Clover Ventures. Clover, an agrotech start-up that provides greenhouse-grown fresh produce, had begun to experience the winds of change in the early days of the pandemic. Avinash says, “During COVID-19, many middlemen and aggregators disappeared, and farmers started to see the beneﬁts of working with organised agrotech companies like us. They began to look for long-term arrangements for demand visibility and structural processes. Farm Bills reinforce this in a more regulatory manner. Farmers are now more empowered to make choices that will be remunerative in the long run. They can choose their partners and decide how to market their produce.”

Smallholder farmers, particularly, need supply chain efﬁciencies — from better matching of supply and demand to lower volatility on pricing, and superior cold storage. The Farm Bills open up these avenues and let farmers interface directly with Agri service providers, most of which are new-age start-ups that have built their foundations on technology. Prasanna Rao, MD and CEO, Arya Collateral (an Agri-warehousing and post-harvest solutions provider), says, “It expands our canvas; we can now operate anywhere...
without restrictions. This is a huge tailwind for Agri warehousing businesses. The reforms also mean that a buyer can buy produce from anywhere, irrespective of geography, which automatically expands the entire base of buyers.”

The free market benefits not only farmers, but also agrotech start-ups. They will no longer be restricted by state-level bureaucracies and the License Raj of local APMCs, which would often impede their growth and scalability. Shashank Kumar, Founder and CEO, DeHaat (a full-stack Agri platform that connects farmers to buyers) adds, “Earlier, when you wanted to set up a farmer-driven model, you had to apply for Seedhi Khareed (direct purchase) licenses in every district of every state. This direct procurement license came with a cess and a licensing bottleneck. With the new reforms, our gestation period around scalability is much shorter because the inefficient process is eliminated by law. In the long run, this will boost procurement infrastructure near the farmgate, which will be the biggest benefit for us.”

For Indore-based Gramophone, which works with wheat farmers in Madhya Pradesh and plans to enter other states, the Farm Bills are a shot in the arm. Co-founder and CEO Tauseef Khan says, “We can go to any state or farming belt directly without partnering with local mandis. Earlier, the farmers would have to sell their produce through local aggregators and mandis, which would then sell to consumers at a higher price. Each intermediary jacks up the price of produce, but the farmer still earns less because the commissions went to the middlemen. The small farmer is so small that he cannot command anything. But now, they can work with platforms like us directly. They are not mandated to go to the mandi. With a free market and increased competition, farmers will get price benefits.”

Besides the streamlining of processes, elimination of some intermediaries, and reduction in red-tapism, the Farm Bills may even lead to the mushrooming of new start-ups that will help draw up legal frameworks and contracts between farmers and agribusinesses, and also educate farmers on the Bills’ benefits. “There are numerous opportunities in the space that could see new kinds of players in contract farming frameworks, farmer advisory, farm consulting providers, and online farm marketplaces,” says Puneet of Farmpal.

More investments and supply chain innovation

Because of the opening up of the Agri trade, there is likely to be more corporatisation, privatisation and participation of organised players. A bit like what India witnessed after the liberalisation of the economy in 1991. Most stakeholders believe that more privatisation will lead to increased investments and tech-led innovations, especially in sourcing and collection centres, storage, and supply chain infrastructure. These areas are likely to draw VC attention too. Arya Collateral’s Prasanna says, “A layer of trust and quality assurance will be enabled by these laws. More professional agencies would step in to certify and grade produce. The scope of innovation goes up across the ecosystem.”

Efficient supply chains are almost imperative given India’s post-harvest loss stands at 40 percent annually. Perishables are the worst hit, with losses amounting to a staggering Rs 13,300 crore. The Farm Bills will allow deep-pocketed private players to fix this pain point with state-of-the-art infrastructure and advanced farm-to-table processes.

Sudhakar Nimmagalla, Founder and CEO, FnV Farms (Agri start-up that enables last-mile delivery of fruits and vegetables), says, “The Bills will bring highly required private investment in agricultural marketing, processing, and infrastructure. Despite agriculture being the backbone of our nation, past governments have neglected the right infra and supply chain required to efficiently handle perishables to reduce the wastage it undergoes. Privatisation brings in the required technology and new methods into the orthodox functioning of traditional supply chains.”

End consumers too stand to benefit from efficient supply chains and better storage. “A quicker supply chain directly reduces the prices as fewer hands are involved. Better infrastructure and climate-controlled storage facilities give end consumers good quality perishables with a longer shelf life,” Sudhakar adds.

Boost for Agri storage and private players

While farm-to-table efficiency may be the most immediate impact of increased innovation, in the long run, the Farm Bills are also expected to boost agri storage infrastructure even in smaller locations. Arya Collateral’s Prasanna explains, “Warehousing has always been skewed towards larger markets. Because of the lack of market linkages, finance, and other support, a lot of the storage capacity lies unoccupied in smaller locations. These locations can now become vibrant storage hubs.” The Bills are said to empower local entrepreneurs too.

“They can procure directly from farmers and set up mini mills in their district to cater to local demand,” says DeHaat’s Shashank. The Farm Bills are also expected to bring corporates closer to farmers. It will lead to more buying, contract farming, and farmer-first programmes from them. Shashank elaborates, “The end point of agri trade belongs to corporates (like ITC, Godrej, Cargill) because most B2C channels are owned by them. Due to the mandi bottleneck earlier, they had to go through traders. If corporates wanted to design farmer-driven programmes, there was no incentive for them to do that because even after all their efforts, they didn’t have the option to source directly from farmers. The Bills will encourage them to come closer to farmers, get first access to their produce, and invest in cold chains near the farmgate.”

Will mandis disappear or reinvent?

Farmers in north India have been gripped by an almost irrational fear about the future local mandis. To set the record straight, those aren’t going anywhere. The Farm Bills haven’t replaced mandis, but merely added other channels for farmers to sell.

Omnivore’s Mark says, “The fear of middlemen [like commission agents and traders] being eliminated seems naïve because the farmers are dependent on them as moneylenders. The Farm Bills will force APMCs to up their game, and become modernised and digitised. Hopefully, more reforms will follow in agriculture land ownership and leasing.”
The Farm Bills allow free trade to co-exist with mandis. But rising competition will compel them to reinvent and reimagine their role in the Agri value chain. FnV Farms’ Sudhakar says, “They might even take up a new avatar within the new regulation. With the scrapping of additional state/mandi charges, they can leverage their well-established connections with farmers to create a direct supply chain for private organisations at cheaper prices.” Essentially, mandis will have to add value and be more than just facilitators of trade. They need to offer better prices because the farmer has “freedom of choice” now. Mandis are also critical because they act as grievance redressal cells.

DeHaat’s Shashank shares, “The Mandi Samiti resolves farm disputes. If there’s a dispute in a transaction that happens outside the APMC, say if a corporate cheats or exploits the farmer, who will resolve that? It’s a grey area.” APMCs also ensure that the produce gets sold even if the farmer doesn’t get the best price. This assurance is often an incentive for smallholder farmers to travel 150-200 kilometres from their farms to the nearest mandi.

Crofarm’s Varun says, “The mandi system is several decades old. I don’t see it becoming irrelevant anytime soon. However, I do foresee some level of decline in the trading that happens at the mandis, with more choices available.” APMCs in India make Rs 11,200 crore in annual revenues, as per industry estimates. Because of the rationalisation of cess, and the end of their monopoly due to the availability of alternate channels, they might be hit in the short term. However, until a substantial volume of trade moves outside the APMCs, there would be no pronounced impact in the long run.

“APMCs are supposed to be developmental organisations to facilitate business. In the long term, they will evolve to match the market requirements,” says Arya Collateral’s Prasanna. As for traders and commission agents who just add more layers to the value chain, “some of them may morph into organised players and links in the supply chain for either farmers or customers,” says Clover’s Avinash, adding, “There may be some shocks in the short run, but the Farm Bills will ensure an equitable balance between consumers and farmers in the long run.” And according to industry sources, this will only attract more VC capital into the agrotech sector in the next 12 to 18 months, signalling greater potential to reimagine India’s agriculture industry for maximum impact.

Conclusion:
Lastly, inclusion of corporate sector in agriculture through Contract Farming can be beneficial in multiple ways. The bill titled as “Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act 2020” provides a legal framework for framers to enter into contracts with private companies at a pre-agreed price for a pre-determined quantity (with specified quality standards). Contract farming is a familiar subject in India with its success stories from ITC e-choupal, PepsiCo, Ugar Sugar, to name a few. The concept has revolutionised the sector by providing them guaranteed sale and assured income, reducing the risk of production and marketing cost. It also provides technology dissemination and extension services. However, there are concerns over the limited spread of smallholder farmers in contract farming. The small growers are often not the preferred choice of suppliers by contracting agencies due to their limited use of resources, technology, and land. Hence, in order to make contract farming more inclusive, Farmer Producer Organisation (FPOs) can play a major role. Steps are already being taken to promote the creation of 10,000 FPOs, as announced in Union Budget 2020-21. With this, the government has created a formal entry mechanism for private players to collaborate more with FPOs and build trust among the farming community to augment their footprints in contract farming in India.

The recent reforms have created ample opportunities for private sector to invest and weed out long-pending issues in agriculture. The bills, if implemented as planned, will upgrade the marketing structure and boost the competition. Eventually, ushering of private investment is also expected to generate number of positive externalities in the agriculture sector which will also help in achieving government’s objective of doubling farmers’ income.