Indian Journal of Agricultural Economics
Volume 76, Number 3, July-September 2021

Agricultural Marketing in Telangana: Unraveling the Challenges and Possibilities in the Wake of Farm Bills 2020

Gummadi Sridevi and Dontha Prashanth*

ABSTRACT

Farm Bills-2020, as they proclaim to set up competitive alternative channels to create an eco system with freedom of choice for farmer and trader in sale and procurement of agricultural produce by facilitating remunerative prices as its preamble, would run contrary to its preamble with the law leaning more towards the interest of traders as against farmers. By juxtaposing the provisions in Farm Bills with the agrarian markets which were considerably liberalised in the state of Telangana, we argue that there is a need for more sustained intervention from state in agricultural marketing by acting as facilitators of regulated decentralised procurement of agrarian produce, as against withdrawal of state necessitated by reforms. We critically engage with the idea of *freedom* of choice by placing the existing assymetrical dyadic interaction between farmer and trader enmeshed in debt trap which robs the very idea of *freedom* of choice of farmers to sell their produce.

Keywords: Agricultural marketing, Farm Bills 2020

JEL.: Q13, Q15

I

INTRODUCTION

The Farmers' Produce Trade and Commerce (Promotion and Facilitation) (FPTC) Act, 2020 is envisaged to create an ecosystem where the farmers and traders enjoy the *freedom* of choice in regard to sale and purchase of farmer's produce by facilitating remunerative prices through competitive alternative trading channels. Such a conceptualisation of *freedom* of choice trivialises an existing asymmetrical dyadic interaction between the trader and farmer characterised by a deprived state of the farmer to access channels of formal credit institutions compelling to rely upon informal credit channels through trader, entrapped in an *unfree* bond of transacting produce at a rate decided by trader. In India, more than half of the cultivators operate on less than 2 hectares of land (NSSO, 2015). The trends on loan patterns in terms of the share of institutional and non-institutional sources of lending reveal that the share of institutional sources of lending increases with an increase in size land, on the contrary the share of lending from non-institutional source increases with a decline in the size of land possessed (NSSO, 2014). As FPTC-2020 advocates for a greater participation of private players and deregulates the process of intra-state licensed traders administered by Agricultural Marketing Committees, Chand (2020) identifies the

*Associate Professor and Research Scholar, respectively, School of Economics, University of Hyderabad, Hyderabad-500 046.

process as a set back to the excessive and unjustified commission charges in those markets. While Chand (2020) acknowledges the state of interlocked transactions that robbed the farmers, no explanation was offered as to the effect of these new farm bills on the system of interlocked transactions that are of dyadic in nature linked with offering credit as a tool to control the price and marketing of the produce. Conversely, the amendment to the bill on Essential Commodities Act (Amendment) Act 2020 facilitates the trader who is part of the value chain, processors and exporters to stock pile all agrarian products, which has the potential to create artificial shortage problem accelerating the prices of essential commodities, which would accrue no benefit to the farmer, as the price acceleration would be applicable on the processed/milled agricultural produce, which may indirectly impinge upon the disposable incomes of the farming sections, who form a predominant consumer base of rural areas. Such a policy could have serious impediments to the problem of food security, as India ranks 94th amongst 107 countries in hunger index for the year 2020 (Singh and Bhogal, 2021).

Given the persistence of greater number of small and marginal farmers in agriculture, coupled with their dependence on credit from non-institutional sources, the paper tries to analyse the possible impact of the farm bills introduced in parliament in the year 2020 by provding an overview of the state of agricultural marketing with special reference to paddy procurement in the state of Telangana which incorporated amendments to The Telangana (Agricultural Produce and Livestock) Markets Rules 1969, in the year 2016, in tune with the reforms legislated. The paper is organised as follows. Section 2 discusses the materials and methods used for the analysis, Section 3 delves into the analysis on the changing contours of Agricultural Marketing in Telangana, while the final section summing up by highlighting the possibilities and challenges in the process of the transition of the policy of agricultural marketing.

II

MATERIALS AND METHODS

The study has relied on both primary and secondary sources of data. The secondary sources of data and reports include various NSSO Reports, Government documents, viz., legislations and orders. For the purpose of conducting field survey, the village was selected on the basis of two characteristics: (1) consisting the highest proportion of scheduled caste population, (2) engaging population in agriculture. The first characteristic of a village with highest scheduled caste population was chosen as the patterns of a reliance on non-institutional sources of credit and the area operated under tenurial arrangement by those who own less than one hectare display a greater magnitude amongst scheduled caste households. Amongst scheduled castes households, about 74.8 per cent of the cash loan outstanding is sourced from non-institutional agencies, in comparison with 71.8, 58.1, 56.14 per cent in case of other backward classes (OBC’s), scheduled tribes (ST’s) and others respectively (NSSO, 2016). The incidence of tenancy in the intra-social group of households which own less than a hectare of land indicate a greater magnitude of area leased-in amongst scheduled castes with 76.4 per cent followed by OBC's with 71.1 per cent and ST's, less than 50 per cent observed amongst ST's and Others (NSSO, 2015). The village was selected following a systematic ranking of districts, followed by mandals, then village panchayats by order of highest proportion of scheduled caste population. The selected village panchayat was tested whether it has population working in Agriculture. In this process, the village of Odipilavancha Panchayat in the State of Telangana fulfilled both the criteria. Accordig to Census-2011, the village panchayat which hosts Odipilavancha with 298 households and its hamlet village of Veerapur with 110 households, with a total of 408 households for the entire village panchayat, consisted 53.12 per cent of Scheduled Caste population.

III

AGRICULTURAL MARKETING IN TELANGANA: CHANGING CONTOURS, CHALLENGES AND POSSIBILITIES

Agricultural marketing facilitates the process of organising and processing of agricultural produce from farm gate to the consumer base, through varied channels of intermediation. The channel of intermediation intervenes through the steps of (i) procurement of agricultural produce from cultivators, (ii) Transporting to processing units viz., mills, agro processing industries, manufacturing units and (iii) sale of final product to the consumer base through wholesale and retail units.

In Telangana, the marketing of agricultural produce is governed by Telangana (Agricultural Produce and Livestock) Markets Rules 1969, which was amended in the year of 2016. Prior to the formation of the new state of Telangana, the erstwhile Government of Andhra Pradesh (AP) had adopted decentralised mode of procurement aimed at helping the small and marginal farmers to market their produce at village level, to reduce the problems of transportation and congestion at market yards.[1] Under the said decentralised procurement the A.P state civil supplies corporation would procure paddy through Indira Kranthi Patham (IKP) centers at village level. Such procurement at village ensured farmers to obtain minimum support price during the time of price deflation and efficient liquidation of transactions. However, by then the statutory levy procurement policy was in vogue where 75 per cent of procured paddy pertaining to all varieties other than superfine preferred varieties was supposed to be milled and transacted to FCI and AP State Civil Supplies Corporation by millers and traders while retaining 25 per cent of the procured paddy for open market sale. Post-formation of the new state of Telangana, in compliance with the central government instructions, the statutory levy procurement was relaxed by bringing down the procurement and sale to 25 per cent for FCI and Civil supplies, while leaving rest 75 per cent for open market sale in 2014-15, which later was completely scrapped by 2015-16, enabling millers and traders to transact in an open market for the entire paddy procured. With the scrapping of levy procurement, there was an enhancement in the role of state in the procurement of paddy through IKP's under the direction of

Telangana State Civil Supplies Corporation to meet the requirements of public distribution system in parallel to the pre-existing mode of procurement at market yards operated through licensed traders. Post-scrapping of levy policy, Telangana Government made amendment to the APMR Act, by extending the jurisdiction of traders to the entire state by converting their license confined to notified market area to state wide single license. These traders/commission agents act as a moderator between the purchaser and seller of agricultural produce, in a way they occupy the position of both the purchaser as well as the seller. The role of commission agents is to assist the functioning of market by intermediating in the transactions between the processor and the farmer by accepting commission from the farmer. However, commission agents in the market yard operate as cartels, deciding the price as under oligopoly, and set the price not in accordance with the Minimum Support Price. In the market yard, a system of open auction prevails, in which the groups of commission agents go for rounds around heap of farm harvest and auction it by quoting a price well below minimum support price, by testing the quality of the product not on the basis of the government supplied matching machines, but manually. The intermediation through commission agents proves to be costly for the farmer and is exploitative. The figures on sales of paddy marketed at Minimum Support Price at All-India level reveals that only about 23 per cent of sales are marketed at MSP (NSSO, 2014). As estimated by NSSO in its report on key indicators of situation of agricultural households in India -2013, amongst the agricultural households that cultivate paddy, about 32.2 per cent of households across the country are aware of Minimum Support Price, 25.1 per cent of the households are aware of procurement agency, but only 13.5 per cent of household have sold their produce to the procurement agency. The farmer, despite being aware of the prevailing support price, sells the produce at a lower price, should such situation categorise the farmer being self-exploitative or there exists other reasons which compel the process of exploitation. Having realised the nature of exploitation that prevail in the market yards, would opening up of agrarian markets to the forces of demand and supply as envisaged through farm bills create competitive alternative trading channels to fetch remunerative prices? We shall rely on our observations from field survey conducted during the year of 2017 to understand the reasons that may compel the farmer in to a state of exploitation, and then analyse the possibilities or challenges that the new farm bills might pose for the state of agricultural marketing in Telangana.

The village under study is Odipilavancha, which is situated in Jayashankar Bhupalapally district of Telangana State. Paddy and cotton constitute the important crops grown in the village. The distance between the market yard situated at Mandal headquarters in Kataram and the village of Odipilavancha is 9 kms away from market yard. As Government of Telangana had initiated decentralised mode of procurement of paddy through IKP centres, the villagers could market their harvested paddy at a common place of the village. Due to the expansion of the network of IKP to the village, about 66 per cent of the households had marketed their harvested paddy at IKP centres, while the rest 34.1 per cent of households had sold their produce to local moneylender and fertiliser lender. The average price difference for selling the harvested paddy to moneylender and fertiliser lender was 11 per cent lesser than the stipulated minimum support price per quintal of paddy for *kharif* 2016. As against the informal channels of marketing, Government agencies strictly procure the product at the minimum support price prescribed from time to time by Government of India. With the issuance of Minimum Support Price by Government, it fixes a benchmark minimum price for the market, under such circumstance, if farmers receive a remunerative price, say a price which is higher than minimum support price from private agencies they can auction their produce in open market. Thus the rational producers would market their product at a minimum support price to government agencies, when the open market prices are lower than prescribed MSP, and to private agencies when open market prices are higher than MSP. Yet, a situation of sale and procurement of agricultural output at a lesser price as compared with minimum support price prevails in case of 34 per cent of households, predominantly owing to the inescapable and asymmetrical dyadic interaction that exists between the trader and farmer with assurance of credit for agricultural investment for the next cycle of production entailing in the foregone fair price. In such dyadic relationship between the farmer and trader/money lender, the trader gains more than the farmer with dual advantages of charging interest on advance lent for future production, and a committed sale of the output at a lesser price than minimum support price offered in the interest of farmers. Both traders who procure the harvested paddy in the village of Odipilavancha are the fertiliser and insecticide vendors of the village, who lend fertilisers and insecticides on loan by charging 8 per cent of interest (or more depending on span of crop cycle and harvest) for the span of crop cycle, which they deduct from paddy procured from farmers. Thus the farmers who market their produce with traders suffer twin losses, one being the higher rate of interest as compared with formal lending institutions, and the other being the reduced price for procurement. The component of recurring costs in agriculture plays a crucial role in tightening the link between traders and farmers. The traders advance credit to the farmers to cover their recurring expenses, which mostly gets invested in fertilisers and insecticides and in return farmers sell their marketable surplus to commission agents.

The marginal and small cultivators, who lag behind in procuring sufficient machinery to store their agricultural produce, are destined to sell their produce at either government market yards or to the private traders in the immediate post-production period. Apart from the assymetrical dyadic interaction between trader and farmer which is a predominant reason entailing in transactions below minimum support price, fluctuations in weather often results in the sale of marketable surplus at a very lower price devoid of dyadic interaction as aforementioned, and it gives a helping hand to private commission agents to exploit the situation. A further disaggregation of the cultivators of the village by location reveals that the residents of Veerapoor, a hamlet village of Odipilavancha predominantly sell their output to local moneylenders, which is induced by both dyadic relationship between the trader and farmer, as well as the locational disadvantage of the hamlet villagers, with the distance to IKP centre ranging 4kms away from the village. The interplay of locational disadvantage coupled with hassles of institutional credit lead to a greater disadvantaged situation for these farmers. This apart, any delay from government in procurement of paddy from farmers, would give scope to traders to procure most of the initial harvest, at prevailing minimum support prices of previous cycle without applying the renewed/enhanced MSP.

IV

TOWARDS A SUM UP

Against the challenges that the farmers face in receiving remunerative prices, though farm bills 2020 state that their aim is to ensure remunerative prices for farmers, the procedure laid out has been found more suitable for traders as against farmers. The mode of decentralised procurement by state that exists in Telangana, seems to offer more pronounced benefits to the farmers, than the withdrawal of state from agricultural marketing as proposed by new farm bills 2020. The proactive role of state in decentralised procurement of paddy enabled farmers to market their produce even amidst a raging pandemic of Covid-19 (Revathi and Dayakar, 2020). New Farm Bills which envisage to create competitive alternative channels to fetch remunerative prices for farmers and traders, attempts to present a vision of a digitised market economy dissecting barriers of regulated trade. Such visualisation might become a treat for large farmers who adequately possess capital and storage mechanisms, but unfortunately it becomes a bane for the small and marginal farmers who are constrained to access to localised markets due to the pre-existing trade arrangements entangled in lending of credit, and locational disadvantage. India is predominantly dominated by the presence of small and marginal farmers who are entangled in a problem of price trap accelerated by debt trap. An eco-system of competitive trading channels and remunerative prices could be possible when the farmer is freed from the hassles of informal credit structures and enabled with post-harvest infrastructure of storage which could empower the farmer to make decisions of the operative price. As against withdrawal of state from agricultural marketing, there is a greater need for state intervention to build more decentralised agricultural markets with the facilities of storage for non-perishable crops such as paddy, and to ensure delivery of agricultural loans through self-help groups on a continued basis to the landless tenant farmers, and those who could not access the formal institutions of credit.

NOTE

1) G.O.Ms.No.31 Dated: 21.10.2013, CONSUMER AFFAIRS, FOOD AND CIVIL SUPPLIES (CS.I) DEPARTMENT, Government of Andhra Pradesh.

REFERENCES

Chand, R. (2020), *New Farm Acts: Understanding the Implications* (pp. 2020-11), NITI Working Paper Series 1/2020, NITI Aayog.

NSSO (2014), Key Indicators of Situation of Agricultural Households in India, Ministry of Statistics and Programme Implementation, New Delhi.

NSSO (2015), *Household Ownership and Operational Holdings in India* 70th Round (January to December 2013), Ministry of Statistics and Programme Implementation, Government of India, New Delhi.

NSSO (2016), *Household Assets and Indebtedness among Social Groups*, 70th Round (January to December 2013), Ministry of Statistics and Programme Implementation, Government of India, New Delhi.

Revathi, E. and Dayakar Peddi (2020), *Decentralised Paddy Procurement System during COVID 19: Ground Level Anomalies in Telangana,* Policy Brief, CESS, Hyderabad.

Singh, S. and S. Bhogal (2021), "MSP in a Changing Agricultural Environment", *Economic and Political Weekly*, pp.12-15.