



The perils of deregulated imperfect Agri markets

Assurances Fall short and Farmers Woes

1. According to the government, many private markets will be established, middlemen would disappear, farmers would be free to sell to any buyer and farmgate prices would rise.
2. But the protesting farmers do not accept these claims. They believe that farmgate prices would fall with the intensification of a corporate presence in agricultural markets.
3. They also believe that the government, ultimately, wants to phase out the Minimum Support Price (MSP) system.

More mandis needed

An important assumption behind the Farmers' Produce Trading and Commerce (FPTC) Act is that mandis controlled by Agricultural Produce Marketing Committees (APMC) are **monopsonies** in rural areas. This assumption itself is wrong. First, official data show that even 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.

Farmers are forced to sell outside the mandis for two reasons

1. The first is that there are not enough mandis. In 1976, there were 4,145 large markets in India, with the average area served at 775 km². The National Commission on Agriculture (NCA) had recommended that the number of mandis was to increase to at least 41,000. But there were only 6,630 mandis in 2019 with an average area served of 463 km².
2. The second reason is that most small and marginal 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.

Reasons for low private investment in the market

1. The freedom to sell outside mandis already exists in many States. Already, 18 States have allowed the establishment of private markets outside the APMC. Despite such legislative changes, no significant private investment has flowed in to establish private markets in these States.



2. The reason for poor private investment in markets is the presence of high transaction costs in product collection and aggregation.
3. When private players try to take over the role of mandis and the village trader, they incur considerable costs in opening collection centres and for salaries, grading, storage and transport.
4. Corporate retail chains face additional costs in urban sales and storage, as well as the risk of perishability. This is why many retail chains prefer purchasing bulk quantities of fruits and vegetables from mandis rather than directly from farmers.

Transaction costs will offset Farmers income

Even if private markets emerge, the size of transaction costs is likely to offset any decline in mandi taxes. As a result, there is no assurance that farmers would receive a higher price in private markets. 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.

Role of Mandi Taxes

1. Many commentaries treat taxes in mandis as wasteful. This assertion is not fully true. First, much of the mandi taxes are reinvested by APMCs to improve market infrastructure. A fall in mandi taxes would reduce the surplus available with APMCs for such investment.
2. Second, in States such as Punjab, the government charges a market committee fee and a rural development fee. The Punjab Mandi Board 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. Such rural investments will also be adversely affected if mandis are weakened.

The fate of MSPs

Without doubt, MSPs would continue to survive on paper as the government will have to procure to maintain a minimum buffer stock. However, many policy signals point to a strategic design to weaken the MSPs.



1. First, input and labour costs are rising sharply in agriculture. This necessitates a regular upward revision of MSPs to keep pace with the costs of living. However, MSPs are rising at a far slower rate over the past five to six years than in the past.
2. Second, the government has not yet agreed to fix MSPs at 50% above the C2 cost of production. As a result, farmers continue to suffer a price loss of ₹200 to ₹500 per quintal in many crops.

Money matters

The government has increased the Minimum Support Price so that farmers will get 50% more than their 'production costs'

The government considers 'A2+FL' as production cost

where A2 = actual paid out cost on seeds, irrigation, etc., and FL = unpaid family labour



But some experts and activists want comprehensive cost (C2) to be considered for MSP

Where C2 = A2 + FL + rentals or interest foregone on owned land and fixed capital

MSP based on C2 cost will be far higher than the proposed figure

Crop	Govt. MSP in ₹/quintal (A2+FL+50%)	C2+50% In ₹/quintal	Gap in ₹/quintal
Paddy	1,750	2,340	-590
Cotton	5,150	6,771	-1,621

SOURCE: CACP

3. Third, the Commission for Agricultural Costs and Prices (CACP) has been recommending to the government that open-ended procurement of food grains should end. These policy stances have set alarm bells ringing among farmers.

Deregulated Imperfect Markets vs Regulated Imperfect Markets

If mandis weaken and private markets with no commitment to MSPs expand, they fear a gradual erosion of their entitlement to a remunerative price. If mandis weaken and private markets do not sufficiently replace them, they fear that the void would be filled by unscrupulous and unregulated traders. As Barbara Harriss-White, a scholar of India's agricultural markets once observed,



“deregulated imperfect markets may become more, not less, imperfect than regulated imperfect markets”.

Way Forward

1. First, India needs an increase in the density of mandis, expansion of investment in mandi infrastructure and a spread of the MSP system to more regions and crops. This should happen hand-in-hand with a universalisation of the Public Distribution System as an affordable source of food for the poor.
2. Second, we need 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.

Mains:

1. What do you mean by the Minimum Support Price (MSP)? How will MSP rescue the farmers from the low-income trap? (2018)
2. The agricultural problem of low remunerative prices is a structural issue of our broader economy and development. Enumerate extra-agricultural reasons for low remunerations in farming.

Recalibrating India-Nepal ties

Crux: The relationship has never been free of controversy as both countries have not changed their perspectives of each other.

Unchanging perspectives

The Nepal-India relationship has never been free of controversy as the perspectives of both sides are yet to change. Prime Minister K.P. Oli won the 2017 election partly because he projected himself as someone who stood up to India during the blockade.

India continues to think that by providing largesse to Nepal in the form of aid and development projects, it can win Nepali hearts. But despite pouring billions of rupees into Nepal over the decades, it has still not been able to do so.



1. First, all aid to Nepal from countries other than India and China go through the Plans of the Government of Nepal. Indian aid is seen in Nepal as a favour bestowed on a constituency it wants to garner support from rather than a contribution to Nepal's planned development.
2. Second, India competes with China in providing aid outside government budgets. And China picks up projects of visibility and strategic location. Chinese involvement in Nepal has increased since the April 2015 earthquake and Nepal is surely an area of strategic influence in China's Belt and Road Initiative.

People-to-people ties

1. In the past two decades, two significant changes have happened in this area. First, Indian workers in Nepal constitute a big part of the workforce and send about \$3 billion to India every year. So, the Government of India needs to keep in mind that many households in India are being run with remittances from Nepal.
2. Second, Nepalis have migrated in the past 20 years to more than a hundred countries; India is not the only country that Nepalis rely on for jobs or education. This is a new Nepal comprising young people with global aspirations. Nearly three-fourths of the population of Nepal is under 35 years of age. India needs to engage with this lot.

Conclusion:

There are some fundamentals that we simply cannot forget: geography will not change, the border will remain open as millions of livelihoods on both sides depend on it, and China is going to be a big global player with varied interests in the neighbourhood. Therefore, the India-Nepal relationship has to be recalibrated.

Moving forward in base areas

News: The Union government is in the process of deploying five more battalions of the Central Reserve Police Force (CRPF) to Chhattisgarh to scale up anti-Maoist operations, particularly in the south Bastar region.

Highlights:

1. Though the proposed deployment is in line with the 'National Policy and Action Plan' of the Central government on Left Wing Extremism, its impact may have wider implications on the ground.



2. Despite the present deployment, Bastar still has a security vacuum in many pockets, particularly in the south Bastar and Abujmad areas. These pockets are called base areas by the Maoists. Though their movement is regularly checked by the security forces, the Maoists still enjoy sufficient control over the tribal populace.

Benefits of more forces

Security Front

1. First, as more areas will now be dominated by the security forces, the Maoists' movement will be restricted to a comparatively smaller area.
2. Similarly, the Maoists' battalion, being large in size, will become more vulnerable and in all likelihood, would be cut back over time due to continuous pressure from the security forces.
3. Also, additional deployment and frequent movement of the security forces would improve the intelligence network.

Socio-Economic Development

4. The establishment of new security camps always brings immediate benefits for the nearby villages. New borewells are dug and health services are also extended by the medical staff of security camps. Once these services are initiated by the forces, the district administration scales them up by providing the required funds.
5. The dislocated fair price shops (PDS) are restored to their original locations and villagers are not required to walk long distances to fetch their rations. All other schemes of the governments are also implemented better through these newly established security camps-cum-development centres.
6. Once the security environment improves, more roads can be laid and mobile towers and electricity poles installed for better transportation, communication and electricity supply.
7. Financial inclusion can be improved and the MNREGA works started to give impetus to economic activities. More schools, primary health centres and anganwadis can be opened up to provide basic amenities to the villagers.
8. Democratic institutions like panchayats may get revived and political activities could increase with the improved security scenario. This may further lead to better grievance redressal in the existing inaccessible areas.

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Mains:

1. 'National Policy and Action Plan' of the Central government on Left Wing Extremism