Reform opportunity: Freeing agricultural trade is key to reducing role of cash transactions

Disruption from demonetisation has again exposed fragmented nature of India's agricultural markets

Written by Pravesh Sharma | Published:December 29, 2016 3:17 am

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Even as we await detailed evidence on the extent of damage to the country's agricultural economy from the Narendra Modi government's November 8 decision to demonetise Rs 500 and Rs 1,000 currency notes, anecdotal evidence suggests that farmers have taken a hit in the short term. This has come both from the fall in demand — resulting in lower farm gate prices, especially for vegetables and other fresh produce — as well as difficulties in accessing cash for purchasing inputs and paying labour. At the same time, the equanimity with which most people — the farming community included — have borne the stress and physical hardship imposed by demonetisation points to widespread social support to the idea of curbing corruption and black money. Whether that tolerance extends to changing long-term expenditure behaviour and embracing a cashless/less-cash mode of conducting transactions remains to be seen.

Three observations relating to demonetisation’s impact as of now may be worth making, while we count the hours to the end of the general deadline for depositing the now-outlawed notes. These emerge from interactions with a cross section of farmers, village/mandi-level produce aggregators, traders, and vendors over the past eight weeks, and from the experience of our own agri-marketing start-up enterprise during this period.

Firstly, the disruption from demonetisation has once again exposed the highly fragmented nature of our agricultural supply chains. There have been many news stories, based on good ground-based research, on the virtual collapse of farm gate prices for potatoes, onions, tomatoes and even seasonal staples like cauliflower. While we are now in the flush season for fresh produce, when prices anyway cool down along with the weather, the extent of dip seen at the farm gate is, however, something that is significant and clearly linked to the shortage of cash.

Yet, it is interesting that wholesale prices in the major terminal mandis – such as Azadpur in Delhi and Vashi in Mumbai – have dipped only marginally, compared to their pre-November 8 period levels. Even more significant has been the behaviour of retail prices. These have shown no correlation to farm gate prices, while often ruling 200-300 per cent higher than the latter. At one point in mid-December, Maharashtra farmers were selling tomatoes at between Rs 2 and Rs 4 per kg, even as retail prices in Mumbai hovered around Rs 20. Northern India has reported less spreads, but even in Delhi, tomatoes have been retailing at 100-150 per cent above farm gate prices.

The current cash crunch has, if at all, reinforced a simple truth: Our primary and wholesale agricultural markets still largely function under conditions of monopoly or monopsony, with farmers often at the mercy of entrenched single buyers in the mandis.

Secondly, in states such as Punjab and Haryana, social capital came to the farmers’ rescue, enabling them to undertake wheat sowing operations in the current rabi season. The much maligned arhtiya or commission agent/middleman compensated for the lack of cash with the farmer, through a combination of providing fertilisers and other rabi planting inputs on credit, deferring part of payment for the latter’s paddy or even paying in the now-outlawed currency notes. On the other hand, the likes of the Food Corporation of India and the Markfed did not make paddy purchase payments in the recent kharif season through electronic transfer of funds directly to the bank accounts of farmers. This would count as a major lost opportunity to showcase cashless transactions in agriculture by government agencies.

Thirdly, there are unmistakable signs that rural commercial capital has recovered from the initial blows of demonetisation that had left it gasping for air. Cash has once again started flowing through the sinews of the agricultural economy, though obviously not at the pre-November 8 levels. Quite a few Azadpur traders have confirmed to this writer that they have converted most of their cash hoard into fresh currency and are now operating at nearly full capacity. In the days before the decision to stop exchange of old notes for new at banks, apocryphal tales of big traders engaging up to 100 casual labourers to stand in line before branches, sometimes multiple times daily, swirled around mandi premises. They weren't technically, of course, doing anything illegal. They were merely gaming the system, which is part of their normal business practice.

The above three observations are only a pointer to the enormity of the challenge ahead, when it comes to reducing the role of cash in the farm economy. An essential pre-requisite towards meeting the goal is agricultural marketing reforms. While much has been written on this subject, there is one immediate intervention that should be considered for implementation by the Modi government while the wind of societal support is still behind it.

The entry "inter-state trade and commerce" under the Union List of the Constitution can be used to bring in a Central law, which allows free movement of all agricultural commodities throughout India. This will help create a unified national market for agri produce and attract a large number of organised players who can invest in supply chains, including by raising capital from the market and financial institutions. Organised agri-business capital can provide much-needed competition to the traditional cash capital deployed by rural moneylenders, traders and big landowners, thereby enabling farmers to realise better prices. Once linked to formal players, farmers will also start receiving payments directly into their accounts and become attractive for banks to extend credit. It will, moreover, reduce their dependence on the cash-driven rural commercial capital. The under-performing NAM (National Agriculture Market) pan-India electronic trading portal, too, would get a boost, as more organised players are attracted to country-wide sourcing.

The current pain suffered by the farming community is real, but hopefully it will be short-lived. Farmers have overall supported the demonetisation move, despite the personal hardships being endured by them. A major gesture is needed to ensure that they are rewarded just as generously, over a longer period of time.

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(The writer, a former IAS officer, is currently promoting Sabziwala, an agri-marketing start-up, and also a visiting senior fellow at ICRIER, New Delhi)