COMMENTARY ON INDIA'S ECONOMY AND SOCIETY SERIES

18

AGRICULTURAL FARM ACTS 2020

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India's Economy and indeed its society has been undergoing a major change since the onset of economic reforms in 1991. Overall growth rate of the economy has increased, the economy is getting increasingly integrated with the rest of the world and public policies are now becoming very specific compared over arching framework policies of the pre-reform period. Over the past few years, a number of important policies have been enunciated, like for instance the policy on moving towards a cashless economy to evolving a common market in the country through the introduction of a Goods and Services Tax. Issues are becoming complex and the empirical basis difficult to decipher. For instance the use of payroll data to understand growth in employment, origin-destination passenger data from railways to understand internal migration, Goods and Services Tax Network data to understand interstate trade. Further, new technologies such as Artificial Intelligence, Robotics and Block Chain are likely to change how manufacturing and services are going to be organised. The series under the "Commentary on India's Economy and Society" is expected to
demystify the debates that are currently taking place in the country so that it contributes to an informed conversation on these topics. The topics for discussion are chosen by individual members of the faculty, but they are all on issues that are current but continuing in nature. The pieces are well researched, engages itself sufficiently with the literature on the issue discussed and has been publicly presented in the form of a seminar at the Centre. In this way, the series complements our "Working Paper Series".

CDS welcomes comments on the papers in the series, and these may be directed to the individual authors.

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ABSTRACT

The paper discusses the three agricultural farm Acts passed by the central government in September 2020. The three acts intend to relax restrictions pertaining to several aspects of marketing, transportation, movement and storage of agricultural farm produce across the country. We discuss the three contentious acts, their pros and cons and possible implications on Indian agriculture, farmers and other players in the value chain.

Agricultural Farm Acts- 2020

Context

Central Government introduced three bills in order to reform Indian agriculture which became laws after receiving presidential assent in September 2020.The three bills were- Farmers' Produce Trade and Commerce (Promotion and Facilitation) Bill, 2020, Essential Commodities (Amendment) Bill, 2020 and Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Bill, 2020. First law relaxes restrictions governing purchase and sale of the produce from the farmer, the second deals with removal of stocking/storage and transport restrictions and the third pertains to relaxations in contract farming. The introduction of the three bills has seen a huge uproar from farmer protests and marches to political agitations. This has sparked a debate among policy and academic circles as well. While some have been sceptical about its implications a few others have claimed it to be a watershed moment for Indian agriculture like that of 1991 reforms.

Broadly, the objective of the three acts is to reduce the extent of state regulation in the process of buying, selling, storing and transporting farm produce across the country and to ease entry of private players in the market who are at present constrained by entry barriers. In this paper, we make an attempt to de clutter some of the confusion surrounding the act and discuss the three laws in detail and the plausible impact of the same on the players in the agricultural marketing channel.

To give a context, agriculture is a state subject in India and the process of agricultural marketing is regulated by Agricultural Produce Marketing Acts of respective states. The state specific acts regulate who can buy produce from the farmers and who the farmer can sell to and the place of trade. Additionally, we have restrictions in trade in both international and domestic market. Restrictions in international trade is brought through import and export tariffs, quotas, suspensions while restrictions in the domestic market are through Essential Commodities Act which controls the stocking, storage and movement of commodities across the geographies of the country. Justifications for these restrictions range from protecting consumers from price hikes to protecting farmers from exploitative buyers and artificially fixed prices. The birth of Agricultural Produce Marketing Committees (APMCs) which has turned out to be the bone of contention in these Acts can be traced to the latter. The three bills share a premise that they will enable private players to invest in agri-food supply chains more easily, lead to gains in efficiency downstream along the supply chain (and upstream in the input supply chain) and that these gains will be passed on to farmers in the form of higher output prices or lower input prices as the case may be. Each of the three bills deals with one aspect of agricultural marketing. Collectively, they are designed to reduce barriers that diverse agri-food supply chain actors face in connecting to farmers. They aim to do so by reducing reliance on traditional APMC-based intermediaries ('disintermediation') and by creating a unified national market ("one nation-one market"). Despite the titles of the bills highlighting 'farmers', rather than focusing directly on farmer welfare all three bills rely overwhelmingly on supply chain actors to take advantage of the new rules and share their gains with the farmers.

The paper is organized as follows. We give a snapshot of history of APMC in India in Section 2. Section 3, 4 and 5 discusses the three Acts respectively - concerns surrounding them and possible implications of the three.

Background of APMC reform

APMC Acts are state acts which were enacted by most of the states during the 1960s and 1970s to protect the interests of the farmers by providing them a regulated portal where they can bring their produce, get remunerative prices through transparent price discovery mechanisms (auction) and lodge complaints to the APMC committees in case of any discrepancy. APMC makes it compulsory for farmers to bring the produce to the mandis, it gives monopoly power to this marketing channel. No private players were earlier allowed to set up markets making it impossible for any competition in the market. Only licensed traders and commission agents were allowed to carry out business within the mandi premises. Further the process of obtaining licenses is long, time taking and requirements are restrictive. For example, it is mandatory that the license holder has a shop within the mandi premises. Given that space is limited, it discourages new applicants and therefore competition in the market. Because of restrictions imposed by these acts, several problems have emerged in the market. Some of them were- highly fragmented markets, inadequate market infrastructure, high incidence of market fees, low share of farmers in consumer's rupees, high margins, restrictions in licensing, information asymmetry etc. This led the central Government to introduce Model Act 2003 and later Model Act 2017 to correct these bottlenecks and support farmers by increasing competition in the functioning of agri-markets. The Act of 2020 must be seen in this context of a series of reforms under APMC since last six decades.

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

The three main features of the Act are as follows: (1) Inter and intra- state trade allowed in area outside the premises of APMC market yard or other areas which are notified under the APMC market area. There would be an APMC market yard which would continue to be under the jurisdiction of APMC and outside the market yard would be "trade area". (2) Electronic trading would be allowed in the specified trade area and (3) Any act of buying and selling in the outside 'trade area' would not be subject to mandi fees and taxes and no licenses by the buyers. Buyers can buy freely across the country outside the purview of any Act implemented by the states. The bill reduces transaction cost and lowers entry barriers for new players (agro-processing industries, farmer producer organizations etc.). The basic hypothesis is that market access will help farmers, intermediaries have always hurt farmers and restrictions/entry barriers makes markets and process of price discovery inefficient.

Debate surrounding the Act

The debate and protests are mostly about confusion regarding MSPs and its relevance in Indian agriculture in future. As expected, protests can be seen mostly among farmers and farmer organizations in Punjab and Haryana where MSP is more prevalent.

1. The Act is based on the premise that alternative marketing channels would benefit farmers through price discovery and increasing returns to farmers. However, there is a lack in clarity in terms of how alternative market channels will be created and what process will yield better price realizations.
2. It has been assumed that reducing the ambit of APMC Act might help farmers. However, Bihar gives us a clear example how reforms with no investment in physical infrastructure and regulatory framework might not be the best way forward. Despite being the largest maize producer and third largest producer of fruits and vegetables, prices received by farmers have been way below announced MSPs[1].

[1] https://www.livemint.com/opinion/columns/lessons-from-bihar-s-abolition-of-its-apmc-system-for-farmers-11600962615201.html

3. The Act does not in any way aim to tinker with the MSP policy. The governments will continue buying for its welfare programmes like NFSA and therefore will have to continue buying at the MSP.
4. The Act does not provide any structure on how the trade area which would be outside the purview of the APMC mandi area would be regulated. Lack of regulation has not been helpful in the past. For example the repealing of APMC from Bihar has not helped farmers get a more remunerative price compared to states with APMC Acts.
5. The Act does not give any idea on the basis of price discovery. As Narayanan (2020) argues, if earlier with presence of APMC Act, prices set in APMC markets would be the reference price for other players outside the purview of the market, in the current format of the law, there is no direction on how the prices would be decided upon. New law is unlikely to have an implication if prices are decided on the basis of price discovery process of APMC markets. Another possibility is that buyers and sellers would arrive at prices on the basis of their respective bargaining power for different transactions and that would once again bring us back to fragmented markets.
6. Private trade was already in place in the country even before this law. So the argument that farmers were forced to sell to the middle men affiliated to APMC mandis was flawed. NSS 70th round report documents that 55.9 percent of the total farmers were already selling to private traders. There were no legal restriction any way for the farmer to sell outside the APMC.
7. Formation of alternative channels cannot be considered a panacea to all problems faced by agricultural marketing in India. Alternate channels like Farmer Producer Companies, contract farming, futures market, direct farmer consumer market, rythu bazar exist in India and have not been able to replace APMCs as the major marketing channel in India.
8. The entire argument is about benefits of market access. However, what is the extent of benefits which arise from market access? On one hand Shilpi and Umali- Deininger (2008) find that probability of selling at the market increases with an increase in the market access index which in turn improves due to an improvement of market facilities or due to a decrease in travel time to markets and market access has a larger positive marginal impact on the propensity to sell at the market by the poorer farmers compared with the large landowners. Allen and Atkin (2016) using district level data for the last four decades find that reduction in trade costs increased farmer's revenue

volatility, causing farmers to shift production toward crops with less risky yields. They find that if they would not have moved to less risky commodities, they would have had to face higher risk of fluctuation in income. Therefore assuming that market access will always have the desired impact is likely to be erroneous.

9. It has been assumed that removal of middlemen will transfer benefits to farmers and that farmer and middlemen/traders are mutually opposing. Chatterjee and Krishnamurthy (2020) argue that direction of impact of intermediaries in marketing channels are not unanimous and therefore removing the later from those channels where they aided farmer's returns would lead to inefficient outcomes.
10. The Act does not correct issues created from interlinked markets. Although it does attempt to correct inefficiencies introduced from cartelisation.

Essential Commodities (Amendment) Bill, 2020

Essential Commodities Act

Historically the Essential Commodities Act 1955 (ECA) aimed to provide a regulatory mechanism on the production, storage, movement, supply and distribution of, and trade and commerce of certain commodities. According to this Act, the central government of India maintain the supply and production of any essential commodities to secure an equitable distribution of it, ensures availability of these products at fair prices and secure any essential commodities for the defence of the county. In other words, this act regulates or prohibits the production, storage, movement, supply and distribution and trade and commerce of certain commodities for the interests of the general public. But there is no specific definition of essential commodities. The ECA section 2(A) of the Act says that the essential commodities are specified in the schedule which enlisted name of essential commodities. The central government has the power to add and remove any essential commodity from the list with the consent of the state governments for the sake of public interest. The items enlisted in the schedule as essential commodities are drugs; fertilisers, whether inorganic, organic or mixed; foodstuffs, including edible oils; hank yarn made wholly from cotton; petroleum and petroleum products; raw jute and jute textiles; seeds of food-crops and seeds of fruits and vegetables, seeds of cattle fodder, jute seed, cotton seed etc. Recently, in the eve of Covid-19 pandemic, face mask and hand sanitizers are the two items that are added in the schedule of ECA as an essential commodity, and it is effective from March 13, 2020.

By amending the ECA-1955, the government of India has introduced a new subsection (1A) in Section 3. This amendment of ECA provides a mechanism for the deregulation of agricultural foodstuffs such as oilseeds, edible oils, pulses, cereals, potato, onions except for some extraordinary circumstances such as war, famine, natural calamities and extraordinary price rise. Through the ECA amendment, the government of India aims to remove the stock limits, facilitation of bulk purchase and storage, which attracts large corporates into the sector and lead to new investment in the agriculture sector. Some of the implications of the amendment of ECA-2020 are follows:

Some Possible Implications of ECA

With the enactment of the Farm bill, the agriculture market will become more competitive as the private players enter the market freely. As there would be no restriction on the production, storage, movement, distribution and supply of certain commodities, it will lead to economies of scale in the production and attracts more private investment and foreign direct investment into the agriculture sector as a whole and to certain essential commodities specifically. With the entry of private investment and FDI in agriculture sector, it will help to improve the basic infrastructure such as cold-storage and other advance technology as a result, its production will rise, and wastage of agricultural products reduces and helps to store for future.

As some of the commodities are excluded from essential commodities categories, so there is no restriction on these commodities. It helps to bring price stability because it can be stored and produced as per the requirement of it. As a result, both the farmers and consumers can sell and purchase it at a fair price. Subsequently, it will lead to the structural transformation of the agricultural sector and increases the farmer's income.

Further, ECA also aims to remove the restrictions in stock limit which would lead to rise in production, and hoarding. The amendment would deregulate the production, movement, storage, distribution and supply of some of the commodities; it will help to improve the market efficiency as it reduces the interference of the government in the agribusiness and other agricultural activities of these products.

With the entry of the private players in the agribusiness, and government deregulation on essential commodities lead to more investment on those products which will improve the basic infrastructures such as cold storage facilities and modernized the food supply chain.

After the green revolution, our country has become self-sufficient in foodstuff, so liberalisation in the trade of certain commodities will expose those products to competitive global markets and that leads to more export of those products.

By the amendment of ECA-1955, our government is legalizing hoarding and simultaneously it allows the private players in the agribusiness. This would motivate the large corporates to finance large cold-storage and other basic facilities to store the huge amount of essential commodities, and they can create artificial shortage and black-marketing of some of the commodities to make more profits by increasing the price of it when the demand of it is at the peak.

As per the rules, the government can regulate the supply and stock of the foodstuff only in extraordinary situations such as war, famine, natural calamities and extraordinary price rise. It is also specifically mentioned that government can interfere in the matters of such agricultural produce if there is hundred per cent increase in the retail price of horticultural produce; or fifty per cent increase in the retail price of non-perishable agricultural foodstuffs and this price is calculated through the prevailing price in the last twelve months or by taking the average of the retail price of last five years, whichever one is lowest. This price limit of hundred per cent and fifty per cent for horticultural produce and non-perishable agricultural foodstuffs respectively gives the threshold level of monopoly power to the private players to increase the price of these products up to a certain limit (99 per cent and 49 per cent for both the horticultural produce and non-perishable agricultural foodstuffs respectively) and helps to earn the super-normal profit. These price rises have a greater implication for the consumers as well as the economy.

Once there are no limits on the stock of foodstuff, then the private players will purchase the foodstuff at a lower price and store it for the next period, and they may not purchase in the subsequent period. As a result of the less demand for the foodstuff in the subsequent years, the farmers will not be able to sell their produce at a fair price. Since the farmers don't have access to the storage facilities, they will be bound to sell their produce at a throw-away price, which will again make them more vulnerable.

Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Bill, 2020.

Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Bill, 2020 is more easily referred to as the 'Contract Farming bill' and aims to provide a framework for written agreements between farmers and sponsors without mandating them. It allows 'Sponsors' to engage with farmers via written contracts, if they choose to use such contracts. Unlike the APMC Bypass bill, the contract farming legislation has a longer history of extensive consultations with stakeholders. Yet, bewilderingly, the 2020 bill seems to have broken with the past by abandoning the 2018 proposed model contract farming act in favour of a national legislation.

The new effort is a lighter framework that permits contract farming with minimal obligations. A second significant departure is the expansion of the scope of the bill to include farm services, i.e., "supply of seed, feed, fodder, agro-chemicals, machinery and technology, advice, non-chemical agro-inputs and such other inputs". The Contract Farming bill explicitly excludes land leasing and forbids the Sponsor from erecting built structures on farm land. The bill also provides for timely payments by the Sponsor to the farmer. As with the APMC Bypass bill, this bill frees downstream players in the supply chain from state APMC regulations, enabling them to undertake written contracts freely across the country, outside the purview of any 'State Act' or ECA (II.7.1 & 2).

The Food and Agriculture Organization (FAO) defines contract farming as an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at predetermined prices. Under contract farming, agricultural production (including livestock and poultry) can be carried out based on a pre-harvest agreement between buyers (such as food processing units and exporters), and producers (farmers or farmer organisations). The producer can sell the agricultural produce at a specific price in the future to the buyer as per the agreement. The arrangement is beneficial for both the parties - the producer can reduce the risk of fluctuating market price and demand and, the buyer can reduce the risk of non-availability of quality produce.

The contract between farmers and sponsors may lie along anywhere from production to procurement and can be partial to complete. The difference between the contracts lies with the level of involvement of the sponsor in pre and post production processes. Some contracts stipulate only sale and purchase terms while some may specify that the contracting firm will provide some inputs to the farmer and the output will be bought at a pre-fixed price. Again, there may be contracts where the contracting firm supplies all the inputs to the farmer and manages them as well. In this way, contract farming insulates farmers from price risk and uncertainty, helps farmers develop new skills and opens new markets avenues for farmers (GOI, 2017).

One of the main arguments in favour of contract farming is operational efficiency. More than 85 percent of land holdings are small (less than or equal to 2 hectares) and marginal (less than or equal to 1 hectare) in India. As per census 2011, the average size of landholdings in India was 1.1 hectares. The small size of farms has brought in challenges of farm viability and operational efficiency. One of the determinants of improved efficiency of input and output management at farm level is the scale of operations. "When small parcels of farmers' land are pooled, not by dispossession, but by mobilizing the owners into some form of collective operational unit, the advantages of scales of economy can be harvested to benefit small and marginal farmers" (Government of India, 2018). Contract farming is one of the tools that holds such a positive potential.

Ideally, by definition contract farming is a win-win situation for both the principal parties involved. Nevertheless, the market for contract farming suffers from market failures arising out of monopsony[2] and information asymmetry[3]. These market failures lead to sub-optimal outcomes from contract farming. In order to prevent losses, either of the parties can resort to opportunistic behaviour. Sponsors/buyers may punish farmers for not adhering to the quality standards and thus offer them lower than agreed prices. Similarly, if farmers are being paid lower than local market prices, they may resort to side selling. They may also leak the technology provided to them by the sponsoring firm by using that technology for

[2]Monopsony refers to a market structure where there is one buyer and many sellers. This market structure gives the buyer an advantage over the sellers as they all try to sell to the same buyer. Typically, contract firms enter into an agreement with farmers to grow differentiated crops. This turns the firm into a sole buyer of the produce and farmers into price-takers. Contracting firms can exploit this situation to their advantage by offering lower prices to farmers. Literature suggests that when farmers do not have access to alternative production possibilities and markets, then the bargaining power of the farmers reduces and the contracting firm indulges in monopsonistic behaviour (Sivramkrishna and Jyotishi 2007).

[3]Contracting firms do not have complete information on productivity and land quality of the contracted farmers. This can lead to a situation where the farmers produce below-quality crops. If the contracting firm agreed to purchase produce of the farmers on a pre-fixed price, then it leads to the contracting firm taking a loss. On the other hand, farmers (especially small and marginal) sometimes do not understand contract specifications like the quantity and quality to be produced, or the effect of price changes. Disputes between farmers and sponsors can also arise over grading of products.

uncontracted crops. Such market failures may lead to unscrupulous practices and hence they give rise to the scope for government intervention in assuring the fairness of the contracts and their implementation.

Evolution of Contract Farming in India: A Brief Background

In India, contract farming originally was regulated under the Indian Contract Act, 1872. The Act gives the background legal framework for contract farming. It has several general provisions that are related to contract farming including formation of contracts, obligations of parties, and consequences in case of breach of contracts. Private participation in agriculture through contract farming and land leasing arrangements was further encouraged in 2000, as part of what was termed as Rainbow Revolution.[4] The National Agricultural Policy recognised the importance of private participation as an important tool to transform Indian agriculture by providing capital, inputs, technology and market access, with investments in storage and handling that would lead to less wastage and greater efficiency.

Next major amendment related to contract farming regulations came with the Model APMC Act 2003.In addition to the Indian Contract Act, 1872, the Model APMC (Agricultural Produce Market Committee) Act, 2003 provides specific provisions for contract farming. The Act makes it compulsory for contract farming sponsors to register with the Market Committee (under Section 38(1) of APMC Act, 2003)[5]. Although the Act allowed the Market Committee to charge a fee on the sale of agricultural produce (under Section 42 and Section 40(1) of APMC Act, 2003), it made an exception for contract farming whereby output could be sold directly to contracting firms. Also, if the output covered under the contract farming agreement is sold outside the market yard then no market fees is levied by the Market Committee. The Act also provides for dispute settlement (under Section 38(2) of APMC Act, 2003). The Model APMC Act 2003 was to act as a reference for the states. However, only 14 states notified rules related to contract farming, as of October 2016 (Kodidala, 2018)[6]. Thus, the Model Act of 2018 was drafted to address these gaps. The Model Agricultural Produce and Livestock Marketing (Promotion and Facilitation) Act, 2018 paved way for drafting an

[4] Rainbow Revolution refers to a sustainable agricultural revolution where equal focus is given on minimizing cost of production and increasing produce, environmental impact and impact of fertilizers on consumers and soil health (Singh, 2015).

[5] Government of India (2003), 'The State Agricultural Produce Marketing (Development & Regulation) Act, 2003'.

[6] Kodidala (2018), Explained: The draft Model Contract Farming Act, 2018. https://www.prsindia.org/theprsblog/explained-draft-model-contract-farming-act-2018

exclusive model law on the subject of contract farming. Under the draft Model Act, the producer (farmer) can get support from the buyer for improving production through various inputs ranging from technology to infrastructure in the pre-harvest and post-harvest periods. However, the sponsor cannot raise a permanent structure on the farmer's land. Also, rights or title ownership of the producer's land cannot be transferred to the buyer (GOI, 2017).

The main purpose of this Act was to protect and promote the interests of farmers in general, and small and marginal farmers in particular. Parallelly, it was realised that incentivizing the sponsor was equally important, if they thought the project attractive enough to buy the market risks of a farmer. The provisions, therefore aimed at building a win-win framework for the two principal parties – the buyer/sponsor and the producer/farmer. The necessity of a guide and an umpire has also been recognized to resolve disputes and anomalies. Keeping in mind the spectrum of agricultural activities that Indian farmers practise, the Model Act has been tailored comprehensively to include all categories of agronomic and horticultural crops, as also the diverse universe of livestock, dairy, poultry and fishery. Based on this Model Act, the states could enact a law on contract farming as it falls under the Concurrent List of the Constitution of India (GOI, 2017).

Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020

Agricultural markets have been the responsibility of the states. State-specific laws under the Agricultural Produce Marketing Committee (APMC) Acts therefore govern agricultural trade within states. At the same time, Article 301 of the Indian Constitution states that the centre has a predominant responsibility to ensure that there is free trade within the country. As for contract farming—the third area of reform—the decision on whether to permit contract farming too was left to the state governments. Whereas some states have allowed contract farming for years, others continue to indirectly disallow it. Except for states like Punjab, which proposed a dedicated act for contract farming, contract farming has thus far not been governed by a special legislative framework. Thus, the third Act (of 2020) introduces a dedicated legislation to enable contract farming based on written agreements under a nationalised framework. This nationalised framework is the main contribution of the third bill. As with the APMC Bypass bill, this bill frees downstream players in the supply chain from state APMC regulations, enabling them to undertake written contracts freely across the country, outside the purview of any 'State Act' or Essential Commodities Act (II.7.1 & 2).

The concerns of this current Act are in the same lines as of the previous act of 2018 – encourage buyers and small and marginal farmers to come together directly for contracting deals so that it is a win-win situation for both parties. Farmers get better assured prices and technology and sponsors are assured of the quality and quantity of produce they procure. The only difference as mentioned above is that this current Act envisages a unified nationalised framework for contract farming. However, a lot of debate has stemmed around it and the next section briefly highlights the arguments in favour of and against this Act.

Arguments in Favour

***Aims at a Unified Nationalised Legislation* -** As already mentioned, this Act seeks to unify the legislation on contract farming across the country to integrate farmers with agro-industries. The government wants to ensure that farmers receive better prices for their output, reduce post-harvest losses and are assured of job opportunities in rural areas.

***Better Prices* -** It is expected that if farmers have a choice to sell to multiple channels, it would raise effective competition for the farmers' produce, and hence they would fetch better prices for their produce. If farmers are free to decide between contracting firms and more conventional mandi sales, market competition will ensure the necessary discipline to curb monopsony power by either type of buyer. Such benefits were observed for farmers in Madhya Pradesh mandis who had the choice of selling their output to ITC's *e-choupals* and *arhatiyas* (Krishnamurthy 2012).

***Advantageous for Small and Marginal Farmers* -** It will particularly benefit the small and marginal farmers with less bargaining power, especially when it has been observed that contract farming is restricted to larger farmers and specific crops as well as has regional limitations. The farmer producer organisations are envisaged as the main catalyst to bring these small farmers together for better bargaining.

***Encourage Private Participation* -** Direct contracting will reduce transaction costs and lower entry barriers for sponsors.

Arguments Against

Regulation is not the Main Bottleneck – As Purohit (2016) observes, several states had already amended their APMC rules to promote contract farming, permit private players to set up market yards and procure directly from farmers even before these ordinances were passed.

The NASSCOM (2019) report found that finance was a bigger constraint (as reported by 39 percent of agri-tech enterprises) as compared to policy which was reported by fewer agri-businesses (29 percent). FPOs also face constraints of human capital and finance rather than regulatory blockades.

Narayanan (2020) argues that in India, contract farming is limited to specific geographies and some niche products where competing domestic markets do not exist. Most of them also prefer larger farmers rather than smallholders to reduce their transactions costs. Therefore, the absence of private players in several situations might be due to systematic problems inherent to certain geographies and not issues pertaining to regulation. The presence of very few organized private players in Bihar, where the APMC was abandoned, is an example of the same. These indicate the need for a strong state-supported marketing infrastructure, particularly in marginal areas. Therefore, it is more important to strengthen existing public marketing systems and infrastructure instead of offering further privileges to the already privileged private players at the cost of APMC. Narayanan (2020) also argues that the legal framework of contract farming is fairly immaterial to agribusiness decisions and hence this act is unlikely to encourage a growth in contracting. The current act on contract farming therefore might be an overestimation of the eagerness of agribusinesses to enter into contracts. On the other hand, there is also a concern that big businesses might welcome contract farming to serve their vested interest to indirectly control farm land using the pretext of securing farmer services (Narayanan, 2020).

Does not Discourage Intermediation, Rather Encourages Reintermediation – As already mentioned, interacting individually with many small and marginal farmers increases the cost of operation for contracting firms and hence many of them prefer to contract with intermediaries (who collect the output from farmers) or to procure from the APMC mandis. Most contracting firms tend to use the mandi price as a benchmark for the contract price which rather reinforces the intermediation instead of discouraging it as the act mandates. Under such circumstances, reintermediation is encouraged. As Singh (2020) argues "price, like many other basic aspects of a contract, should be left to the parties to negotiate and cannot be tied to any other channel especially the APMC price. This is because the very rationale for bringing this legislation is to provide alternative channels to farmers and create competition for APMC markets as they were seen as not discovering the prices efficiently. Now, going back to the same mandi does not speak very well of the Act."

***Collusion of Firms* -** Narayanan (2020) suggests that when multiple firms contract for output in the same village, it becomes difficult for agribusinesses to cheat the farmers by tendering them lower prices. However, the firms can collude and offer lower prices unanimously to the farmers. The firms may also consolidate and hence turn into a monopsonist. Firms may also carve up territories with a tacit understanding of not stepping on each other's toes. All these actions are detrimental to farmers fetching competitive prices.

***Agribusiness Normalisation* –** Both Singh (2020) and Narayanan (2020) argue that the initial benefits that farmers accrue from the firms' cost savings are gradually extracted from them at a later stage. This phenomenon is referred to as agribusiness normalization. This also happens when competing firms consolidate and behave like a monopsonist. The power imbalance between large firms and farmers is generally much greater than those existing between local traders and farmers and hence, poor farmers end up being price takers. Singh (2020) emphasises the role of FPOs to counter the power of such big businesses by ensuring parity of bargaining power and enforcement of contracts.

***Perception* -** Singh (2020) argues that there is a problem with the perception with the act and it is being mixed up with corporate farming where corporates do their own farming on leased or owned land. This is not same as contract farming especially when the act clearly says that the contracting agency cannot lay any claims on farmer's land and cannot even lease it.

***Poor Design of Contracts and Mandi Linkage* -** Singh (2020) points out that the fundamental aspects of contract farming like acreage, quantity of produce and time of delivery are not stipulated, which are all necessary for any law. The Act also leaves out many complicated and intricate facets of modern contract farming practices like contract-cancellation clauses, delayed deliveries or purchase and damages incurred, and tournaments (a malpractice which is banned in many countries because it makes farmers compete against each other and they are paid as per their relative performance).

Implication

Contract farming can be one of the ways to address the issue of low scale efficiency of farm production but not necessarily the only or the most efficient solution. There is limited evidence to support that it is a panacea to all the woes of the small and marginal farmers in India**.** Moreover, the benefits of multiple buyers are expected to accrue only to farmers with strong locational and competitive advantages and not particularly to the small and marginal farmers whose interests are of primary concern in these regulations. When firms and other private players prefer intermediaries to decide prices, procure output, inspect them and arrange for other logistics, then the essence of disintermediation is completely lost. Under such circumstances disintermediated trade is not likely to grow even for inter-state trade.

Given the concerns, it is important to keep contract farming under regulatory oversight to prevent opportunistic behaviour. Contract farming has flourished in production of some niche commodities like gherkins, medicinal herbs, potatoes, poultry and horticulture products in a few states which have allowed them like Tamil Nadu, Punjab, Karnataka, Himachal Pradesh and has led to positive outcomes in terms of growth of output, export and farmer incomes (Narayanan 2012). Nevertheless, contract farming has also led to various regulatory challenges with respect to the scope for opportunistic behaviour and potential exploitation of farmers by sponsors. Such hazards are often observed in contract farming practices as witnessed in several recent case studies (Narayanan 2011). According to Mookerjee (2016), even if contract farming becomes more widespread it would be limited to a specific set of high valued cash crops while most of agricultural production will be carried out under more conventional distributional channels.

It is also found that most of the small and marginal farmers lack the literacy to operate e-portals which provide information about price movements and hence they are unable to confidently transact in e-commerce with distant buyers. They also lack the liquidity and access to credit for participating in futures market transactions. Here again proper government intervention becomes important. Finally, to what extent this act can protect these farmers' interest is still questionable and hence the success of the act is still uncertain. Even though the reforms seem to be in the right track their benefits can only be realised through proper government oversight and handholding along with parallel provisions of access to credit and other infrastructure.

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