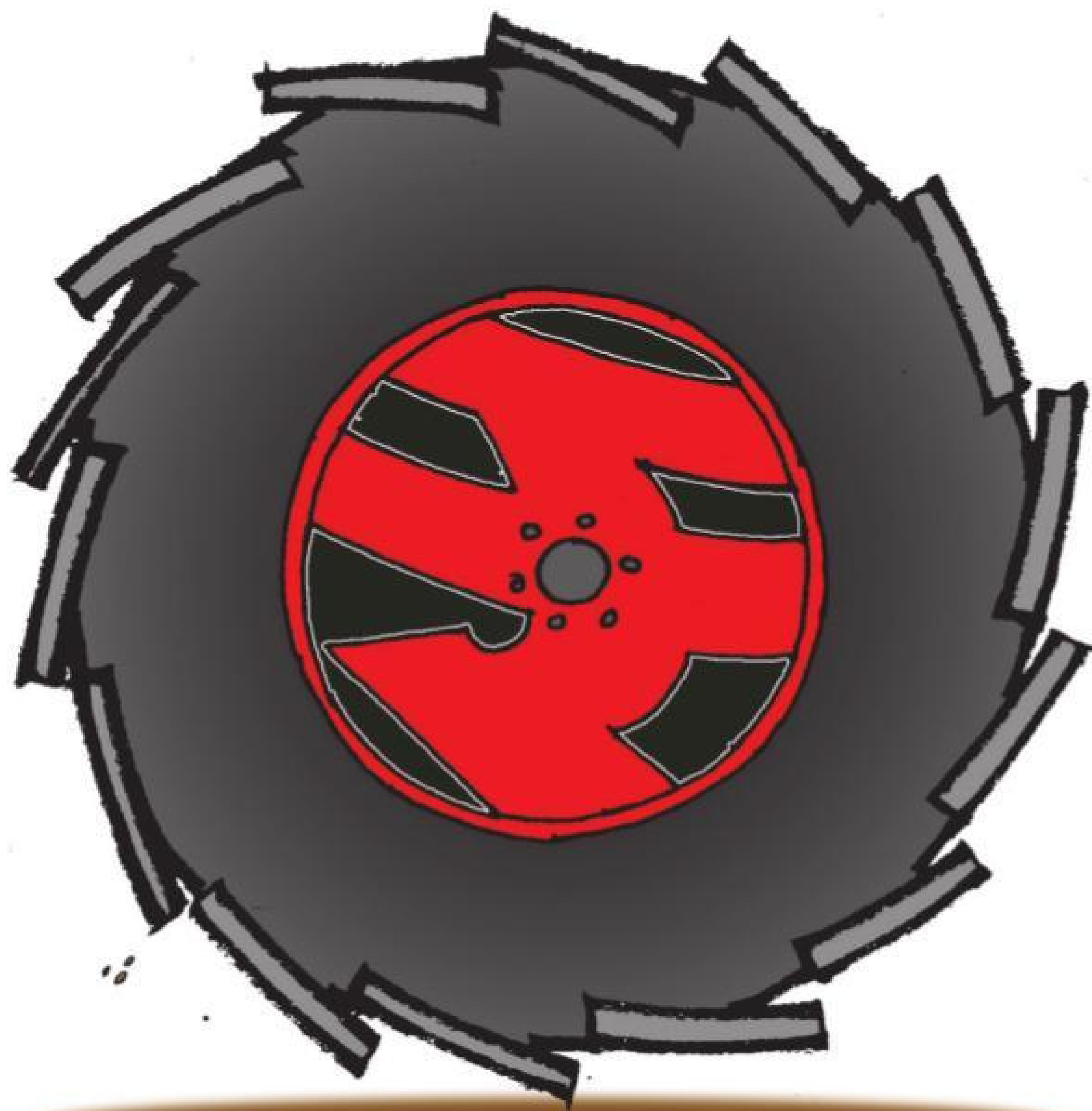

ILLUSTRATION: ROHNIT PHORE

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SEEDS OF CHANGE

New farm Acts are the need of the hour

The government should steadfastly articulate, and spread information on the merits of the laws, supplemented with action on the ground to create the required agri-infrastructure

EVERY CRISIS PROVIDES an opportunity to move the needle on pending reforms. Perhaps, for us, Covid-19 comes as an opportunity to adopt more meaningful and pragmatic policy for agriculture. There is perhaps not a single year after Independence that has been without a new farm intervention or a change in existing ones. Yet, improving farmers' socio-economic conditions, especially for small and marginal farmers, is largely driven by non-farm and off-farm income.

The legacy of farm interventions started with the preparation of a Model Bill based on the recommendations of the Royal Commission on Agriculture, 1928. With the enactment of the Agricultural Produce Markets Regulation (APMR) Act in the 1960s, the regulation of agricultural marketing practices commenced, and since then, it has acted as a conduit for gradual transformation from a monopoly (executed by local traders) to oligopolies (farmer-trader relationship). This transformation is quite complex, symbiotic and seemed invincible till the new laws were approved. The laws envision the end of this relation/transmission by allowing the farmers more avenues to sell their produce, beyond the Agricultural Produce Market Committee (APMC) confines—beyond the clutches of traders and moneylenders.

It is apparent in villages/rural areas that commission agents, middle-men and traders are far wealthier than farmers. The reason is simple and well-established: Huge profits from exploitation of farmers (especially small and marginal) wherever possible. There have been several committees and commissions since the 1980s that have actively promoted/suggested ways to correct this imbalance, but these did not get due sincerity for implementation from the regime of the day. It is still a mystery that farmers who grow staple crops are more affluent than farmers who grow high-value fruit and vegetables and other horticultural crops. In fact, farmers' incomes have risen in those states that see a large chunk of foodgrains procured via the MSP route, and their level of prosperity is can't be compared with others as some states have a geographical curse. It is, therefore, necessary to bring uniformity across regions, states and farmers. In the medium term, the enacted laws are expected to reduce inequities amongst farmers.

The need for reforms

This need has been felt for a very long time, and many states have tried to crack down on APMCs and a few have succeeded as well. It is evident that before reaching the consumer, agricultural products, in the process of exchange, have a potential to increase farmers' incomes by 11-12%. Liberalising of agri-markets is not a new call, but has been curated over the last two decades, taking cues from the 2001 Shankarlal Guru Committee's recommendations and other research studies. The main idea behind the three Acts—the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act 2020, the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Service Act, 2020, and the Essential Commodities (Amendment) Act, 2020—is reducing the dreadful loss to the producer. In addition to a set of benefits, viz. choices and options in marketing, better price discovery and realisation with traders competing with APMCs, attracting investment in market infrastructure (more than 80% of private investment in agriculture is done by farmers alone), efficiency gains, access to improved inputs, good agricultural practices and technology, etc, it would also ease farming across the country. Allowing direct procurement by building farm gate infrastructure would reduce the time taken for produce to reach the consumer, conveyance loss and ensure almost no deterioration in the quality of the produce.

As per the provisions of the Act, the farmer is free to market the produce at the field, factory, warehouse or cold storage without any hindrance and without any market fee or any other charges that were earlier applicable under the APMC Act. APMCs are not under any kind of threat, but will face competition as farmers will have a parallel mechanism, to get fairer prices for their produce.

There are demands and suggestions for amendments to assure continuance ofthe MSP and that private procurement will not be permitted at rates less than the MSP. MSP, as of now, benefits hardly 6% of the farmers, who cultivate mainly wheat and rice, with an annual outgo of ₹2-3 lakh crore, and it includes all the paid-out cost and the imputed value of family labour. Studies indicate that a 10% increase in the MSP reduces the GDP by 0.33%, investment by 1.9% and increases aggregate price index by 1.5%. Thus, legalising MSP may have serious economic repercussions as it may move farm commodities from away global competition.

Under the provisions for contract farming, it is simply not possible for corporates to take over a farmer's land as the contract is for the produce and not for the land. Fear-mongering and undue speculation over this fact is the reason for large-scale agitation. Besides, the law doesn't allow the building of any kind of structure on a farmer' land by traders/corporates. Further, instances of successful contract farming are clearly visible—seed production and sugarcane cultivation are the best examples of contract farming that are successfully operating for the last several years. More than 60% of broiler production in the country is also through contract-farming, and even the dairy model is based on contract. Contract farming offers a wide range of opportunities and price assurance, while also sharing windfall gains in any case with the producer. Once contract farming is fully operational, farmer producer organisations (FPOs) can be leveraged for focusing commodity-wise and region-wise to achieve efficient use of resource endowments.

This may end a few state governments' earnings of thousands of crores of rupees via levies and taxes (amounting to 8.5%, which was 14% before GST) on the *mandis*. This cannot be counted as a loss as the *mandi* taxes bred crony capitalism in the APMCs. Because of the new measures, this amount should now reach the producer and the consumer.

There is also an apprehension that amendments to the Essential Commodities Act—intended to boost investment in agri-marketing infrastructure and reduce volatility in prices of agri-produce—will enable big agri-business houses to hoard commodities that will lead to artificial shortages and food inflation. The law mandates that provisions on stocking limits will be triggered in 'exceptional circumstances' in the event of retail prices of non-perishable food commodities shooting up beyond 50% and that of horticultural produce beyond 100% over the base price. The benchmark and base will be the retail prices in the preceding 12 months or the average retail price of the last five years, whichever is lower.

Overall, these amendments were overdue and are needed to free up the agricultural marketing system that has prevented farmers' incomes from rising commensurately with the economic growth of the country. The government should steadfastly articulate, and spread the information on the merits of the laws, supplemented with action on the ground to create agri-infrastructure, expedite tech-enabled platforms under eNAM, create a vast network of FPOs, tech start-ups, mobile and digital marketing extension and logistics.

These laws are the need of the hour for ushering in game-changing reforms in agricultural marketing and sound development of the agricultural sector. There is, in fact, a need to shift from entitlement to empowerment of small and marginal farmers and enable them to produce for and compete in international markets.

Mincing the middle layers

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Modi's mechanism for a direct connect

ALLTHROUGH HIS political journey, prime minister Narendra Modi has cut middle layers out of the equation, disrupting the older ecosystem. Some have quietly accepted that free lunch is over, while others are fighting to preserve their elitist positions in spite of the writing on the wall.

Mainstream media—the middle layer for engagement with voters of India: Earlier, the media controlled leaders' access to the common man through how the news was presented, how a particular view was promoted or anchored—making or breaking a person's profile. PM Modi took to the social media (Facebook, Twitter and YouTube prior to 2014) and later via Mann Ki Baat and the NaMo app to connect with the common man, bypassing the middle layer of mainstream media. If that didn't tell anyone loudly enough that PM Modi would not brook any meddling by the middle layer, there were more to come.

***Karyakarta*/common citizen connect through middle layer of district/regional leadership:** Like in all political parties, gate-keeping by various leadership layers—starting from central, state and district-level leaders—with respect to *karyakartas* or a common citizen was normal. However, PM Modi introduced the NaMo app, which let a *karyakarta*/common citizen "directly engage with the PM and provide feedback on her MPs/MLAs/state leaders." This resulted in the entire leadership chain becoming more efficient and effective, leading to better engagement of middle-level leaders with the cadre.

While these are examples of PM Modi's leadership style, even in policies he has understood the need to reform the middle layer. He either cut it out completely or reformed it meaningfully.

> PM Modi has either cut out the middle layer completely or reformed it meaningfully

Prices of stents for cardiac patients: This is a well-researched strike against the middle layer (overcharging hospitals) that was hurting the interest of the common man. Leveraging of a pass-through-cost item like a stent to earn obscene profits was unacceptable to PM Modi, who struck at the middle layer with a strong policy. A stent overpriced at ₹1.5 lakh was made available at ₹30,000, even after allowing a decent margin for the intermediaries. Exploitation by the middle layer was called out comprehensively.

JAM-based DBT of social welfare schemes: Social welfare measures are infested with middle-men eating away free money. Then PM Rajiv Gandhi spoke of how out of every rupee sent from Delhi, only 15 paise reached the beneficiaries. PM Modi ruthlessly implemented JAM-based direct benefits transfer (DBT). An estimated ₹1.9 lakh crore is saved cumulatively, thanks to monetary transfer being digital. Removal of the middle layer in subsidy processing should count as the biggest success in the fight against corruption.

Defence deals: The omnipresent middle-man was the oil that lubricated body politic, especially in defence deals, for a long time. Many non-acceptable deals made the cut (pun intended), thanks to these middle-men. And middle-man had his share even in good deals. AgustaWestland and Bofors are synonymous with corrupt middle-men. PM Modi struck a deal directly with other governments, benefiting two countries instead of middle-men. The Rafale deal renegotiated at government-level hurt vested interests a lot, who, in turn, led a maligning campaign, accusing the *chowkidar* of being a thief. Of course, it fell flat, both in the SC and polls.

Historic agricultural Bills and the exploitative middle-men: Till now, APMC-based cabal of merchants controlled foodgrains' sale. Poor farmers produced while middle-men/commission agents benefited. Farmers remained poor, in spite of hard work, while agents prospered. Removal of this monopsony by allowing non-APMC sale, allowing of a new partnership via contract farming or to traders with no stocking limits offering better price has left vested interested stunned. Not surprisingly, parties that supported the same reforms earlier are supporting those protesting.

In all the above instances, PM Modi ensured the middle layer was either disbanded or tamed. The fattened middle layer in the farm sector will face no different outcome in this regulatory strike by PM Modi, notwithstanding these orchestrated protests.

START-UP CAPITAL

IGP: The capital enabler for start-ups

The Innovators Growth Platform can increase Indian capital availability significantly and address the key issue of listing

NAGANAND DORASWAMY

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TWO Cs ARE extremely critical for start-ups: 'capital' and 'customers'. In India, with a population of 1.3 billion, customers for B2C or B2B2C start-ups is not an issue. For B2B start-ups, although the market in India is promising, global markets are still important. Capital, on the other hand, is trickier. The total capital raised by start-ups in India from 2010 to 2020 is around $100 billion. In the same period, start-ups in China have raised 4x and start-ups in the US have raised 10x the capital raised by start-ups in India. India needs to have a stronger mechanism to enable more capital. There is a need to increase capital availability in India.

The Innovators Growth Platform (IGP) platform proposed by SEBI is a very refreshing initiative that aims to address the 'capital' issue. It provides another great avenue for start-ups looking to raise series B and beyond. This platform can double the available capital over the next five years. It addresses a key pain-point of capital availability for start-ups raising between ₹70 crore and ₹200 crore. There is a chasm in this space—there are early-stage VC funds and there are PE funds for growth companies. However, there are not enough growth stage VC funds in India to fill this gap. The IGP has the potential to be the platform to fill this void.

The design of the IGP has been very thoughtful with the key focus on technology start-ups. The precursor to the IGP was the Institutional Trading Platform (ITP). Due to various reasons, including maturity of the start-up ecosystem, the response to this platform was tepid. The IGP addresses a few key pitfalls of the ITP.

The IGP restricts the listing to technology-focused companies with a proven 'product market fit' and entering the growth phase. The revenue of companies listing on this platform is expected to exceed ₹50 crore. This greatly helps in mitigating the risk of listing by ensuring a good understanding of 'product market fit' beforehand.

The governance issues are well-balanced—protecting investor interests but at the same time providing enough flexibility for the founders to have control over strategy and execution. Companies listing on this platform cannot be burdened with the same rules of public markets as they need to be very nimble. A balance between taking risks and moving fast with financial discipline as against governance practices such as quarterly reporting and stability is advised.

As in the case of investments in the AIF, the platform is selective about its investors. Companies listing on this platform need to operate as start-ups and not as mature firms. The risks are much greater with these companies and hence it is critical to have investors who understand these risks and who can understand these nuances.

Mergers and acquisitions (M&As) have been a key hurdle for start-ups in India. This is one of the key reasons for companies opting to flip and move their operations out of India. The platform is designed to simplify the process of M&As, post-listing. Simplifying the M&A process encourages corporates and PEs to participate on the platform. However, this spirit should be maintained in the implementation of the platform as well. This is one of the critical success factors for the platform.

For the Indian start-up ecosystem to become one of the major contributors to the economy, key policy changes are needed. iSPIRT had published a Stay-In-India checklist and so have other industry bodies. These include Indian Capital, Listing in India (IPO), and Ease of Business. The sentiment and perception of investors and corporates outside of India needs significant change. Improvements in all these aspects are critical. India needs more initiatives such as Fund-of-Funds (which has had a very meaningful impact on Indian capital by spurring early-stage funds such as Ideaspring Capital). India is now home to more than 400 venture firms. The IGP holds the promise on listing in India. There is an urgent need for such initiatives for 'ease of business'.

The IGP as a platform has the promise to increase Indian capital availability significantly and address the key issue of listing. It has the added advantage of enabling exits for early-stage investors. This increases liquidity in the market that will further spur the start-up ecosystem—a much-needed virtuous cycle.

The NASDAQ encouraged and enabled technology start-ups to list because of its adaptability and easier listing and governance guidelines. This accelerated technology start-ups in the US. The IGP has the potential to be that platform in India. India can build products for the world and has the potential to become the start-up capital. It needs a perfect storm of two Cs ('capital' and 'customers'), liquidity, policy and entrepreneurs. The IGP certainly has the promise to address the capital and liquidity aspects. Most importantly, it enables Indian start-ups to Stay-In-India!