

MEDIA COVERAGE REPORT



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Industry Story

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Farm Sector Reforms: Sowing the Seeds of Change

The agri sector reforms will not only serve to unshackle the country's farmers but also give them new rights and opportunities. However, reforms alone will not be enough for the upliftment of small farmers at large. What is important is moving with the times in the digital age. The real challenge is not merely the development of technology but the deployment of appropriate technologies and other solutions.



▲ A farmer displaying a bunch of millet from his field. The Central Government has targeted to double farm income by 2024

Gone are the days of serfdom and exploitation of farmers! The extremely painstaking efforts made by Prime Minister Narendra Modi's government to rid the small farmers of perennial indebtedness and exploitation seem to indicate that the three agricultural reforms unveiled recently will eventually result in a win-win situation for both the growers and buyer companies.

The contracting of crops has existed from time immemorial. In ancient Greece, the practice was widespread, with specified percentages of particular crops being a means of paying tithes, rents and debts. During the first century, China also recorded various forms of sharecropping. In the US as recently as the end of the 19th century, sharecropping agreements allowed for between one-third and one-half of the crop to be deducted for rent

payment to the landowner. These practices were, of course, a form of serfdom and usually promoted permanent farmer indebtedness.

In the early decades of the 20th century, formal farmer-corporate agreements were established in colonies controlled by European powers. For example, at Gezira in central Sudan, farmers were contracted to grow cotton as part of a larger land tenancy agreement. This project served as a model from which many smallholder contract farming projects subsequently evolved.

UNSHACKLING AGRICULTURE SECTOR

The Central Government's Aatmanirbhar Bharat Abhiyaan especially seeks to give a major push to the development of the agriculture sector. The three landmark reforms – the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Ordinance, 2020; the Farmers' (Empowerment and Protection) Agreement on Price Assurance and Farm Services Ordinance, 2020; and the Essential Commodities (Amendment) Ordinance 2020 are aimed at increasing competitiveness, allowing liberal trading, encouraging contract farming, attracting private investment in agriculture supply chains and boosting farm exports.

In his signature Mann Ki Baat speech aired on November 29, Prime Minister Modi said, "New dimensions are being added to agriculture and its related activities in India. Agricultural reforms in the past few days have now opened new doors of possibilities for our farmers. The reforms will not only serve to unshackle our farmers but also give them new rights and opportunities."

Sanjeev Sanyal, Principal Economic

Adviser, Government of India, believes that is not merely the "1991 moment" of ending an inefficient relic of the socialist era, but the unwinding of 700 years of systematic policy bias against farmers and farm produce traders.

"These reforms will end the licence-permit raj for the agricultural sector – three decades after this was done for the rest of the economy. It also creates a common national market for agricultural products," opined Sanyal.

TECHNOLOGY TO DRIVE TRANSFORMATION

According to **Anna Roy, Senior Adviser (DM&A, Industry) NITI Aayog**, digital innovation will transform Indian agriculture and the focus should be on spreading awareness about the potential of such technologies in the agriculture sector, not only from the user and consumer side but also to the governance and policy side.

Addressing a Federation of Indian Chambers of Commerce and Industry (FICCI) webinar on Deep Tech for Smart Agriculture in India, Roy observed, "The real challenge for us is not the development of technology but the deployment of technology."

She further mentioned that in this era of digital transformation, deep-techs were powering smart agriculture or Agriculture 4.0, which no longer depended on traditional farming activities.

"Farmers can leverage deep-tech and can grow crops in arid areas, making use of technology and other resources more effectively and efficiently. Farms and agricultural operations will run very differently, primarily due to advancements in technology such as sensors, devices, machines and information technology. Future agriculture will use sophisticated deep techs such as artificial intelligence (AI) and machine learning (ML), robots, temperature and moisture sensors, aerial images, and Global Positioning System (GPS) technology to maximise their output," she added.

Sandeep Sabharwal, Group CEO, Sohan Lal Commodity Management (SLCM), expresses similar views.

"The three farm bills introduced in the parliament by the government present a global vision for agriculture with seamless opportunities for farmers and the farmer fraternity. The ordinances put forth a bold vision of linking agriculture with technology and pave the way for connecting archaic India with the real India."

He, however, pointed out that for things to materialise an integrated platform play would



be required. "Although doubts have been raised over the existence of the traditional system of mandi (commodity market), going by the fine print of the proposals of these bills, it can be said that the traditional mandis are not going anywhere and their importance is only going to amalgamate into a larger vision," he points out.

Giving thumbs up to tech-driven agriculture, Sabharwal says the reforms would result in the adaptation of technology into agriculture through which the crop can be managed remotely.

"Eventually, the reforms intend to make the tech-driven warehouse a virtual mandi where trading could be done through trading platforms and a lady, for example, sitting in Jodhpur would be able to trade in mustard in the mandis of Punjab," asserted Sabharwal.

CASE FOR SMART WAREHOUSING

But for this paradigmatic shift to happen what is required is smart warehousing where such infrastructure is integrated with real-time data embedded in AI having real-time tracking of the facilities providing error-free results on the status of the warehouse and the products stored within as well as in transit.

"A smart warehouse linked to such platforms using paperless quality control, and paperless trading and financing could usher in an era for a platform play in agriculture and companies with smart warehousing would act as stimuli in streamlining the sector," Sabharwal added.

Ajay Kakra, Leader Food and Agriculture, PwC India pointed out that contract farming

▲ Assembly before an inspection at Sohanlal Commodity Management silo in Madhya Pradesh. Tech-driven markets for agricultural commodities would require smart warehousing where such infrastructure is integrated with real-time data embedded in AI

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would induce a lot of technology inputs from private sector companies.

"Hence, the government needs to further facilitate the promotion and incentivisation of contract farming for both farmers and private players. Further, the opening up of commodity sales from outside agriculture produce marketing committees (APMCs) will require increased usage of digital technologies for creating awareness among farmers, dissemination of crop information and creation

of platforms for facilitating buying and selling of commodities in a secure and transparent environment. It may also cascade down to providing services on crop advisory and predictive analysis of the crop yields," he added.

ENCOURAGING PRIVATE AND FOREIGN INVESTMENT

But for any infrastructural project to take shape huge funding is required and that's where private and foreign investments come into play.

CONTRACT FARMING: A WIN-WIN FOR FARMERS AND BUYER COMPANIES

In an age of market liberalisation, globalisation and expanding agribusiness, there is a danger that small-scale farmers will find difficulty in fully participating in the market economy. In many countries, such farmers could become marginalised as larger farms become increasingly necessary for a profitable operation. A consequence of this will be a continuation of the drift of populations to urban areas that are being witnessed almost everywhere.

Attempts by governments and development agencies to arrest this drift have tended to emphasise the identification of "income generation" activities for rural people. Unfortunately, there is relatively little evidence that such attempts have borne fruit. This happens as the necessary backward and forward market linkages are rarely in place, that is, rural farmers and small-scale entrepreneurs lack both reliable and cost-efficient inputs such as extension advice, mechanisation services, seeds, fertilisers and credit, and guaranteed and profitable markets for their output.

Well-organised contract farming does, however, provide such linkages, and would appear to offer an important way in which smaller producers can farm commercially. Similarly, it also provides investors with the opportunity to guarantee a reliable source of supply, from the perspectives of both quantity and quality.

A Partnership Regime

Contract farming can be defined as an agreement between farmers and processing and marketing firms for the production and supply of agricultural products under forwarding agreements,

frequently at predetermined prices. The arrangement also invariably involves the purchaser in providing a degree of production support through, for example, the supply of inputs and the provision of technical advice.

The basis of such arrangements is a commitment on the part of the farmer to provide a specific commodity in quantities and at quality standards determined by the purchaser and a commitment on the part of the company to support the farmer's production and to purchase the commodity.

INTENSITY VARIES

The intensity of the contractual arrangement varies according to the depth and complexity of the provisions in each of the following three areas:

- i. Market Provision: The grower and buyer agree to terms and conditions for the future sale and purchase of a crop or livestock product.
- ii. Resource Provision: In conjunction with the marketing arrangements the buyer agrees to supply selected inputs, including on occasions land preparation and technical advice.
- iii. Management Specifications: The grower agrees to follow recommended production methods, inputs regimes, and cultivation and harvesting specifications.

With effective management, contract farming can be a means to develop markets and to bring about the transfer of technical skills in a way that is profitable for both the sponsors and farmers. The approach is widely used, not only for tree and other cash crops but also for fruits and vegetables, poultry, pigs, dairy produce and even prawns and fish.

CONSIDERABLE POTENTIAL

Contract farming is becoming an increasingly important aspect of agribusiness, whether the products are purchased by multinationals, smaller companies, government agencies, farmer cooperatives or individual entrepreneurs. As noted above, the approach would appear to have considerable potential in countries where small-scale agriculture continues to be widespread, as in many cases small-scale farmers can no longer be competitive without access to the services provided by contract farming companies.

It must be stressed, however, that the decision to use the contract farming modality must be a commercial one. It is not a development model to be tried by aid donors, governments or non-governmental organisations (NGOs) because other rural development approaches have failed. Projects that are primarily motivated by political and social concerns rather than economic and technical realities will inevitably fail.

Contractual arrangements can provide farmers with access to production services and credit as well as knowledge of new technology. Pricing arrangements can reduce risk and uncertainty. Some contract farming ventures allow farmers to diversify into new crops, which would not be possible without the processing and marketing facilities provided by the company. Offsetting these benefits, however, are the risks associated with the cultivation of a new crop, the fact that the company may fail to honour its commitments and the danger of indebtedness if problems arise.

- RAJ KAMAL SILVANO

Source: Food and Agricultural Organisation (FAO)