

Press Release

Covid Crisis an opportunity for agriculture marketing reforms

Activation of eNAM to help in supply bottlenecks and farm income security

15 April, 2020

Acuite Ratings believes that the commencement of the Rabi harvest season amidst the current lockdown crisis presents a good opportunity for online sale and trading of agricultural goods across the country.

One of the key challenges in the Indian farm sector has been the inability of the farmer to get a reasonable price for his produce. While the central and the state governments have a mechanism of minimum support price (MSP), it has been empirically observed that farmers often are forced to sell their produce in the open market at lower than MSP given the procurement constraints of government agencies. On the other hand, consumer prices of such commodities are uneven across the country with significant inter-regional disparities in availability. A divergent food inflation landscape is a reflection of regional demand-supply imbalances and highlights the need for a pan India agricultural trading market in India. A comparison of the food inflation print among India's 23 states reveals that the Feb FY20 food CPI ranged between 3.46% (Delhi) and 8.94 % (Telangana); this is despite the 7.3% increase in food subsidy allocation to Rs. 1.08 Lakh Cr for FY20.

The primary factor behind supply and price distortions for farm produce in India is the inherent inefficiency in the Agricultural Produce Market Committee (APMC) structure for marketing of agricultural goods in our country. **Says Suman Chowdhury, Chief Analytical Officer, Acuite Ratings & Research "Clearly, the APMC led market system has made India's agriculture trade highly region centric and discouraged the development of a national agricultural auction platform. In our opinion, this can be addressed by taking advantage of the electronic national agriculture market or eNAM, one of the digital initiatives of the government. This can bring significant efficiencies in the farm marketing mechanism, act as an effective tool for fighting inflation or price distortions and also reduce the procurement burden on the exchequer."**

According to estimates, the share of eNAM in India's total food grain production (including oil seeds) is only 8.6% on average since inception in April 2016. However, it is encouraging to note that both the central and the state governments are currently urging farmers and traders to utilise eNAM and avoid physical presence at the auction site amidst the threat of Covid-19. The electronic platform also facilitates e-payment facility and provides a good avenue for social distancing in the current scenario while undertaking trade in agriculture produce seamlessly.

Adds Karan Mehrishi, Lead Economist, Acuite Ratings "We also propose a strengthening of the nationwide eNAM system through the appointment of third party assayers. In our opinion, a key reason for the slow response to the digital platform is the lack of trust on the quality of agro-commodities being traded. APMCs can systematically evolve into a logistics facilitator for assaying, transportation and warehousing activities, leaving the actual trading to the online platform." Under the new system, the farmers may take third party assessment certification from licensed assayers and trade their produce online; buyers on the other hand can offer a price based on the certification, obviating the need of physical inspection. The trusted online interaction between buyers and sellers will optimize demand-supply equilibrium and free the government machinery from wasteful monetary interventions. With the gradual increase in the volume of transactions in eNAM, we see a normalization of agro based commodity prices across states, thereby controlling food inflation and reducing government expenditure.

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