Printed from THE TIMES OF INDIA

Arhtiyas are undesirable for farm produce and credit markets: Study

TNN | Oct 28, 2020, 04.52 AM IST

CHANDIGARH: The existence of commission agents or arhtiyas in Punjab is undesirable for both farm produce markets as well as credit markets as interlocking practised by arhtiyas makes these markets non-competitive and exploitative.

Therefore, abolition of the institution of arhtiyas is needed and states like Madhya Pradesh had taken such steps in the 1980s itself.

Indian Institute of Management (IIM), Ahmedabad's Professor Sukhpal Singh has made these recommendation in his study on reforming agricultural markets in Punjab, which is part of the policy series by the Punjabi University's Centre for Development Economics and Innovation Studies.

"The interlocking of the credit, input and output markets by the arhtiyas in the state has led to farmer indebtedness in the context of poor institutional credit reach which is both inadequate and costlier due to higher transaction costs despite its lower interest rate," says the study.

Prof Sukhpal mentions that the system of payment for the farmer produce through arhtiyas is the root cause of trouble for farmers as arhtiyas do unregistered and informal money lending at high rates of interest and supply farm inputs and groceries to farmers on seasonal credit.

Besides, arhtiyas get the commission from public and private agencies for facilitating sale of farmer produce to them and recover their loans from farmers through this system of payment though the farmer produce is mostly bought by state agencies like the Food Corporation of India (FCI) and those authorised by them.

"It is in this context that the issue of direct payment to farmers for their produce has been hanging fire for so many years now and remains unresolved despite the Union government pushing for the same," says the study.

It points out that the Food Corporation of India had been eager to pay directly to farmers but the state government does not want this to happen.

Abolition more feasible now

Emphasising on abolishing the institution of arhtiyas, the study recommends that this should be much more feasible now as there can be more alternate agencies like producer companies, primary agricultural co-operative societies (PACS), warehouse receipt system or electronic marketing platforms at APMC level which can take up the role of facilitating farmer produce handling in mandis or outside.

These agencies can obviate the need for informal sector credit as there would be prompt payment for produce or loans against produce through the warehouse receipt system. In fact, PACS already buys from farmers at their doorsteps in many states like Bihar and Madhya Pradesh and payments are directly made into farmers' bank accounts, says the study.

"Unfortunately, the recent draft farmers' policy of the state (Punjab) does not deal with the reform of existing markets in the state – neither in terms of examining the model agricultural produce and livestock markets... nor in terms of improving the regulation and governance of existing markets or their restructuring," the study has found.

The way forward

The best bet for making the commission agents irrelevant would be to diversify the farm sector of the state as when wheat, paddy and cotton reduce in importance, the commission agents and the state's vested interest agencies would tend to wither away, says the study.

Prof Sukhpal is of the opinion that the formal credit system would need to have better reach and more simplified procedures besides being bribe free to make a dent in the farm sector, especially for small and marginal farmers. "The design of more innovative financing products for farm and allied sectors is what is needed for making institutional credit deliver," he says. The study also found that despite a committee of the Punjab government recommending direct payments by procuring agencies, besides lowering the number of commission agents in APMC markets in 1998, there has been no movement forward on this issue.