

REFORM OF AGRICULTURE & AGRO-PROCESSING POLICY

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CHINTAN

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1 OVERVIEW

1.1 Introduction

1. Economic reforms started in a slow, fragmented and limited way in the eighties and gathered momentum and clear direction in the nineties. These reforms have by and large focussed on removing the economic distortions created by earlier policies such as physical controls on economic activity and excessively complicated taxes. As a result of these reforms India will likely have a trend growth rate of about 6% per annum over the last two decades of the 20th century. This ranks India as the eighth fastest growing economy (excluding small countries) in the world over the past two decades.¹ Despite this India remains one of the poorest countries in the World. As per the last comprehensive survey in 1993-94, about 36% of the people are still below the poverty line. As per the international poverty line, about half the people are still poor. The fiscal problem, arising from an excess of unproductive expenditure, increases the vulnerability of the poor (and the economy as a whole) to adverse shocks. The performance of other Asian countries that were in a similar situation three to four decades ago shows that we can solve these problems of poverty in a decade, if we can summon up the will and determination to do so.

1.2 Goals and Objectives

2. As we enter a new millennium, low (per capita) income poses both a challenge and an opportunity. We must accelerate economic growth in the first two decades of the 21st century so as to eliminate poverty and under-employment. We must ensure human development and empowerment of the poor, by ensuring 100% literacy and universal primary education. The experience of other countries in Asia shows that it is possible to raise growth to 7%, to maintain it for two decades and thus generate full employment, and provide 100% literacy. Basic minimum services must be provided to all. To ensure environmental sustainability and quality of life population growth will have to be contained. And all this must be done in a manner that promotes peoples' participation and builds self-reliance and human dignity.
3. The state must refocus attention on some of its most basic responsibilities such as the provision of public goods (roads, police, courts, regulatory systems), primary education, 'public health' (water, sewage, & sanitation) & population control and stop degradation of common resources (water, forests). These responsibilities have been virtually lost sight of, squeezed between rising fiscal deficits and expanding role of the state in every area of

¹ Small countries are defined as those with a population less than 10 million and GDP less than US \$ 40 billion. Among the small countries for which data was available two grew faster than India.

economic activity and the inevitable rent seeking that followed. The only way the government can provide these basic services in the next decade is by ruthlessly shedding a host of activities that the private, co-operative and decentralised sectors are capable of undertaking given the right policy environment. It is of vital social and national interest to ensure 100% literacy and universal primary education within the next decade.

1.3 Means

4. Accomplishing all this requires both a completion of reforms started earlier and new reform initiatives, which encompass fundamental fiscal changes, reform of relatively untouched sectors and factor markets and institutional and legal areas. The fundamental driving force behind the social benefits that accrue from a market economy, is “competition”. One of the important tasks of reform has been and remains, to identify and remove all the bottlenecks to competition arising from past government policies, colonial era laws, outdated rules, and bureaucratic regulations & procedures. This must encompass not only the product market but also factor markets which are the source of productivity, technical change and sustained growth. In most parts of the economy de-control, de-bureaucratisation and correction of policy distortions is sufficient to generate competition.
5. There are three sectors in which this has to be supplemented with an independent and modern regulatory system. One is physical infrastructure, where some segments are still characterised by ‘natural monopoly’ and which requires regulatory structures to foster and mimic competition. The other is the financial sector (banking, finance and capital markets) characterised by fiduciary responsibilities. This sector requires a different type of regulation focusing on transparency, reduction of systemic risk and detection and punishment of fiduciary irresponsibility. The third is that part of the social sector characterised by information asymmetry and fundamental irreversibility (education & health).² Modern regulation is necessary to ensure that information on quality of service is made available to the public and fraud & cheating is minimised.
6. The fiscal situation deteriorated during the eighties and culminated in the BOP crises of 1991. Though the sharp deterioration that immediately preceded the crisis was reversed equally quickly, the fiscal deficit remains at a high level. Underlying this deficit is a quality of expenditure, which is not sustainable. Too much is spent on unproductive subsidies, goods and services and too little on basic public goods & human needs and maintenance of capital. In the long term such a high level of fiscal deficit is not sustainable. It must be brought down over the next decade to sustainable levels. If this is not done, the vulnerability of the economy to adverse shocks

² Wasted years & life-time effects and permanent damage to health respectively.

could increase, especially if the high fiscal deficit is coupled with a continuing deterioration in the quality of government expenditure. Higher growth could then be put into jeopardy. The fiscal problem must be tackled head on by the Central and State governments if high growth is to be achieved and sustained.

7. The institutions of governance and market, too often taken for granted in the economic context, are basic to equitable & efficient growth and for sustaining such growth at high levels. The quality of institutions of governance needs to be improved dramatically. This requires a fresh and unbiased review of their roles and functions, a much greater focus on a few vital functions, abandonment of numerous objectives & tasks accumulated over the decades and a thorough modernisation of management systems, procedures and technology. In some cases old institutions (such as Panchayats and Co-operatives) have to be strengthened and given new roles. The States must decentralise powers and functions to the local level so as to improve targeting and productivity of expenditures. There is also a need for fostering & developing new social institutions such as Self-help Groups, user associations, citizen's groups and NGOs.
8. In a democratic system, laws and constitutional conventions also have an important role in creating the environment for governance and growth. This can include not only economic laws but also electoral and other laws. For instance legal changes that seriously address the issue of criminals in politics (and legislatures), can have a significant effect on investment and growth.
9. This note focuses on the reforms needed in the Agricultural, Allied and Agro-processing sectors. Many of these are areas coming wholly or partially under the purview of the State governments. The central government in addition to its direct responsibility may have to play the role of persuader cum think tank for the states.

2 SECOND PHASE OF REFORM

2.1 De-CENTRALISATION

2.1.1 Multi-state Co-operative Act

10. The great promise of co-operatives has not been fulfilled, either because of heavy politicisation or excessive bureaucratic interference. Co-operatives have often become a channel for rent seeking. They could still play a useful role if they go back to first principles and become genuine co-operative self help groups and eschew the temptation to milk the government for favours. The multi-state co-operative act must be reformed to ensure professional management and elimination of government interference. Some states have already reformed their Co-operative acts along the lines of the model act recommended by the Brahma Parkash committee (set up the Planning Commission. Other States also need to do so. An independent regulatory authority for co-operatives could be set up to ensure that they follow these principles.

2.1.2 Decentralisation to Panchayats

11. As a result of our colonial heritage, administrative structures are very hierarchical and much less de-centralised than appropriate in a grass roots democracy.³ Efforts must be made to de-centralise as many local government activities to the Panchayats as possible, without minimising administrative difficulties or ignoring caste conflicts. It appears feasible to decentralise local area development (e.g. watershed development, maintenance of public assets) to this level. A mechanism for joint control over functionaries responsible for field level activity in social and developmental sectors should be designed and tried. For instance part of the wages of these employees could be based on 'wage coupons' allocated to panchayats. The coupons would have to be earned by employees from panchayats by providing satisfactory service. Devolution of funds must be conditioned on major decisions being taken in quarterly open Sabha. A system for training Panchayat heads should be set up.

2.1.3 Land Reform

12. It is necessary to strengthening enforcement of traditional land reform in semi-feudal and tribal areas. In such areas, we must implement traditional land ceilings, continue the ban on leasing of land and strengthen the tenancy rights of sharecroppers. These measures should be combined with provision of services such as micro-credit and transfer of technology. To do so effectively may require that planning and implementation be done one district at a time all are covered.

³ As envisaged by Mahatma Gandhi.

13. Commons and community land is currently owned at the state level. To make more effective use of such land, ownership rights could be transferred to Panchayats subject to rules on non-discriminatory access to use of land and its preservation. Alternatively, States could give the land on long lease of 20 years, renewable for another 20 years for specified sets of uses such as agro-forestry and fishery.

2.1.4 Self Help Groups

14. Empowerment of the people requires the promotion of self-help groups and non-governmental organisation in social development and reduction of transaction costs. Micro-credit should be provided on group loan principles, through self-help groups. Water users associations should be promoted and encouraged to co-manage the system below the distributory, with a financially autonomous irrigation agency set up for this purpose.

2.1.5 Forests

15. Non-timber forest produce should be denationalised to promote its optimal growth and usage. Private trade and the local inhabitants could then carry out this activity on a more organised and open basis, to the mutual benefit of both. This would help distinguish it from illegal felling of timber and thus allow better monitoring of the latter. Great restraint & care must be taken in leasing degraded forestland to contractors. It would be preferable to promote protective recuperation by reducing biotic pressure, through involvement of local inhabitants.

2.2 RE-FOCUSING GOVERNMENT

16. In the early days of development it was assumed that private entrepreneurs & firms were unwilling or unable to undertake investment in and production of many goods and services. This assumption has long since become invalid. The role of government must therefore change from being an entrepreneur, investor and producer of goods & services, to an enabler and facilitator of development. It must continue to fund the provision of Public goods and provide for the correction of externalities and the basic social safety net. It must catalyse the building of institutions & markets where these do not exist. But it need not produce all these services itself.

17. Though the fiscal problem is an old one with a substantial unfinished agenda, it is also the one crying out most strongly for radical reforms. A re-examination of the entire role and methodology of government is needed, if a lasting and permanent dent is to be made in eliminating the fiscal problem and fulfilling the role that only government can and must fulfil.

2.2.1 SUBSIDIES

18. Any subsidy on a good or service distorts the consumption and production of that good or service. Thus for instance a power subsidy results in wasteful consumption of power and distorts the entire structure of production and investment in power. This is why most subsidies are classed as non-merit subsidies. As the discussion paper on subsidies indicated, such non-merit subsidies (including indirect or implicit subsidies) for Centre & States were estimated at about 11 % of GDP in 1994-95. It is therefore essential that these subsidies are reduced and part of the money saved is channelled into more productive expenditures that have a better and more lasting impact on the incomes of the poor. Some of the important pending reforms in the area of subsidies and user charges are as follows.

2.2.1.1 Fertiliser Retention Price System

19. Some academics have estimated that two-thirds of the Urea subsidy goes to the fertiliser industry. This cannot be justified in the name of farmers. The retention price system distorts investment and production decisions and creates an inefficient production system. Dismantling of the retention price system and price de-control are essential for initiating cost efficiency and a search for innovative ways of meeting the fertiliser requirements of farmers at the lowest possible cost. Moving to a de-controlled system in which the farmer gets fertiliser at international prices could accomplish this objective.⁴
20. To achieve this goal Urea imports should be put on OGL with zero import duties. The maximum (minimum) retention price would be simultaneously lowered (raised) by appropriate amounts to reach world levels within 3 to 5 years. A reduction and elimination of the fertiliser subsidy would make it possible to provide sufficient allocation to irrigation and watershed development schemes that particularly benefit small and marginal farmers.

2.2.1.2 Public Distribution System

21. The public distribution system (PDS) has grown in an incremental and piecemeal fashion over the years, under the pressure of circumstances. It is appropriate to re-examine its objectives and re-direct it towards these objectives. In an open economy with free access to the productive capacity of the world economy, the primary purpose of a PDS is to supplement the incomes of the poor. For the urban middle class, it can at most provide a temporary buffer against the occasional sharp change in food prices. With this in view the following changes in the PDS should be considered:
- It is essential to improve the targeting of PDS to those who need it most, namely those below the poverty line. A start can be made by removing actual & potential (indicators: property owners/permanent tenants, motor

⁴ The 'Hanumantha Rao committee' report also supported de-control of fertilisers.

vehicles, telephones, electricity usage, foreign travel) income tax payers from PDS.

- Sugar is neither nutritious nor is it health enhancing, and if consumed in excess it damages teeth and aggravates diabetes. Removal of sugar from PDS must be coupled with complete de-control of sugar so that poor consumers are compensated through competitive prices.
- Much of the food subsidy is channelled to the FCI. It also monopolises the food credit. FCI like all monopolies is subject to wastage and inefficiency. The benefits of competition can be harnessed in the service of the poor by converting FCI into an agency for planning and project management, while permitting free entry into procurement, storage and distribution. States would be free to set up public or joint venture companies if they find it commercially viable. Private entry would also be encouraged under transparent accounting norms & rules for determination of carrying charges. The current massive excess stocks provide an ideal opportunity for major reform.

2.2.2 USER CHARGES

22. Many public monopoly services have been priced either on the principle of 'what the traffic will bear,' or on the assumption that the government will underwrite whatever losses are incurred. This approach is a recipe for disaster, as already exists in the power sector in terms of low & highly variable availability and equipment destroying quality. It is essential to move to cost based pricing of infrastructure services to generate sufficient resources for quality production. It is also critical for generating finances for the investment needed to reach and sustain an economic growth rate of 7% to 8%. Higher infrastructure growth is in the long term interests of the common man both as a consumer and as worker. In the case of basic rural infrastructure and basic social services (like roads, water, education and pollution reduction) a rise in user charges will have to be coupled with explicit (earmarked) budgetary subsidies.

2.2.3 QUALITY OF GOVERNANCE

23. Government including related and subsidiary institutions, is the largest producer of intangible services such as policy, licenses and permits, legal judgements and information. Computers and computerised information systems are perhaps the most important productivity enhancing tools for provision of such intangible services. A comprehensive program should be drawn up with the help of professional consultants for computerising the operations of government and all related institutions. Large amount of time is currently wasted in duplicate collection, entry/re-entry of the same information and in retrieval of information (files, papers). Data base management systems & access to data and the interface with the public can

also benefit from better communication links, including those between computers in different locations. Management Information Systems would be set up as part of this process. These systems should make it possible for the government to provide quick and efficient service to the public and to focus its energies on better analysis and management of the economy.

24. Many of our administrative practices and methods have not changed since colonial times. We need to urgently introduce modern management practices in departments that provide a well-defined service such as Posts or have a well-defined objective like tax collection. Management consultants should be hired by large departments to assist them in a thorough re-examination of objectives, methods, and procedures, using BPR, ERP or other recognised methods. Developed countries commonly applied techniques like PERT and CPM to project management three decades ago, and these became widespread with the proliferation of computers. These techniques reached India only recently and are still not in common or widespread use. Departments can also benefit from the application of modern cost accounting techniques like ABC. All ministries, departments and subsidiary organisations should make a budgetary provision for introducing modern management systems and hiring management consultants where needed. There is also need for decentralisation of financial powers to subsidiary institutions along with systems and procedures for greater accountability need to be introduced.
25. A sustained decrease in unproductive expenditure and enhanced effectiveness of desirable expenditures requires greater transparency in purchase & procurement. The rules and procedures for public procurement should be brought up to international standards. We should consider signing the international convention on public procurement. Greater transparency in sale of public resources & property and market pricing would also generate more resources for meeting the basic needs of the poor. Under pricing of public resources in the name of the poor is usually a good indicator of the decision-maker's resolve to siphon off money in violation of the public trust.

2.3 SECTORAL ISSUES

26. About 70% of the population still live in the rural areas, as do an overwhelming majority of the poor. Even though agriculture now constitutes less than a third of GDP and non-agricultural occupations have grown in importance, it is still the motor of rural growth. Productivity improvement in agriculture require not only an improvement in the quality of R&D and extension services, but a modernisation of the entire food chain from the farm to consumers. An improvement of the input chain from industry to farmers is also needed.

2.3.1 Knowledge and Information

27. Knowledge is the most important source of growth. One of the reasons why some countries are poor is because they either do not have all the knowledge available in the developed countries or their people do not have the ability to understand adopt and adapt this knowledge for their own purpose. By its very nature the market for information cannot be perfect and there is an important role for government in fostering and disseminating knowledge. All over the world governments have played a critical role in the generation of agricultural technology and its dissemination to farmers. This was well recognised during the green revolution days but seems to have lost its thrust. Government must continue to play an important role in the generation, adaptation and dissemination of agricultural and rural technology while encouraging and supporting private, co-operative and non-governmental organisations to do the same.
28. A better flow of information & knowledge into rural areas and its assimilation through universal literacy & primary education could raise productivity dramatically. This requires bold & radical thinking. For instance, opening of existing telegraph wires to anyone who wants to connect villages to the internet, could give the farmers a means of finding out whether the pesticide & dosage recommended by the local supplier is appropriate for his crop. Similarly, de-licensing Internet telephony could make it cheap & easy for a farmer in a remote village to call the retailer in Delhi to find out the price of onions, or to call Karachi or Chicago for the price of cotton.

2.3.2 Rural Land Reform

29. Ownership records, to the extent that they exist, are based on the age-old Patwari system. As a result land disputes abound and give rise to terrible violence in rural areas. The basic foundation of a land market is a modern system of registration, which makes proof of ownership as well as its transfer easy. Proof of ownership facilitates the flow of credit. Computerisation of all land records is therefore of vital importance to the rural economy.
30. Traditional land reform has been dominated by imposition of land ceiling and tenancy reforms favouring tenants. In areas characterised by feudal land ownership and production relations, these reforms have had a beneficial impact when sincerely implemented. They have, however, also had the effect of killing the land market in non-feudal areas and thus contributed to the fragmentation of land holdings. There are an estimated 105 million holdings, an average size of less than 1.6 hectare and about 80% being less than 2 hectare. A selective change in the land laws can free up the land market and facilitate consolidation of holdings. The land lease market can

be freed from controls within the overall existing land ceiling limits and small & medium farmers allowed buying or selling land within these ceilings. As a measure of abundant caution, this change need not apply to specified areas, which may be classed as feudal or semi-feudal.

31. Another dimension along which the rural land market can be freed is with respect to degraded and wasteland, including desert, saline land & ravines. There are 24 million hectares of land characterised as culturable wasteland and permanent falloffs. We should promote commercial leasing of Degraded and wasteland. After detailed delimitation, such land can be taken out of the purview of land ceiling and tenancy laws, and agro-companies allowed to buy, mortgage, develop, cultivate and sell this land. This will result in the introduction of modern technology, organisation, management and marketing practices into the rural areas. All over the world such entry has had large spill-over effects through the demonstration effect as well as diffusion of best practices.
32. Green revolution, capitalist farming areas no longer require the kind of safeguards envisaged 50 years ago under different conditions. On the contrary these areas require a well functioning land market if they are to move to the next level of productivity, as the gains from the 1970s green revolution technology have been exhausted. It is therefore necessary to free up leasing of land in these areas and promote efficient agglomeration and commercial farming. Tenancy laws can also be relaxed in areas such as Western UP and coastal Andhra Pradesh. To protect the rights of farmer owners, recovery of land by owner could be made non-justiciable.
33. The liberalisation of the rural land market for capitalist farming areas, degraded & waste lands and for small farmers within the land ceiling must go hand in hand with strengthening enforcement of traditional land reform in semi-feudal and Tribal areas. In such areas, we must implement traditional land ceilings, continue the ban on leasing of land and strengthen the tenancy rights of sharecroppers. These measures should be combined with provision of services such as micro-credit and transfer of technology. To do so effectively may require that planning and implementation be done one district at a time all are covered.

2.3.3 Food Act & Food Regulatory Agency

34. The authority and responsibility of protecting the public from contaminated and adulterated food is currently divided among a number of agencies. The Prevention of Food Adulteration Act & other laws, rules and procedures are outdated. There are interminable delays in approval of new products, even those that have been in use all over the world for decades. The CCFS, which approves manufacture of non-standard food products, flavours & colours, has met only 42 times in 44 years.

35. A single unified Food Act should be framed covering both domestic production and imports. The Food act must harmonise Indian food standards with the quality norms of GMP and HACCP. Under this act there should be a single autonomous & independent food regulatory authority (FRA). Both the act and regulatory agency must adopt modern concepts of regulation. In particular the focus of law should be on fair and accurate labelling of materials used, size (weight, volume), and price (unit price) and identification & banning of substances that are hazardous to health. The old approach of requiring prior approval of every recipe and weight measure should be deleted. The focus of rules & procedures should be on detection of fraud in terms of mixing of non-edible material. The testing and fraud detection systems must be strengthened. An advisory panel of medical and health professionals could be set up by the FRA to advise it on technical matters.
36. The act should provide for information exchange and co-operation with similar agencies in other countries, so that testing & appraisal results from them could be used to take decisions about hazardous substances. New products should get automatic approval. If some previously unapproved material is used there could be a three months (say) waiting period after which automatic approval takes effect. During this time the authority can call for objections or do any investigations that it desires. Alternatively automatic approval could be given for use of any material which is approved in two out of three developed areas (USA, EU, Japan). Directions could be given for subsequent testing & appraisal under Indian conditions, if & when thought necessary by the advisory panel of FRA.

2.3.4 Sugar

37. The dual pricing regime for sugar (and other commodities in the late seventies and eighties) was originally viewed as a painless way of transiting from a controlled to a free system. It has inadvertently become a permanent fixture of the sugar industry. It should be dismantled, sugar prices freed, the industry decontrolled, and sugar removed from PDS. This is consistent with the recommendations of the Mahajan committee.

2.3.5 Transport & Storage

38. Remove controls on price, storage and transport of agricultural produce and processed goods. Price control on cold storage, an anti-farmer policy, still prevails in two states. Other states still restrict movement of commodities outside the state, resulting in the absurd situation in which farmers in a district in one state (e.g. Kalhandi) cannot sell to processing units in the neighbouring district falling in another state (MP). The Essential commodities act is one such impediment to modern systems of storage and transport. A start could be made, by exempting modern silos as well as

organised grain handling storage and distribution companies from its purview. These companies can easily be monitored on a post facto basis.

2.3.6 Essential Commodities Act

39. Though introduced with the best of intentions, the Essential Commodities Act has become a barrier to development of agriculture and allied sectors. Whenever the price of a commodity has risen, the authorities have thought it fit to subject it the full force of the ESA to demonstrate that they are taking decisive action. The number of commodities under ESA has grown steadily as there is no such incentive to remove a commodity when the price increase has subsided. In a competitive economy the best insurance against unreasonable price increases is a seamlessly integrated national market within which information about production & prices moves instantaneously, and goods follow as smoothly and quickly. This requires efficient telecommunication, storage, transport and trading systems.
40. The stock and movement restrictions under ESA ensure that such a system cannot develop, and that competition is killed instead of encouraged. The Essential commodities Act has no place in a modern economy and should be repealed. A start can be made by modifying it to allow and encourage private sector to set up modern systems of procurement (grain mandis), storage (silos), processing and transport. Private involvement in the entire chain from agricultural input to final processed good is essential for stimulating innovation and growth. The new competition policy would also deal with anti-competitive practices & structures in this industry, and the ESA should be repealed by the time it is introduced.

2.3.7 Import & Export

41. A major reason for the high and volatile price inflation in Primary goods is that imports are still restricted and several exports are subject to quantitative restrictions (QRs). Such a system is not in the interests of farmers and often not even the consumers, as the government's information systems and speed of reaction is inferior to that of private trade and industry. The lagged government response often tends to aggravate volatility rather than dampening it. Both imports and exports of all agricultural items should be de-licensed. The best way to dampen excessive volatility is by allowing derivatives in all these products, and imposing import tariffs and export duties on selected sensitive products (e.g. common wheat, rice). The latter creates a price band around the international price, so that fluctuations in world prices within this band do not affect domestic prices, while domestic price volatility is also restrained beyond this band. This will be in the interests of both farmers and consumers, as a stable environment is more likely to encourage investment and productivity growth.

2.3.8 Forwards, Futures and Options

42. Derivatives markets are as much about information as hedging and risk taking. Savvy traders and large industrialist with their host of employees always have more information than the farmer or tiny industrialist. Derivative markets are a small step in correcting this imbalance in information. In a well functioning screen based derivatives market new information about production, stocks and demand available to any of the savvy economic agents, is instantaneously reflected in the price of contracts. Even the small farmer thus gets this information indirectly. The farmer can then have an idea of the likely future price of items he may be planning to sow and plan sowing accordingly. He could also hedge some of his risk by forward or future sale.
43. There is an urgent need to introduce forward, futures & options in all commodities, particularly agricultural crops as they are subject to the hazards of weather & pests. The ideal system would be a single Regulatory Authority for all commodity derivatives and a single unified electronic exchange with trading terminals all over the country. This derivative exchange could be linked to a similarly unified screen based commodity exchange under a single regulatory authority. The regulatory authority could have subsidiary regulatory bodies and regional commodity exchanges so as to incorporate the existing commodity exchanges. As derivatives are essentially financial instruments consideration could be given to making SEBI the regulatory authority for all derivatives and allowing NSE to trade in commodity derivatives.

2.3.9 SSI De-reservation

44. All equipment and inputs used by the Agriculture and allied sectors and all processing activities which use the produce of these sectors should be removed from the SSI reservation list so as to promote the most efficient supply of inputs and best/competitive price to farmers for their output.

2.3.10 Multi-state Co-operative Act

45. The multi-state co-operative act must be reformed to ensure professional management and elimination of government interference. An independent regulatory authority for co-operatives could be set up to ensure that they follow these principles.

2.3.11 Forests

46. At present all forests vests with the government and is looked after by the limited staff of the forest department. The proper potential of this renewable resource may not be fully utilised, while illegal felling damages it. Joint venture between reputable private companies and local residents should be

explored, for protection, regeneration, use and development of forest areas under strict conservation rules.

2.4 STATE AND LOCAL

47. Most of the issues connected with state governments have been touched on earlier. They are, however, brought together here in a summary form.

2.4.1 CANAL REGULATORY AUTHORITIES

48. The need for autonomous, independent and powerful regulatory authorities (SRAs) in the infrastructure sectors and the principles on which the regulatory system must be built. State Irrigation & canal regulatory authorities must be set up to regulate the canal networks including its distribution channels as well as underground water resources. Once the framework is in place co-operative water user associations can manage and maintain these distribution channels and canals.

2.4.2 USER CHARGES

49. The assets created in the past have deteriorated tremendously because public services do not even charge enough to cover maintenance & running expenses. Charges must be raised in a phased manner to cover the full cost of production, so that financing of new investment becomes feasible. Raise bus fares, electricity and water usage charges to economic levels. Raise tuition fees at college level, and for health service consultation & diagnostic tests. Levy parking charges for road parking in residential areas.

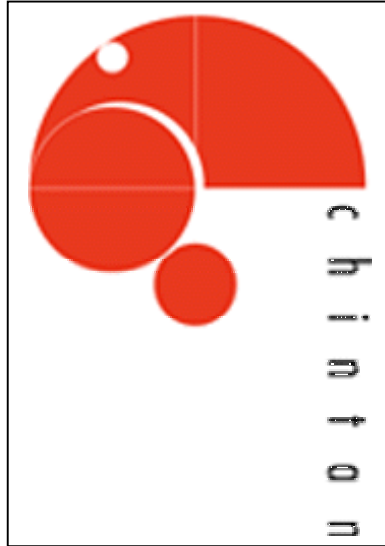
2.4.3 Free Transport, Storage & Processing

50. De-licensing and de-control of agriculture its transport, storage and processing as well as of allied & related industries is most important for the poorest states. This must be accompanied by greater attention to basic rural infrastructure like roads, water & drainage and agricultural extension.

51. Remove restrictions on inter-state movement of agricultural produce.

2.4.4 RURAL LAND REFORM

52. Liberalisation of land ceiling and tenancy laws for development of degraded land and in areas of modern farming. In semi-feudal areas traditional land reform should be enforced. It can be bundled with services such as micro-credit and technology dissemination, and taken up as a package on a district by district basis.



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