Changing Correlations in Foodgrain Mandis of Punjab

Ranjini Basu
Garware Postdoctoral Fellow
University of Pennsylvania Institute for Advanced Study of India

As part of the series[1] based on my postdoctoral research on the agrarian politics around crop diversification in the Indian state of Punjab, in the two-part article on the changes in foodgrain mandis of Punjab, this second article will look at the transforming mandi operations and its impact on the correlations between different agrarian actors. The first part of the article focused on Punjab's contribution to public paddy procurement.[2]

In the period starting from the mid-1990s especially, that is since for the first time India attained self-sufficiency in food along with a burgeoning foodgrain stock, there has been a growing clamor for diffusing the role of the FCI and the PDS and greater deregulation of foodgrain markets. In the policy debates over the bulging foodgrain stocks which appeared in this period, a section of economists identified the insufficient PDS coverage and a general decline in foodgrain as the primary cause. While on the other end were those who proposed greater liberalization towards adjusting the inefficiencies of the foodgrain markets. These arguments continue to resonate even today in contemporary discourse on the country's food security.

In the foodgrain policies of the early 2000s it was recognized that ultimately efforts were needed to diversify crop production away from rice-wheat in Punjab and Haryana into oilseeds and pulses, to correct the imbalance of surplus foodgrain procurement from these states but also in view of the ecological concerns. Keeping the average cost of food production low, along with moving into untapped and underdeveloped regions of agricultural development, with the crucial aim of maintaining the food and nutritional security of the country were also identified as important aspects.[3] However, it was noted that unless assured markets for the alternative crops were built, it was improbable to convince farmers of Punjab and Haryana to shift away from paddy cultivation.[4] But as we discussed in the first part of the article, the proposed geographical shift in procurement has been limited as seen in the case of the Decentralized Procurement Scheme (DPC).

---

[1] First article 'Fraught with Contestations: Crop Diversification under Agrarian Distress in Indian Punjab', available at: https://casi.sas.upenn.edu/sites/default/files/upiasi/Fraught%20with%20Contestations%20Crop-Diversification%20under%20Agrarian%20Distress%20in%20Indian%20Punjab%20-%20Ranjini%20Basu.pdf

[2] First part of the article 'We Feed the Nation: Taking Stock of Punjab's Contribution to Public Foodgrain Procurement', available at: https://casi.sas.upenn.edu/sites/default/files/upiasi/We%20Feed%20the%20Nation%20-%20Ranjini%20Basu.pdf

[3] Chand, Ramesh (2004), "India's national agricultural policy: a critique", *Indian Journal of Agricultural Economics*

[4] See discussion in the Report of the Long- Term Grain Policy, 2021 headed by economist Abhijit Sen.

The Farm Laws of 2020 were the latest attempts at regulating the foodgrain markets, however, those were strongly critiqued and met with resistance from the farmers' movement. Even though the issue of foodgrain market reforms might not have got clinched, shifts in procurement operations have taken place over the last two decades, and more specifically after 2014, which has altered relations between farmers and other actors in the paddy supply chain. Therefore, to understand the agrarian politics around crop-diversification or the mainstay of paddy in the cropping pattern of Punjab, it becomes imperative to understand these changes in the foodgrain *mandis* of the State.

MANDI PROCUREMENT LED BY STATE AGENCIES

One of the major changes that have taken place in the post 2000s is the significant and increased role of the State Agencies in the procurement process. One of the main intentions behind the Decentralized Procurement Scheme (DCP) was to transfer the procurement operations to the State government agencies. If one picks up the reports of the Food Corporation of India from its initial years of operation, as the country was still finding its feet in a coordinated public procurement of foodgrains, there comes out the evidence of how the state governments were stretching their resources to carry out the massive exercise of procuring the burgeoning surpluses from the early Green Revolution days. FCI's intervention was crucial. In Punjab, in the 1980s as the paddy production picked up, FCI became the largest purchaser of paddy from the farmers as the State Agencies remained unwilling due to limited resources and capacities which were already pushed to the hilt for wheat procurement. For instance, in 1982-93, FCI purchased almost 71 percent of the entire paddy procured through direct purchase in Punjab, while it only procured 26 percent of the wheat in that year from the State. Along with the paddy, FCI procured almost all the levy rice from the Punjab mill owners.[5]

Over the next decades, FCI's role in the paddy procurement came down drastically. At the beginning of the 2000s there were reports of the State Agencies grappling with the sudden rise in procurement operations that they had to deal with as the Food Corporation of India slowly weaned its presence. The central government announced FCI's rollback of paddy procurement in Punjab and encouraged the State government to increase procurement through rice mills.[6] Although, the FCI didn't completely exit from the operations, its presence in the mandis during paddy season drastically fell. Figure 1 shows the agency wise distribution of paddy procurement in Punjab for various years, as gathered from different issues of the Statistical Abstract of Punjab. The Civil and Food Supplies Department, Government of Punjab, used to carry out the procurement on

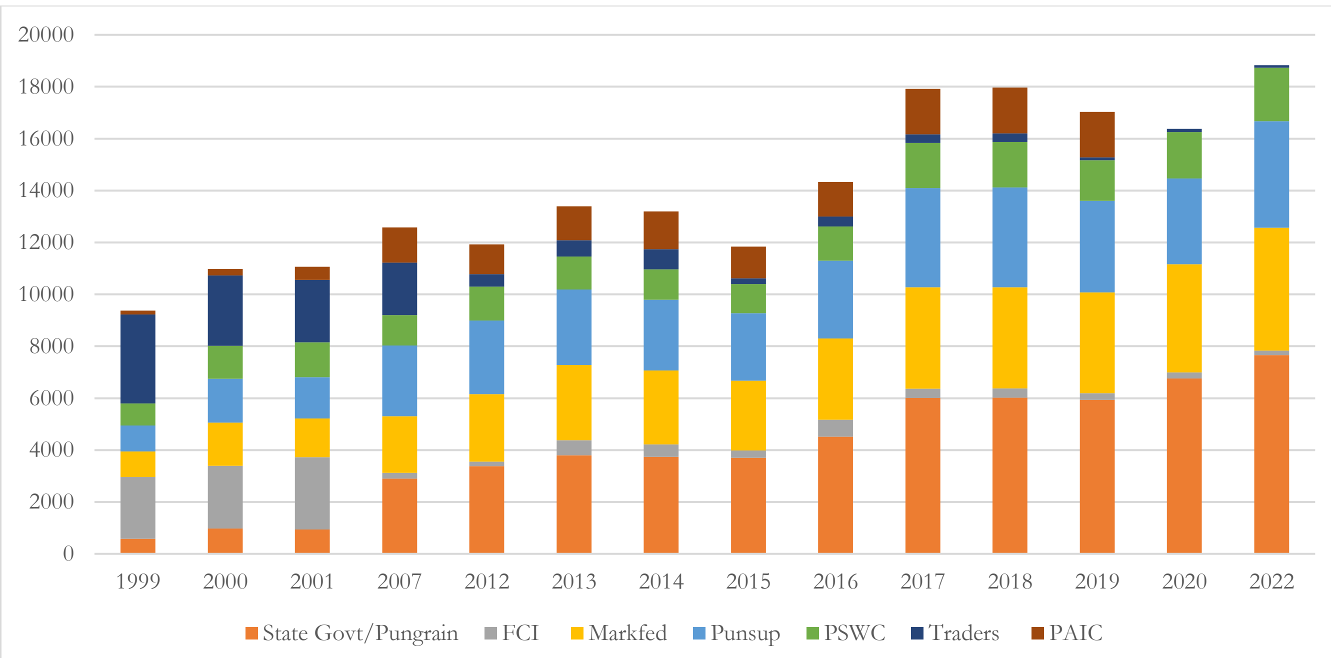
[5] Food Corporation of India, Annual Report 1983-84

[6] Gill, PPS (2000), "FCI not to procure paddy", *The Tribune*, 27 July, https://m.tribuneindia.com/2000/20000727/main4.htm

behalf of the State government till 2003, when the Punjab foodgrain Corporation or Pungrain was established at the direction of the Reserve Bank of India (RBI) to clean up state finances. The other State agencies involved in the paddy procurement are Markfed, Punsup, Punjab State Warehouse Corporation (PSWC) and Punjab Agro-Industry Corporation (PAIC). Paddy procurement by PAIC was stopped in 2020.

As can be seen through the figure, the share of paddy procurement by the Food Corporation of India has almost become negligible and the space has been taken over by the State led agencies. The proportion of paddy purchased by the private traders also registered a sharp decline over the years, commensurable with the fading away of the levy system, which we will discuss later.

Figure 1: Procurement of Paddy in Punjab, by agency, various years, in Thousand Tonnes



Source: Statistical Abstract of Punjab, various issues
Note: Pungrain or Punjab foodgrain Corporation was established in 2003 to replace the Civil and Food Supplies Department of the Government of Punjab in the procurement process. The Punjab Agro-Industry Corporation (PAIC) closed in 2020.

Impact on State Finances

Foremost among the direct impacts of this shift towards the State Agencies carrying out the paddy procurement, has been its implications on the state finances. Punjab has one of the biggest debts in the country- in 2019-20 the outstanding debt to GDP ratio was a whopping 42.5 percent.[7] Among the two major contributors to this massive internal debt are the Cash Credit Loans (CCL) taken from the RBI to facilitate

[7] Government of Punjab (2022), *White Paper on State Finances*, Department of Finance

foodgrain procurement and the Ujwal DISCOM Assurance Yojana (UDAY) scheme. Since the decentralization of the procurement operations, States are pushed to take the CCL for operationalizing the foodgrains procurement as the Centre delays the release of funds.

A white paper on State Finances from 2017 pointed out that due to a huge, accumulated gap between the outstanding CCL and the value of the foodgrain stocks, RBI was on the verge of banning further CCL to Punjab. Faced with such a scenario, the State government then led by the Akali-BJP alliance converted a CCL gap of Rs 29919.96 crore into a clear term loan, making it a legacy debt and passing burden onto the State exchequer. The paper says that the Government of Punjab also agreed to "square up any gap between the outstanding CCL and value of stock that might emerge in the future as well." Further, the paper raises a fundamental question regarding the roots of this financial gap, pointing out that the "cardinal principle of the Centralized Procurement Scheme that the State procurement agencies being agents of the Government of India are neither to make any profit nor to incur any loss in the procurement operations and the Government of India is expected to reimburse all bona fide cost of procurement incurred by them."[8] Thus, on the one hand as the scale of procurement operations continued to expand in Punjab, financial resources to assist this expansion faced restrictions as a result of the dichotomy in Centre-State fiscal relationship.

Changes in circuit of procurement process

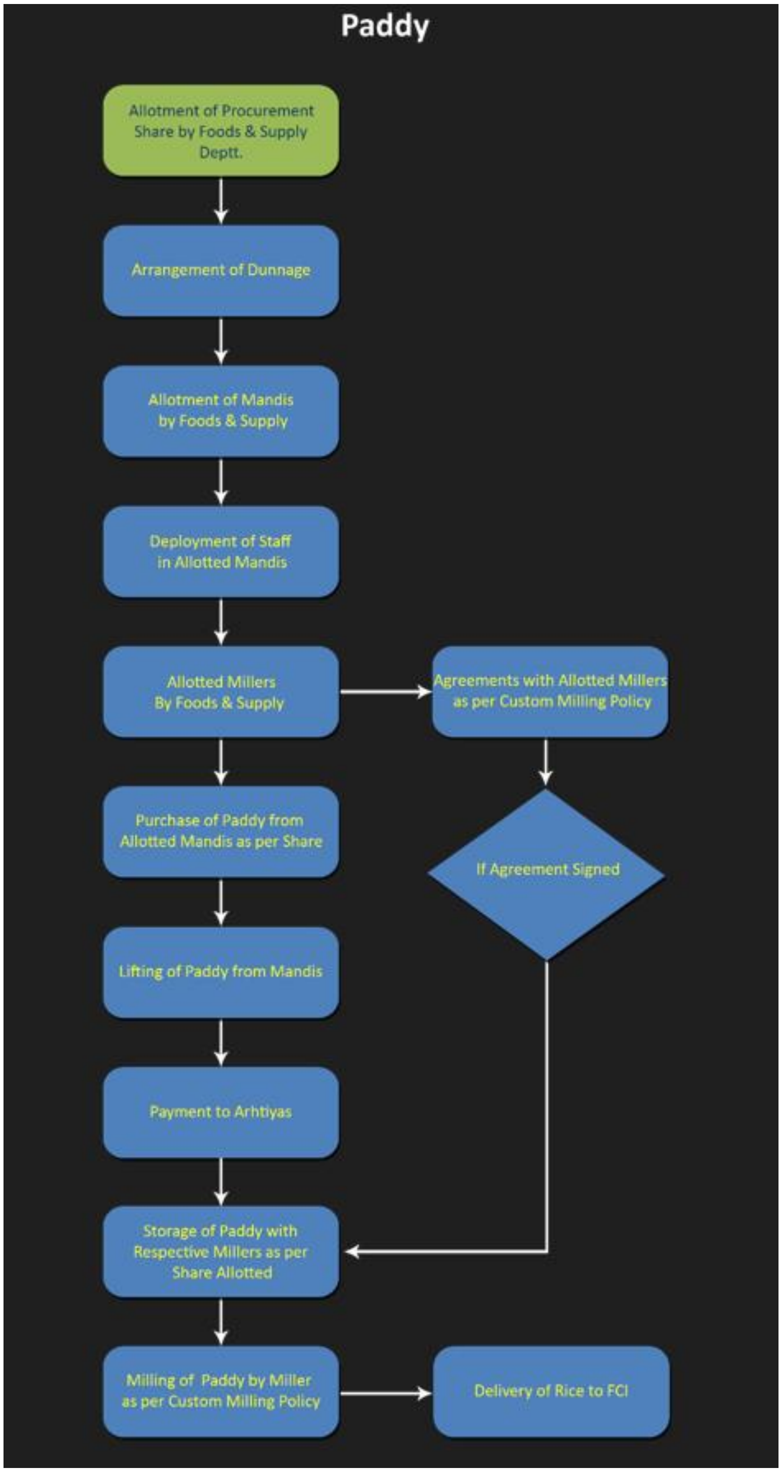
The other change brought about by the shift in procurement agencies, has had a greater bearing on the correlations between the different actors in the foodgrain mandis of Punjab- the farmer, *arhtia* or commission agent, and the rice millers. Now, it must be clarified at this point, that these three actors are not mutually exclusive in the context of Punjab agrarian relations. There is now ample scholarly evidence to showcase that in the period especially after the 1990s, sections of the rich and big Sikh-Jatt farmers have diversified their agricultural incomes by entering the commission agent and rice-milling trades.[9] There is also a section of the commission agents, who own rice mills, preying on the paddy procurement and custom milled rice supply cycle in the State. Kinship and caste ties have been further bolstered into the agrarian production and marketing cycle.

---

[8] Government of Punjab (2017), *A White Paper on State Finances*, Department of Finance

[9] Sinha, Shreya (2019), "Politics of the market: Farmer-trader relations under neoliberalism in Punjab, India", *Journal of Agrarian Change*, 1-15

Figure 2: Flow chart of Paddy Procurement Circuit by State Agencies, Punjab



Source: Punjab State Warehouse Corporation

Coming back to the changing procedures of foodgrain-procurement, due to the limited resources of the State Agencies and as part of the efforts to lower the storage costs, they move the paddy from the mandis directly to the designated rice mills. The rice mills on completion of the paddy to rice conversion are supposed to deliver it to the FCI under the Custom Milled Scheme. In the earlier period when the paddy procurement operations were dominated by the FCI, the paddy would move from the mandis to the FCI godowns and then released to the rice mills for custom milling. Figure 2 provides the flow chart of paddy procurement circuit as followed by the State Agencies. The system under the State Agencies has brought the position of the rice millers to the center-stage. The State government has become dependent on the rice millers, due to the paucity of storage space it faces, as a result to its own lagging capacities as also the delays in lifting of foodgrains by the FCI. The rice mill complexes are used as alternative storage spaces.

In the background of increased paddy production and rise in yields in Punjab, the significant place of the rice mills in the paddy procurement process has come to light in the cases of collusion and corruption between different actors, including agency personnel, rice millers and commission agents. Some of these cases have been related to making windfall profits by mixing lower grade and cheaper varieties of rice bought from other States with the paddy procured within Punjab and non-delivery of stipulated quantity of milled rice back to the FCI.[10]

End of Levy Rice System

Punjab for the longest time also had the advantage of being the only State from where FCI bought paddy and got custom-milled for the central pool. Thereby rice mills in Punjab were made into a lucrative enterprise. Under the levy system, which was introduced in 1978 and governed by the Essential Commodities Act (1955) and corresponding State Acts, the rice mills were required to procure a certain percentage of paddy from the farmers and the government in turn bought the milled rice from them at a pre-announced levy price. In Punjab, the proportion of levy rice to be bought by the government from the millers was set at 75 percent of the total rice milled by them.

As seen in figure 1, the proportions of paddy procured by private traders, who have basically been the rice-mill owners, was significant for Punjab till the late 1990s. However, subsequently the element of levy rice became smaller. The levy system of rice became less and less significant as the procurement at MSP became

[10] For instance see The Tribune (2022), "2 millers among five convicted in Rs 8-crore in Ferozepur paddy scam", September 24, https://www.tribuneindia.com/news/punjab/2-millers-among-five-convicted-in-rs-8-crore-ferozepur-paddy-scam-434734 and The Tribune (2018), "Punjab millers use PDS rice to meet shelling target, recycle paddy", October 1, https://www.tribuneindia.com/news/archive/punjab/punjab-millers-use-pds-rice-to-meet-shelling-target-recycle-paddy-661324

a more sought-after way of providing direct support to farmers.[11] In the period post the 2000s, there was a wide-ranging discussion on the viability of the different methods of procurement. The levy system, although became less preferred, was argued to be promoting competition among millers through the auction system and ultimately raising the purchase price of paddy.[12] While there were also those who argued that the levy system was accruing losses to the millers and that millers would keep the better grade rice with them while supplying the poorer quality rice to the FCI which would then be difficult to be sold in the open market.[13]

Ultimately the levy rice procurement system was dissolved nationally in 2015. In Punjab the levy rice procurement system had become redundant a few years before that. One of the primary reasons for this, as one rice miller explained to me, was the absence of a domestic market for non-basmati rice in Punjab, making it difficult for the millers to sell rest of the rice in the open market, left after the government purchase.

Although with the end of the levy rice procurement, the system of paddy auctioning has totally stopped, as the State Agencies have become the monopoly purchaser of paddy in the mandis. Thereby, the interface between the rice millers and the farmers became marginal, and that with the commission agent has attained greater strength.

Conflict in Quality Regulation: Changing Correlations between Farmers, Arhtias and Mill Owners

It was expected and projected that by doing away of the levy system and shifting towards direct procurement by the State Agencies and cooperatives, a better monitoring of the foodgrain quality would be possible.[14] Under the Decentralized Procurement Policy too the State Agencies were bestowed with the responsibility of maintaining the quality of the procured foodgrains. In recent times, there has been a greater stress on the quality control of procured foodgrains, especially for the central pool meant to be distributed through the PDS, to avoid wastage and longer durability.[15] The Food Corporation of India prescribes the fair average quality (FAQ) of foodgrains, which is admissible for procurement and payment of Minimum Support Price. For paddy this quality prescription includes specifications about admissible quantities of foreign matter,

[11] Food Corporation of India (2021), Levy System of Procurement

[12] Gupta, Neha (2013), "Government Intervention in Grain Markets in India: Rethinking the Procurement Policy", Working Paper 231, Centre for Development Economics

[13] Chand, Ramesh (2003), *Government Interventions in Foodgrain Markets in the New Context*, Policy Paper 19, National Centre for Agricultural Economics and Policy Research (ICAR).

[14] Press Information Bureau (2015), *Levy on rice reduced to encourage direct procurement from farmers*, Ministry of Consumer Affairs, Food and Public Distribution, Government of India, https://pib.gov.in/newsite/PrintRelease.aspx?relid=121421

[15] Committee on Public Undertakings (2021), *Food Corporation of India*, Third Report, Committee on Public Undertakings, Ministry of Consumer Affairs, Food and Public Distribution, Lok Sabha Secretariat

damaged and shriveled grains, admixture of lower class and moisture content. Along with the paddy quality, there are also specifications for admissible quality of custom milled rice. While the FCI sets the prescribed quality check, it is the State Agencies that carry out most of the procurement as discussed in the earlier part of the article, including in Punjab from where maximum amount of custom milled rice is transferred to the central pool. According to policy the FCI only accepts foodgrains from the States which comply with the prescribed FAQ and returns those lots which do not adhere to the norms.

It is this discrepancy between the norm setting by the FCI and the actual procurement conducted by the State Agencies that has resulted in conflicts in the Punjab mandis around paddy procurement. As the levy system of paddy procurement ended, the State Agencies became the monopoly buyer of paddy from the mandis. With this the auction of paddy lots, which also had a role in regulating the quality of paddy arrivals, came to a halt. Additionally, due to the paucity of funds and resources, the State machinery with limited number of inspectors, has become reliant on the commission agents and rice millers to operationalize the procurement process for all practical terms.

The *arhtias* or commission agents have emerged as the *de-facto* inspectors, who are now entrusted with the task of checking the moisture-content of the arriving paddy lots of their farmer clients and coordinating with the rice-millers and truck-transporters for off-take of the paddy from the mandis to the rice mills. As a result of this changed circuit of paddy procurement which has in-turn led to new correlations in the mandis, the reliance of the farmers, and especially the smaller farmers have increased on the commission agents. This emerging scenario bodes contrary to the efforts of the central government which has been consistently attempting to curb the influence of the *arhtias*, whether through the introduction of the Direct Beneficiary Transfer of Minimum Support Price to the farmers or by putting a cap on the commission paid to them.

Added to this are factors related to the uptake of short-term paddy varieties such as PR 126 and the delayed sowing of the predominant long-term varieties such as PUSA 44 because of the restrictions posed by the Punjab Preservation of Subsoil Water Act of 2009.[16] As a result of the changes in sowing and harvesting dates, combined with climatic conditions have brought in newer challenges of tackling higher moisture levels in the

[16] A more thorough discussion on the paddy varieties can be found in the first article of this series, 'Fraught with Contestations: Crop Diversification under Agrarian Distress in Indian Punjab', available at:
https://casi.sas.upenn.edu/sites/default/files/upiasi/Fraught%20with%20Contestations%20Crop-Diversification%20under%20Agrarian%20Distress%20in%20Indian%20Punjab%20-%20Ranjini%20Basu.pdf

arriving paddy. The moisture levels have been higher than those stipulated by the FCI and accepted by the rice-mill owners or shellers. During my fieldwork in the mandis of Ludhiana district at the time of the paddy harvest season in 2023, I found that there were logjams between the *arhtias* and the rice millers, who were not off taking the paddy from the mandis due to its high moisture levels. This created a scenario where mandis were overflowing with stacked gunny bags, and no space for more incoming paddy lots. There were negotiations taking place between the rice millers and the *arhtia* association of the mandi, with no presence of any State Agencies and authorities, to break the logjam and compromise on a moisture limit. The *arhtias* complained about the mismatch between the paddy-quality norms set by the FCI, and the changing realities on the ground due to shift in harvesting conditions. Many also confirmed that in most cases these negotiations between the *arhtias* and the rice-mill owners would end up in monetary deals.

Recent efforts to streamline paddy allocation process for custom milling by the Aam Admi Party led government, and to restrict the flow of procured paddy foodgrains moving from a commission agent's shop to a rice mill owned by the same kin or blood-relation, has had the inadvertent effect of consolidating the commission agents as a trading class, and negotiate with designated rice millers for lifting of foodgrains from the mandis.[17]

The direct consequence of the incongruency between policy and reality, along with the changes in the procurement circuit, at the micro level of the Punjab mandis, is the changing correlation between the different actors of the paddy cycle- farmers, *arhtias,* and rice mill owners.

Behind the often-highlighted State led foodgrain procurement system, is a complex structure of various actors and only a focus on these relationships tell us the story of emerging alliances. The centrality of the *arhtias* or commission agents as the 'shock-absorbers' and 'negotiators' on behalf of the farmers in the contemporary foodgrain mandis, calls for alterations in their previous characterization of mere exploitative middlemen and moneylenders. This also gives a window to understand why did the *arhtias* were accepted as an ally during the farmers' movement against the farm laws.

[17] Government of Punjab (2022), *The Punjab Custom Milling Policy for Kharif 2022-23*, Department of Food, Civil Supplies, and Consumer Affairs, Punjab