



Addressing agrarian distress : price support scheme for farmers

This article is related to General Studies- Paper III (Indian Economy, Agriculture).

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"The existing MSP-based procurement system is fiscally unsustainable. The time has come to consider market intelligence-based regulation of crop production."

Farmers are always in distress when prices of their produce are subdued. The response of governments, obviously prompted by political pressures, has been to sharply hike minimum support prices (MSP) of crops or declare loan waivers.

Thus, the current government at the Centre has significantly raised the MSPs of both the kharif and rabi crops for 2018-19, while claiming to have implemented the ruling party's 2014 election promise of pegging these at 1.5 times the estimated production costs of farmers. State governments, whether ruled by the BJP or the Opposition, have similarly unveiled loan waiver packages. Some like Telangana, Jharkhand and Odisha have announced flat annual assistance to farmers, either on a per-acre or per-family/household basis.

None of these quick-fix solutions to address agrarian distress have really worked on the ground. Even if they have — such as Telangana's Rythu Bandhu per-acre assistance scheme — the fiscal costs make them difficult to sustain in the long run. MSPs and loan waivers, on the other hand, haven't probably even achieved their political objectives. There are enough reports showing market prices of most crops to be ruling way below the latest MSPs. In sugarcane, the current 2018-19 season marks the first ever, where mills are struggling to pay even the Centre's "fair and remunerative price" to growers, leave alone the higher "advised" rates fixed by states such as Uttar Pradesh. Loan waiver implementation, likewise, has seen much less-than-expected coverage of farmers, besides restrictions on the write-off amounts (not more than Rs 1-2 lakh) and the institutions to whom credit is outstanding (mostly cooperative banks).

The above farm distress and inability to sufficiently mitigate has entirely to do with prices. Higher MSPs have little meaning when market supply-and-demand conditions and lack of government procurement do not allow for their effective enforcement.

The Food Corporation of India (FCI) undertakes paddy and wheat procurement, with the share of these to the output of the two cereals amounting to 33.8 per cent and 35.90 per cent, respectively, in 2017-18. In the last couple of years, there has been procurement of pulses and oilseeds as well under the Centre's Price Support Scheme (PSS) through agencies such as the National Agricultural Cooperative Marketing Federation. Last year, a record 4.5 million tonnes of pulses, accounting for 17.8 per cent of the country's production, got procured.

Such purchases, however, have their limitations, which are both fiscal and market-related. Large-scale procurement leads to massive accumulation of stocks with government agencies. That, in turn, puts further downward pressure on prices, as the private trade stops buying in the belief that the agencies will have no option but to offload these in the market. It forces further governmental procurement to support farmers, setting off a vicious cycle. We have seen this in rice and wheat — and now also in arhar/tur, chana, groundnut and rapeseed-mustard.

It is clear, then, that a completely new approach for price support is required, especially in today's scenario where India has moved from a structurally deficit to surplus producer in most agri-commodities. The alternative mechanism could be that of "area planning" adopted by countries such as the US, the UK and Australia.

In the UK, all farmers owning more than five hectares have to obtain approval for use of their land for not just crop cultivation, but even for erecting buildings or carrying out excavations and engineering operations for allied agricultural activities. The US and Australia have zoning regulations that also seek to align crop production to domestic, industrial and export demand. Subsidies, too, are linked to farmers allocating defined areas under particular crops.

In India, the Sugarcane Control Order actually has a provision to fix the quantity of crop any grower can cultivate for supplying to a mill for which that cane area is "reserved". The grower is entitled to the government mandated price only for that reserved quantity of cane supplied. This model, although not strictly enforced in sugarcane itself, can be extended to other crops. The Shanta Kumar High Level Committee for Restructuring of FCI had, in fact, recommended limiting MSP-based procurement of cereals, but government agencies continue buying paddy and wheat without any cap for individual farmers. Only under PSS, a 25 quintals-per-farmer per day ceiling has been fixed for availing MSP-based procurement support.

What we need really is to go one step further.

It should be possible to make national-level estimates of demand for various agricultural commodities well ahead of every cropping season. This demand, factoring in both domestic consumption and global export-import projections, can then be divided among major producing states in proportion to their respective five-year-average output/acreage levels. The states can further sub-divide their demand allocations at regional and district levels. Based on the demand estimates, the state agriculture and horticulture departments can register individual farmers' area under different crops before the sowing season. Only the crops grown on such registered areas can be entitled to MSP procurement benefits. Any excess production will have



to be sold by farmers at the going market rates.

The proposed area planning for crops admittedly poses huge challenges in a democracy, apart from seemingly deviating from the received wisdom of leaving everything to market forces. But farmers themselves — based on responses received during a 2017 survey conducted by the author in Punjab, Haryana and Himachal Pradesh — seem quite open to the idea. They are more exposed to price volatility from supply-demand mismatches than economists. Planning of area under individual crops, keeping in view likely supply-demand scenarios, will not only help check undue price volatility, but also promote optimal utilisation of scarce resources such as fertilisers and water. The time has definitely come to regulate the area planted to crops such as sugarcane.

Area planning implementation would require, first and foremost, publicising the idea and assuring procurement/MSP support for the produce of farmers whose individual areas are registered ahead of the planting season. Secondly, the government — maybe, the Commission for Agricultural Costs and Prices — should come out with credible forecasts of domestic consumption, industrial and export demand for every crop. That, of course, calls for market intelligence beyond what the government has displayed — whether in delaying lifting of export and stock holding restrictions on onion, potato and sugar or not curbing import of pulses. And this is linked to the third condition: the government should stop obsessing about increasing production of every crop by 5-10 per cent each year. For farmers, production is important, but it is prices that are really mattering more.

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Rythu Bandhu Scheme

What is it

- The Telangana government has started the Rythu Bandhu Yojana for the farmers of the state. It is also known as the Farmers' Investment support Scheme (FISS).
- This is a welfare scheme which is specially launched for the farmers.
- In this scheme, the state government will provide financial assistance to the farmers for two crops Rabi and Kharif annually.

Background

- This scheme was started on May 10, 2018. However, this plan was announced in February 2018.
- The state government has allocated a budget of Rs 12,000 crore for this.

Benefit

- Under the scheme, the state government is providing financial assistance of Rs. 4000 per acre per season for supporting agricultural investment under the Rythu Bandhu Yojana.
- According to this scheme, this financial assistance is being provided twice a year for Rabi and Kharif season.
- According to study, about 97% of the farmers have less than 10 acres per person land and total agricultural land is 1.42 crore acres and the number of farmers in the state is 71.75 lakh.
- Farmers can use the support for the purchase of seeds, fertilizers, pesticides or any other input requirement as per their requirement.
- This scheme will include both agricultural and horticultural crops and all farmers will be benefitted despite the size of their land acquisition.

What is MSP?

- Minimum price at which the government is ready to purchase the full amount of grains sold by the farmers.
- When the value of agricultural products is falling in the market, then the government protects the farmers by purchasing agricultural products at a minimum support price.

MSP's new formula

- The Swaminathan Commission had asked for the lost to include fertilizer, seed and interest on loan in addition to diesel in calculating the MSP.
- Also, it recommended to fix the one day remuneration of the farmer and add it to the cost. Accordingly, it was recommended to keep the MSP 150% of the cost.

Commission for Agricultural Costs and Price (CACPC)

- Commission for Agricultural Cost and Prices is an attached office of the Ministry of Agriculture and Farmers Welfare, Government of India. This commission came into existence in January 1965.
- This commission was established with the aim of creating a balanced and integrated value structure of agricultural products. The Commission for Agricultural Cost and Prices advises on the minimum support price of agricultural products.
- Minimum support prices of 24 agricultural crops are released by this Commission.
- In addition, fair and beneficial prices are announced for the Minimum Support Price for sugarcane. Pricing of sugarcane is approved by the Cabinet Committee on Economic Affairs.

Determining Factors of MSP

- What is the cost of the product.
- How much has input values changed.
- What is the current trend in the market?
- What is the demand and supply situation.
- International Price Status



Expected Questions (Prelims Exams)

1. Consider the following statements-

1. Recently Andhra Pradesh government has started Rythu Bandhu Scheme for farmers.
2. 'Rythu Bandhu' means 'friend of farmer'.
3. CACP releases minimum support price for 24 agriculture crops.

Which of the above statements is/are correct?

- (a) Only 2 (b) 1 and 2
(c) 2 and 3 (d) All of the above

2. Consider the following statements regarding Rythu Bandhu Scheme-

1. This scheme was started on May 10, 2018.
2. It is a welfare scheme which has been started especially for farmers.
3. Under this scheme, related state government provides financial support to farmers for two crops (Rabi and Kharif).

Which of the above statements is/are correct?

- (a) Only 2 (b) 1 and 2
(c) 2 and 3 (d) 1, 2 and 3

3. Consider the following statements regarding the Commission for Agricultural Costs and Prices (CACP)-

1. It is an attached office of the Ministry of Agriculture and Farmer Welfare, Government of India.
2. This Commission was established in the financial year-2017-18.
3. The Commission was established with the aim of creating a balanced and integrated value structure of agricultural products.

Which of the above statements is/are correct?

- (a) Only 2 (b) 1 and 2
(c) 2 and 3 (d) 1, 2 and 3

Expected Questions (Mains Exams)

- Q. 'Various schemes had been started after independence for the resolution of agriculture crisis but none were successful.' In this context, to what extent farmers' Investment support scheme will be helpful in the resolution of agriculture crisis? Discuss. (250 Words)**

Note: Answer of Prelims Expected Question given on 16 Jan. is 1(d), 2 (d).

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