Editorial Comments

Higher MSPs Higher Incomes

The recent hike in MSP is a welcome move

The recent announcement of the MSPs by the Union Government comes as a relief to the millions of toiling farmers who have been particularly vociferous of their woes this year. Numerous protest marches later, the farmers of the land are receiving a fair deal. The MSPs announced for 14 commodities for the 2018-19 kharif season has seen a substantial hike quite in line with the proclamation in the Union Budget 2018-19. The promise of MSPs at 150% of the cost of production has spiked the support prices ranging from 4% for arhar and urad to 52% for ragi, with a median hike of 25%. The scale of increase can be gauged from the fact that the median increase during the last four years was 3-4%. This massive hike is expected to yield a handsome return of more than 50% over the cost of production to farmers—as high as 97% for bajra and 60-65% for urad and arhar.

This year which is expected to see record food grain production, the hiked MSPs are a welcome move. With a potential glut, the hiked MSPs would guarantee a fair price to the farmers pushing them closer to the Union government's ambitious objective of doubling farmers' income. The MSP, the rate at which government agencies like Food Corporation of India (FCI) and other state government-owned agencies procure grains from the farmers, is also taken as benchmark prices in the market. By quoting higher MSPs this season, the government has ensured that prices in the market remain high.

Besides, ensuring profits to farmers, MSP can incentivize a specific food crop which is in short supply. By protecting farmers from any sharp fall in the market price of a commodity, MSPs announced at the beginning of the sowing season, helps farmers make informed decisions on the crops they must plant. Computed on the basis of the recommendations made by the Commission for Agricultural Costs and Prices (CACP), MSP considers factors such as the cost of production, change in input prices, market price trends, demand and supply, and a reasonable margin for farmers. To an extent, MSPs can stabilize the economics of production and help the farmers in ridding them of financial liabilities. MSPs are definitely a better proposition than loan waivers.

With the price support policy initially favoring food grains, this price support instrument has been highly asymmetric and skewed mainly towards the production of rice and wheat at the cost of cultivation of pulses, oilseeds and other crops. This had created serious imbalances in demand and supply of principal crops in the country and faced large shortages of pulses and edible oils and had to depend on imports to meet about one-tenth of its demand for pulses and close to half of the demand for edible oil from imports. With introduction of MSP for pulses and oilseeds, there was a change in this situation. The central government procured a record Rs29,070 crore worth of pulses and oilseeds from farmers at minimum support prices (MSPs) in the 2017-18 crop season, arresting what could have been a sharper fall in wholesale prices.

The importance of MSP cannot be ignored considering the pivotal role played by the same in increasing India's food production. It can continue to do the same in years to come. However, awareness of MSP is critical for the success of the programme. If the farmers are aware of the MSP of crops, they can bargain price and refuse to settle for less. Their ignorance would make it easy for middlemen and other traders to exploit the farmers by quoting less price.Despite the hype surrounding MSP figures announced each year, only a tiny section of Indian farmers benefit from the price-support mechanism. According to the HLC report, just 6% of farmers sell their produce to state-run procurement agencies. Incentive prices in the form of minimum support prices are essential to the success of agricultural production programs.

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Make In India – A True Game Changer

India's Make in India Programme can successfully enhance agricultural productivity and incomes

India, a premier producer of food grains and horticultural products, with a pool of skilled labourers holds immense potential to be a manufacturer of value added and processed food products for the entire world. Make in India programme of the government of India provides an ideal platform to materialize this notion and in the process reinforce the income earned from agriculture, increase rural entrepreneurship and moreover, increase the contribution of agriculture to the Indian economy.

Besides the agricultural advantages, buoyed by the growth in the food and grocery market, India has evolved into a fertile ground for processed and value added products. India's food and grocery market ranking sixth in the world contributes approximately 70 % to the total retail sales.India's strong 1.2 billion consumers provide an excellent domestic market for the food processing industry in India. With the Indian consumers becoming more health aware, the demand for nutritious food options is growing. Ready-to- eat and frozen food segment have now loyal customer base. India's own food value chain presents a host of opportunities for investment and employment in storage infrastructure, farming, retail and quality control.

The robust market aside, India's raw material base is also equally conducive. The country is first in terms of milk production and second in terms of fruits and vegetables in the world. It is also the largest producer of spices, ranks third in egg production, fifth in meat production and second in fish production. India's diverse agro-climatic zones allows the country to produce a variety of crops.

Despite the presence of these propitious factors that could have celebrated India's food market potential and taken the glory across the globe, India is still far away from realizing this potential. A growth in the agriculture production segment hasn't bought forth a concomitant growth in infrastructure. The result is a loss of 25 per cent to 30 per cent of produced food. Inadequate logistical support, lack of refrigerated storage, supply chain bottlenecks, poor transport and underdeveloped marketing channels have contributed to this loss.

The steady supply of raw materials and availability of cold storage infrastructure will complement the growth in sub-segments like dairy, horticulture, plantation, animal husbandry and fisheries.Under the Make in India initiative, the Government plans to stimulate growth in the Food Processing sector through the creation of a strong infrastructure, reduction of food wastage and promotion of Ease of Doing Business (EODB) measures. The 100% FDI in trading and e-commerce of food products through Government approval route would invite investment and technology from overseas. The 100% Foreign Direct Investment (FDI) for Food Processing in e-commerce through government approval route for products manufactured/ produced in India will open new avenues for growth in food retailing and boost the income of the farmers. India's geographical proximity to food importing regions such as Singapore, Middle East, Thailand, Europe, Korea and Malaysia will further boost exports.

With an impetus on the food processing industry, Indian agriculture would transform from its current state of being dependent on traditional means of agriculture to the one that is vigorously receptive to new technology. Currently, Indian agriculture in terms of productivity fares well below the rest of the world. One of the main reasons of it being the diminished efficiency of resources. Mechanization will be the key to raise the productivity and efficiency of agriculture. Mechanization from sowing to harvesting, although a norm in developed nations is a rarity in Indian farming. The peculiar form of agriculture that India practices, relies on the collective strength of small and marginal farmers whose area of operation rarely extends beyond 2 hectares. Mechanization with heavy machines thus is not only economically unviable but impractical. India is a suitable market for gender sensitive smaller machines suitable to the smaller farms. Such customized smaller machines made in India enjoys not only domestic markets but also several other South East Asian countries where similar agricultural situations exist.

India's diverse agro climatic conditions have been a strong ally of farmers. However, we need to further capitalize on them to enhance the returns on the investment. India needs to invest in technologies and processes that can streamline India's demand-supply by converting excesses into value added products. Make in India can be a true game changer for Indian agriculture by safeguarding farmers' interest and extending the reach of farmers beyond the borders.

FTAs - A Free Run for Cheaper Imports?

Free Trade Agreements are consistently suppressing prices in domestic market

Indian farmers have always paid the price of free trade agreements. The cheaper farm products that are copiously dumped into India following the trade arrangements have consistently distorted the domestic trade affecting prices of agricultural commodities and agricultural incomes.

Oilseeds were the recent victim of this trade agreement. The price of Indian oilseeds plummeted recently dropping drastically 4% in a span of 15 days. The entry of duty-free refined edible oils from neighbouring countries of Bangladesh, Nepal and Sri Lanka under South Asian Free Trade Area (SAFTA) agreement is hurting Indian oilseed farmers and refiners.Around 20,000 tonnes of edible oil have already entered India from Bangladesh. India depends on edible oil imports as seventy percent of its oil demands are met by imports and has been categorized as the world's biggest vegetable oil importer. So essentially the free imports were a blessing to the consumers. However, for the oilseed farmers and the extractors, the policy has back fired. Quite often the prices of oilseeds have fallen below MSP creating distress among farmers.

This is a situation where the policies directed to safeguard the interests of the consumers is in deep contrast to the ones which protect the interests of the farmers. On one hand, the government policies are trying to contain inflation, while on the other hand, the government wants to increase the area under oilseeds. India's agricultural experts have time and again pitched for expanding the area under oilseeds and pulses to cut short on our dependence on imports. To some extent, India has been able to increase the production of pulses, although marginally. Oilseeds were also on the road to recovery. But policies like these are not definitely helping the small group of oilseed farmers and also that of aspiring ones.

This is not the first time when the government trade agreements have resulted in deep distress to the farmers. The free trade arrangements are sometimes tweaked to facilitate cheaper imports into country causing a slump in the prices. Pepper from Vietnam through free trade channels of Sri Lanka under the pretense of import to Nepal resulted in price crash of pepper. Pepper imports from Sri Lanka attract just 8 per cent duty as against 70 per cent from other countries as India and Sri Lanka are signatories to SAFTA agreement. Under the India-Sri Lanka Free Trade Agreement (Isfta), Sri Lanka is allowed to export 2,500 tonnes of pepper to India per annum at zero duty. Around 4,000 tonnes of pepper exported by Vietnam to Sri Lanka has found its way to India with certificate of origin issued by the Sri Lankan authorities by paying no duty under ISFTA or 8 per cent concessional duty. The imports have hit pepper growers in Kerala, Karnataka and Tamil Nadu. The ordeal is the same with rubber, coconut oil, tea and coffee. The ASEAN-India Free Trade Agreement (AIFTA) has negatively affected India's balance of trade in rubber and rubber products.

Free trade agreements expose the farmers in the developing nations to the competitions existing in the world market. Farmers here are thus an unfair game, where their competitors are with the advantage of better technologies and lesser cost of production. India's dependence on manual labour for majority of its farming population increases the cost of production with traders and processors favouirng cheaper imports. The free trade agreements with the diminished trade barriers are thus increasingly becoming a threat to the Indian farmers. The reduced tariffs on the import of cheaper products to India has artificially suppressed the prices of those commodities in Indian market but also sunken India's opportunities in the global market. It is high time the government sit back and assess the situation in India. While trade agreements are a necessity in the globalized and liberalized world it should not be at the cost of one's own country's ruin.

Editorial Comments

Waiving loans - Waiving Progress!

Loan waivers have never supported development

Loan waivers have once again usurped the attention as the newly elected Chief Minister of Karnataka H.D. Kumaraswamy scurries to keep his poll promises of loan waivers. The politically most alluring temptation to offer the rattled farming population loan waivers has been a go to solution in most of the elections. All the recently held elections have seen the political parties vying to offer the best of the waiver schemes to its electorates in a bid to woo them. The loan waivers has been such a hit that it has become a necessity and considered a right by the farmers. Apart from being an expensive tool to the state, it has hardly caused any positive difference in the state of agriculture.

Loan waivers – either completely or categorically - are temporary solutions to a larger problem. The debt cycle that farmers fall in due to investing and following farming as their vocation has many underlying reasons which either work in unison or in isolation. Interestingly, whenever the farmers had incurred huge losses, the reasons have remained more or less the same. Apart from rooting for loan waivers, no one seems to acknowledge these reasons and work to give a permanent solution. Farmers are too naïve to see through this and hence are satisfied with these one time solutions. These transient measures are at the expense of all the developmental activities that could have happened in agriculture – that could have increased the income derived from farming.

Farm income growth has been subdued in recent years due to poor rains, falling global prices and limited MSP hikes. Besides this, agriculture in India also suffers from inherent issues like fragmented land holding, depleting water table levels, deteriorating soil quality, rising input costs, low productivity, monsoon vagaries, poor penetration of technology, minimal mechanization, increasing labour cost, supply chain inefficiencies and poorly developed infrastructure. Farmers' reliance on local moneylenders to meet the unforeseen expenses at exorbitant interest rates have also made matters worse. The farmer protests that India witnessed in different parts of the country had similar undertones, although they had a unified demand to waive their loans!

Farm loan waivers typically does not absolve the problems of farmers. Only a small share of farmers are even benefitted by this gesture. Only 15% of the marginal farmers (with less than one hectare of landholding) have access to formal credit, so a loan waiver might help them. Previous waivers have led to banks reducing credit outlay for small farmers during the next loan cycle, thereby diminishing their chances of getting formal loans which in turn pitch them closer to the informal sources of credit. The cost difference for loan rates between the formal and informal sector varies at the least between 30% and 45%, annually. Moreover loan waivers can erode credit discipline and year after year, this is expected out of governments.

What Indian agriculture needs is not huge debt write offs, instead avenues to increase the income prospects of the farmers. Strengthening of agriculture infrastructure is what the governments can do. Currently, there exists a huge gap between the demand and availability of storage facilities for agriculture products especially in the case of perishables. In case of over production, our capacity to convert excesses into products with longer shelf life is nonexistent. In the case of perishables, Government can work in lines of procuring food grains and pulses. But here instead of storing, the centers can be processing units! This will help in converting the excesses into value added products which the government can sell under a brand name. This will protect the price crashes in the market and help to stabilize prices in the market - a win-win solution for both consumers and producers.

As a country we should be promoting innovation. Our strategy must be to develop the under developed sectors by introducing novel methods to overcome the challenges and not covering it up with a blanket. Loan waivers just do that – they do not solve anything nor do they allow progress.