



Agriculture Reforms

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This article is based on **“Reforming Indian Agriculture”** which was published in Economic and Political Weekly on 14/03/2020. It talks about challenges and solutions pertaining to India’s Agriculture sector.

India’s agriculture policies have had **multiple mandates**, including a **production imperative** (national food security), a **consumer imperative** (keeping food prices low for a large low-income population), and a **farmer welfare imperative** (raising farmer’s income).

Tensions between these mandates have resulted in costly, contradictory policies whose costs have been increasingly borne by farmers, the government purse, and the natural environment.

Realising the **significance of Agriculture** in India’s socio-economic order, the government has set an **agenda of doubling farmer incomes** by raising productivity and cutting down costs, and going for diversification towards high value agriculture.

However, Indian Agriculture is in the need for many fundamental reforms.

Significance of Agriculture in India

- **Highest Employment Provider: More Indians depend directly or indirectly on agriculture** for employment than on any other sector.
- **Addresses Malnutrition and provides food security:** Agriculture holds a key to **reducing India’s malnutrition problem**, directly affecting public health and worker productivity.
- **Augmenting Economic Growth:** Agriculture has the potential **to spur India’s overall gross domestic product (GDP) growth**.
 - Agricultural growth of 4%, would add at least a percentage point to GDP, increase exports and improve India’s trade deficit.
 - **Economic transformation** in developing nations is propelled by increases in agricultural incomes underpinning industrial growth. For example, China’s economic growth.
- India’s vital land and water resources, which farmers used for agricultural production, assumes more significance especially in the face of mounting scarcity, environmental degradation, and climate change.

Actions Taken by Government to Increase Farmer Income

- **Subsidizing Input Costs:** Providing water, power and fertilizer subsidies to decrease production costs.
- **Green Revolution:** Increasing yields through better farming practices and timely availability of quality inputs, especially high yielding seeds, chemical fertilisers and water.
- **Stabilizing Output Prices:** Through minimum support prices (MSP) and public procurement.
- **Augmenting Non-Crop related Agriculture Income: KUSUM scheme.**
- **Providing Direct Income Transfers to Farmers: Pradhan Mantri Kisan Samman Nidhi (PM-KISAN).**

Associated Challenges In India’s Agriculture

Issue Related to Subsidies

- **Agricultural subsidies** were introduced to incentivise farmers to take up the green revolution. Subsidies also intended to reduce the cost of production for farmers and to check food price inflation and protect consumers.

- However, today it has become apparent that subsidies are **inflicting significant damage on different aspects of the economy.**
 - **Subsidised Urea** has led to massive overuse of nitrogenous fertilisers, leading to damaged soils and pollution of local water bodies.
 - Similarly, **power subsidies** have not only led to an alarming overuse of groundwater,, but also it has severely damaged the health of power distribution companies.
 - **Credit subsidies like loan waivers** have weakened the Indian banking system (due to increased NPAs), having negative spillover effects on the economy.
 - **Output price supports in the form of minimum support price (MSP)** basically apply to only a handful of crops, especially wheat and rice that are procured by the government in a handful of states.

Consumer Oriented Policies

- Whenever there is a price rise in any agricultural commodity, the **government imposes restrictions on exports to protect Indian consumers.** It creates hindrances for farmers taking advantage of high prices in foreign markets.
- This, coupled with the **Essential Commodities Act (ECA)**, has meant lower private investment in export infrastructure such as warehouses and cold storage systems.
- This lack of storage infrastructure compels farmers to go for Distress sale.

Flawed Agricultural Marketing Policies

- Due to restrictions imposed by **Agricultural Produce Market Committee Acts** passed by various states, **Indian farmers today can only sell their produce at** Farmgate or local market (haat) to village aggregators, APMC mandis and to government at the **minimum support price (MSP).**
- The introduction of the electronic national agriculture market (e-NAM)—an online trading platform for agricultural commodities in India—is a step in the right direction. However, its effects have been underwhelming due to three major bottlenecks:
 - Time cost of transactions
 - Quality assessment challenges
 - Transportation logistics

Marginal Land Holdings

Raising farm productivity is critical for long-term increase in farmer incomes in India, as land fragmentation means that many Indian farmers are farming plots of such small sizes that even doubling their incomes would leave them with meagre earnings.

In India, **nearly 85% of agricultural land holdings are small and marginal** (less than 2 hectare).

Slow Agricultural Growth Rate

- The **Ashok Dalwai Committee Report** on doubling farmers' income, estimated that the doubling farmers' income will require an agricultural growth rate of 10-11% per annum, until 2022-23.
- However, agricultural growth rate and farmers' income growth rate has been stagnating and well below the required rate of growth.

Steps to Increase Farmers' Income

Addressing Subsidies Problem

This can be done by:

- **Freeing up input prices to market levels**, or charging an optimum cost pricing for fertilisers, power, agri-credit, and canal waters fees.
- Channelizing the resulting savings for expenditures on investments in agricultural R&D, irrigation, marketing infrastructure, building value chains by involving **Farmer Producer Organisations (FPOs)** and linking farms to organised retail, food processing, and export markets.
- Direct income transfers to farmers' should be promoted by leveraging the trinity of **Jan Dhan–Aadhaar–Mobile (JAM)** to reduce the leakages and pilferage.

Allowing Land Leasing

The central government, in association with the state governments, should free up **land lease markets**, which can help provide farmers with a steady income, while maintaining asset security.

- In remote dry areas, leasing land to solar or wind power companies could provide farmers with relatively higher and steadier incomes.
- **The Model Land Lease Act, 2016** offers an appropriate template for the states and UTs to draft their own piece of legislations, in consonance with the local requirements and adopt an enabling Act.

Increasing Avenues for Non-Farm Income

- Subsidised electricity should be rationalised, as today **solar water pumps** are operationally and financially sustainable.
- This will reduce government burden of electricity subsidies, while at the same time allowing **surplus power from the solar powered pumps to be sold back to the grid**.
- **Promoting value-added uses of biomass** like Bamboo for construction and other applications, rice husk and bagasse-based mini-power plants, and ethanol from sugar cane and corn can all help augment farmer incomes in sustainable ways while developing more dynamic local rural economies.

Improving Agricultural Export Scenario

- India needs to **address the composition of its agriculture export basket**. Currently agricultural exports constitute 10% of the country's exports, but the majority of its exports are low value, raw or semi-processed, and marketed in bulk.
- The share of India's high value and value-added agriculture produce is less than 15%.
- Robust agriculture exports will increase the demand for India's farm output (and hence, incomes of farmers).
- In this context, the government has launched **Agriculture Export Policy 2018**. It is aimed at doubling the agricultural exports and integrating Indian farmers and agricultural products with the global value chains.

Investing in Agriculture Infrastructure

- The most sustainable way to augment farmers' real incomes over the long term is **through investments in productivity-enhancing areas, ranging from agricultural research and development (R&D), to irrigation to the development of rural and marketing infrastructure**.
- **Local level investments** that seek to build village level storage facilities, better surface irrigation management, and investments in drip irrigation, tile drainage, trap crops, etc, that can give results in a relatively short period of time.

Agricultural Marketing Reforms

- Farmers' income can improve substantially if they are able to capture a greater share in the supply chain from farm gate to consumer.
- For this to happen, farmers must have the freedom to sell what they want, where they want, and when they want without any restrictions on sale, stocking, movement, and export of farm produce.
- These will require legal and institutional changes, major investments in market infrastructure and storage (including cold-chain storage), and incentives for the creation and operation of infrastructure by FPOs.
- In this context, the state needs to adopt **Model Agriculture Produce and Livestock Marketing Act, 2017**.

Need For Cooperative Federalism

- **Agriculture is a state subject** and many of the important levers—water, power, irrigation, extension, etc—are controlled by the states. However, the central government continues to play a larger role.
- Thus, reforms can only succeed if the central and state governments work closely together in a spirit of “cooperative federalism.”

INDIA'S AGRICULTURE SECTOR: PRODUCTIVITY CHALLENGES

At **169.6 million hectares**, India's cultivated land mass is the largest in the world.²³



The Government of India's top research institute reports that nearly **60% of agricultural land is at risk** because of fertilizer misuse, poor cropping practices and soil nutrient deficiencies.²⁴



55% of the population is engaged in agricultural production. As farms are divided among family members, average **farm size today (1.16 hectares / 2.87 acres) is half what it was 40 years ago.**²⁶



Unemployment among agricultural workers **rose from 9.5%** in 1993–1994 **to 15.3%** in 2004–2005.²⁸



Government **subsidies to farmers** for fertilizer, electricity and irrigation **increased more than eightfold** between 1990–1991 and 2006–2007. Areas receiving the highest subsidies regularly underperform those with lower subsidies.²⁹



India uses **13% of the world's extracted water**, and **87% is used for irrigation.**



Expanding irrigation has been a key strategy for increasing productivity; the proportion of arable land under irrigation increased from 20% to 35% from 1981 to 2013.²⁵

Irrigation water use efficiency is very low 35–40% efficiency in surface irrigation such as flooding or canals, and 65–75% efficiency when pumping groundwater. These **unsustainable practices** are depleting the country's aquifers.²⁷



Government **subsidies for** buying and distributing **food grains** to low-income and disadvantaged households **grew from 2.2%** of agricultural GDP during the 1990s **to 5%** in the 2000s³⁰, crowding out investments in agricultural education, research, technology and extension.



The country is faced with the prospect of **declining rainfall during the monsoon**, India's prime growing season for rainfed agriculture.



India's Ministry of Agriculture reports that from 2005 to 2007, **30%** of harvest and post-harvest **economic losses came from the fruit and vegetable sectors**, although that sector comprised only 13.6% of total production.³¹



Drishti Mains Question

Indian Agriculture is in a dire need of fundamental reforms for better fiscal and environmental sustainability. Discuss.