The Tribune
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Ensure fair deal for farmers

70% India imports almost three-fourths of its annual domestic consumption of edible oils

A Amarender Reddy | Sept 14, 2020

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KHARIF harvesting operations are going to begin soon. Agricultural production is likely to surpass last year's record production by 7-8%. The higher production inevitably puts downward pressure on market prices. The problem of low harvest prices has been compounded by the steep fall in the GDP growth rate in the first quarter of 2020-21; it will reduce overall demand for the agricultural produce. Hence, ensuring the Minimum Support Price (MSP) for farmers is a gigantic task.

There are huge imbalances in the MSP operations. Various states have diverse levels of implementation capabilities. Punjab and Haryana are historically in a better position to procure at the MSP than states like Bihar and Odisha. Paddy farmers in Punjab are able to sell at the MSP, while farmers in Bihar have to settle for prices below the MSP. The focus is on paddy and wheat, with negligible procurement of pulses, oilseeds and other crops at the MSP.

This discriminatory policy blocked crop diversification towards pulses and oilseeds and also led to the neglect of rain-fed areas, where pulses and oilseeds are grown. This resulted in a huge shortage of crops like oilseeds. India is importing 70% of domestic consumption of edible oils each year by spending about Rs 75,000 crore on foreign exchange. It is incurring huge losses in storing excessive stocks of paddy and wheat procured under the price support scheme.

Procuring excessive stocks is a waste of resources. Procurement operations are flawed in many ways — lack of awareness among farmers; lack of working capital with procurement agencies; lack of gunny bags; delayed payments to farmers; inadequate logistical arrangements like godowns, processing mills in the procuring areas; disposal of procured stocks.

NITI Aayog recently recommended to the Food Ministry to limit procurement of foodgrains to the level needed for distribution under social welfare schemes and maintenance of buffer. The FCI procured 115 million metric tonnes (MT) of foodgrains in crop year 2020, whereas the maximum buffer stock is fixed at 41.12 million MT.

To overcome these problems in foodgrain operations, the Centre introduced PM-AASHA (Pradhan Mantri Annadata Aay Sanrakshan Abhiyan) in 2018. This is in line with the broader objective of gradually replacing physical procurement with direct money transfer to farmers, wherever required. PM-AASHA has three sub-schemes: Price Support Scheme (PSS), Price Deficiency Payment Scheme (PDPS) and Private Procurement & Stockist Scheme (PPSS).

The PSS involves procurement by the government agency at the MSP from the farmers during the harvest period; it has been in operation for paddy and wheat for the past four decades. Under PM-AASHA, PSS is now broad-based to cover pulses, oilseeds and copra in addition to paddy and wheat. Under this scheme, the Centre will compensate the states for any losses in procurement operations up to 25 per cent of production.

Under the PDPS, farmers are paid the difference between the MSP and the modal price, without actual procurement. It is a more market-friendly and efficient method as it eliminates the logistic costs faced under PSS. It is more practical to implement in crops like pulses and oilseeds with scattered and thinly distributed production, where actual procurement is costly and not feasible.

Under the PPSS, private players can procure oilseeds at the MSP during the notified period in select markets, for which they would be paid a service charge not exceeding 15 per cent of the MSP. However, private participation has been limited so far.

States are free to choose between the sub-schemes, depending on local conditions. In the long run, PDPS has an edge over others. Price deficiency payment through direct money transfer can curb inefficiency and corruption in foodgrain operations and the benefits will reach farmers through the already built JAM (Jan Dhan-Aadhaar-Mobile) trinity.

(The author is an agricultural economist at ICAR-Central Research Institute for Dryland Agriculture, Hyderabad. Views are personal)

Source: *https://www.tribuneindia.com/news/punjab/ensure-fair-deal-for-farmers-141060*