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EXPERT VIEW

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CROP INSURANCE CAN TACKLE BAD HARVESTS

Two risks that have haunted modern agriculture for decades are weather and prices. Indian farmers have been one of the worst victims of the vagaries of nature and prices. They badly need protection, but less than 20% of them are covered by crop insurance. Insurance is an instrument that is designed to cover risks that can cause significant losses, however frequently or infrequently they occur. Somehow, the Indian psyche cannot seem to accept paying the insurance premium that would be foregone should no adverse event take place, that it's a price to pay for cover against potentially catastrophic losses. In other words, it is the cost of doing business. Indians, therefore, forego insurance coverage by assuming that such a catastrophe will not visit them. That is one of the reasons why a huge majority of Indians are not covered for loss of life, motor accidents and health emergencies.

It is also true that most poor people cannot afford even the lowest premium for insurance. Poor Indian farmers, by and large, fall under this category. Considering that 70% of Indians are dependent on agriculture for their livelihood, that is a staggering number of people who rise every day to face risks and uncertainty. This huge number is in itself a boon for an insurance company to devise a low-cost group insurance product to cover the loss of crops due to weather. If necessary, all of a poor farmer's premium should be paid by the state governments on a pro-rata basis.

If there is no insurance cover for crops and livestock, the country's food security will be threatened in the short run. It is sad that many farmers commit suicide, mostly because of indebtedness but also because of crop destruction due to untimely rains and hailstorms, as has happened recently in many parts of Maharashtra, Karnataka and Rajasthan. As Indian agriculture will have to adopt new and expensive technologies to counter climate change, insurance cover becomes even more critical. The cost of insurance will become a part of other input costs that will have to be recovered by guaranteed remunerative prices for the harvest.

If nothing else, the Narendra Modi government needs to be applauded for trying to introduce a market-based farm income insurance scheme combined with weather-based crop insurance products that will replace the ad hoc grants to cover each and every crop loss on humanitarian grounds. It is hoped that these new insurance products will be attractively priced so that a large number of farmers can afford them.

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There is a real need for outreach and awareness creation about the critical need for insurance at the village level.

It is becoming really impossible for state governments to offer humanitarian protection, as vagaries of the weather are hitting India at regular intervals. States will have to borrow or ask for grants from the centre, and parties in power engage in politics at the expense of the hapless farmer. The insurance products must guarantee payment on time, and rate increases for premium must be kept to a bare minimum. Real subsistence farmers must be given insurance protection free of cost; relatively well-off farmers and those growing cash crops can afford to pay market rates. If more than 90% of farmers are covered by proper actuarial standards, there is no reason why insurance should be unaffordable.

The wrath of nature frequently visits Indian farmers, 70% of whom are engaged in rain-fed farming. In the past five decades, there have been repeatedly failed or delayed monsoons followed by drought. According to estimates from the US National Aeronautics and Space Administration based on satellite data, central and northern India suffer more from extreme drought than any other country in the world. It is a miracle that Indian farmers in these drought-prone regions are still engaged in farming. No government, either at the centre or in the states, has been able to control market prices in six decades. There is a lesson in this for the government that intervention to alter market forces will be a futile exercise and will never solve pricing problems. Agriculture needs to be treated as a business that has to be managed professionally. Instead, it is treated as a social-welfare programme.

In the post-modern era, a government that can courageously tackle these farmer-centric issues is the one that can cling to power. If the country can use trillions of rupees to prop up the rural jobs guarantee scheme, why is it so difficult to provide both crop insurance and a universal health insurance to its citizens? It may not be easy, but surely it is worth a try.

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