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Govt must take tough steps to persuade states to create common agri market

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Indian agriculture has shown impressive performance after 2004-05 with growth in output crossing 4% mark in the 11th Plan. The growth rate in farmers' income was still better due to higher increase in agricultural prices compared to non-agricultural prices. However, the average annual rate of growth in output in the last three years ending with 2014-15 has slipped to 2% and farmers' income has also come under stress. There is an apprehension that 4% growth may not be sustained in the 12th Plan and beyond.

The finance minister has proposed three sets of measures to raise output growth while the issue of farm income is proposed to be addressed indirectly by creating an environment for better price realisation by farmers.

Growth-related measures include public investment in irrigation, rural infrastructure development for agriculture and increase in flow of institutional credit to farmers. These are important particularly because public investment in agriculture has remained low and private investment by farmers as per cent of GDP agriculture has dropped sharply over the last two years. It is also clear that creating more irrigation facility has its limits as well as cost whereas there is tremendous scope to expand crop access to water by improving efficiency of irrigation water. Higher supply of institutional credit is expected to play two roles. One, more private investment in assets, farm machinery, irrigation, land improvement etc; and two, enabling farmers to buy inputs like fertiliser, seeds, chemicals. One serious problem with institutional credit is high inter state disparity in distribution. In some states, credit supply is too high and some states just starve for it. Therefore, to have desired results it should be ensured that institutional credit flows more to states with low credit supply.

The Budget proposes a national common market for agriculture. This is due for a long time and is essential for competition, promoting value chains, forging farm-to-fork linkage, contract farming and for attracting private investment in agricultural markets. The main obstacle in this is to take the states on board. Agri marketing is a state subject and efforts to change the state level APMC Act have not had much success. Thus, the central government will be required to take tough initiatives to persuade states to change their Acts and regulations to facilitate the creation and success of the common market.

Prices of agriculture commodities and raw material in international markets have sharply declined in 2013 and 2014. Prices of soyabean oil in December 2014 fell to $816 per tonne from $1,226 in 2012. Similarly, palm oil prices have fallen from $1,000 per tonne to less than $700 in the last two years. Groundnut oil prices have almost reduced to half. Our domestic market needs to be protected against this volatility in international prices, particularly to raise self-sufficiency. The Budget was expected to increase duty on vegetable oils to safeguard domestic oilseed which it has been not done.

The measures proposed in the Budget are crucial but not adequate to achieve the desired output growth and increase in farm income. Some important aspects which have been missed include higher allocation for research and development, food processing, thrust on increasing production, availability of quality seed and incentives for diversification towards high value crops.

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