Doubling Farmer’s Income

What is the issue?

Last year, the Prime Minister has announced the government’s goal of doubling the farmer’s income by 2022. This would require the farmer’s income to rise by around 12% per year on average, over the next 5 years. This is in nominal terms, i.e. not adjusted for inflation.

Why agriculture growth has never averaged more than 5% over any continuous 5-year period, in recent history?

• Firstly, agricultural productivity cannot rise steeply year after year, and secondly the area under cultivation cannot expand rapidly and continuously.

• Modest increase is possible, but not exponential. Besides, prices may remain stable, denying any nominal rupee gains.

• In addition to all this are the risks associated with agriculture, which are monsoon failure, pest attacks, spurious seeds, adverse weather shocks, etc., all of which contribute to making the goal truly audacious.

What are the aspects to the incomes associated with the food and cash crop economies?

• First, in case of fruits and vegetables, the difference between what the city dweller pays for the tomatoes and what the farmer actually receives is huge.
City folk pay four times the cost, attributable to reasons like transport, losses, entry taxes and fat margins for middlemen.

If some of these inefficiencies are removed, a larger share can go to the farmer.

The dismantling of the provisions of the Agricultural Produce Market Committee Act in many states is ensuring the reduction of this gap.

So also is the establishment of electronic national agriculture market.

Any mechanism to connect buyers and sellers directly can benefit the farmer, as long as he retains some bargaining power.

How else can the income be increased?

The other aspect of increasing income share to farmers is through value added agriculture, namely agro-processing. This has immense potential.

The groundnut may fetch only forty rupees a kilo to the farmer, but when it becomes masala coated peanuts in a fancy packaging, it fetches four hundred rupees a kilo.

The growth of conventional consumer food companies is an indication of the great potential.

But the trick is to ensure that farmers garner a proportionate share of the increase in and income that comes from agro-processing. This is where the farmer producer organisations (FPOs) come in.

Farmer Producer Organisation:

These are hybrid organisations combining features of a shareholder-owned company and cooperatives.
• The FPO structure was formally introduced under Company Law, to enable farmers to become shareholders.

• This ensures they have clout and bargaining power when dealing with consumers, small or big (such as organised retail supermarket chains).

• If a farmer sells groundnuts to a buyer, then no sales tax, VAT or now GST is applicable. But if an FPO sells salted peanut packets then all kinds of taxes become applicable.

• This defeats the economic viability since profit margins are slim and overheads can be large, especially when the scale is small.

• It is here that policy intervention is needed to ensure healthy growth of FPOs around the country.

Source: The Indian Express