Advantages of Income transfer policy

What is the issue?

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Income transfer policy combined with direct cash transfer should be implemented to address farmers' issues.

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What are the possible solutions?

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- The most pressing problems facing the Indian farmer are the persistently low market prices.
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- The prices of many crops in India are much below expectations and normal trends.
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- Ideally, the solution lies in holistic and broad-based agri-market reforms like -
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1. Removing APMC monopoly
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2. Reforming the Essential Commodities Act
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3. Scaling up negotiable warehouse receipt (NWR) system
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4. Innovations in building up value-chains
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5. Relaxation of land laws
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6. Promoting contract farming and agri-exports
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- However, these reforms entail a long gestation period and hence demands for quick-fix solutions are increasing.
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- These quick-fix solutions lie in the form of higher minimum support prices (MSPs), loan waivers and direct income/investment support.
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Can MSP and loan waiver address farm distress?

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- **MSP** - The MSP policy pertains to a limited number of farmers.
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- As per NSSO 2012-13, less than 10% of the country's farmers sold their produce at MSPs.
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- Moreover, MSP operations mostly benefit large farmers who have marketable surplus.
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- These operations exclude much of country's marginal farmers who produce little surplus.
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- Besides, the large inefficiencies and market distortions caused by a MSP-regime make it an unfavourable choice.
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- For example, wheat and rice stocks with the government (45.4 MMTs) are more than twice its buffer-stock norms (21.4MMTs), reflecting massive economic inefficiency.
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- Along with it, the problems of leakages and corruption in the MSP operations of procurement, stocking and distribution prevails.
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- Also, there was a difference in the MSP increase formula (C2 cost or A2+FL) offered by the different states.
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- It may be noted that C2 is about 38% higher than A2+FL and many states follow the A2+FL model.

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- **Loan waiver** - As per NABARD's Financial Inclusion Survey (NAFIS), between July 2015-June 2016, 43.5% of all agri-households took loans.
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- It also reveals that a total of about 30.3% of Indian agri-households took loans from institutions.
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- A loan-waiver is thus likely to benefit only this 30% and the remaining 70% of Indian farmers, who do not access institutional credit, will not benefit from this scheme.
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- Such high rates of exclusion must be the single-most important failure of our banking system with regard to financial inclusion.
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- Thus, it can be seen that, through higher MSPs or loan-waivers, one cannot reach more than 20 to 30% of Indian farmers.
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- This limited reach, therefore, cannot redress the widespread grievances of Indian farmers.
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What should be done?

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- The problems can be resolved by income/investment support like the Rythu Bandhu Scheme (RBS) of Telangana.
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- Under the scheme, the government gave Rs 4,000 per acre to every farmer.
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- This transfer is made twice a year, coinciding with two cropping seasons to support the input purchases of farmers. Click here to know more.
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- The scheme is said to have reached almost 93% of landowners and also budget-friendly to the state government compared to loan waivers.
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- In terms of costs, a national farm-loan waiver is likely to cost about Rs 4 to 5

trillion.
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- An income transfer scheme is likely to cost about Rs 2 trillion, even while increasing the coverage to include even tenant farmers in the future.
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- Only a cost-sharing arrangement between the Centre and states is required to bear the financial burden of the states.
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- Thus, an income transfer policy for farm inputs should be rolled out on national scale combining with the existing direct cash transfer in case of fertiliser and power subsidies.
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- The government should acknowledge this reality of farm distress and tries to resolve it on priority.
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Source: The Indian Express

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