

Partial security for farmers

Paper: III (Indian economy)

Topic, Tags: Agriculture insurance, farmer related issues, Income security, Inclusion.

Relevance and use of the article in UPSC prelims and mains examination: *This article is about the government's insurance scheme for agriculture which is a major success over earlier schemes. But it remains beset by implementation glitches. In this article we have focused on a approach that We need to pick up learnings from experience when we will implement any insurance scheme and create the infrastructure to ensure that a larger population of the farming community is to be covered under every scheme. Banks today do insist on farmers taking some insurance and would probably once again have to play a critical role in spreading the good word given that they are the first point of contact with the farmers. The new payments banks and small banks would enable this process to proliferate.*

Introduction:

- After the demonetise move in the economy, in the midpoint of the Narendra Modi government, November 26, went almost unnoticed. Normally, the mid-point of a government's tenure is an occasion to pause and reflect.
- We do that here with reference to agriculture, which engages half of the county's workforce. As is well-known, there were droughts in the first two years of this government, and the agri-GDP growth collapsed to just 0.5 per cent. Some regions like Marathwada experienced acute distress. But on occasion, bad times lead to good policies.
- The Modi government launched a new crop insurance scheme, PM's Fasal Bima Yojana (PMFBY), in February 2016, with a view to de-risk agriculture from the vagaries of nature. Kharif 2016 was the first season of this scheme. It would be good to evaluate its performance with a view to improve it.

Why these radical changes have been done in agriculture insurance sector.

- Before the launch of this initiative, the National Agriculture Insurance Scheme (NAIS) and Modified NAIS (MNAIS) were not serving the farmers' interests well. The sum insured under MNAIS, particularly for risky crops and districts, was meagre. It was based either on the quantum of crop loans or on the capping of the sum insured; the crop damage assessment based on crop cutting experiments was time-consuming, and compensation to farmers often took several months —very often, more than a year.
- The government decided to revamp all this, and as per the new PMFBY, a technical committee in each district decides the "scale of finance" for the sum insured taking into account all the costs incurred by the farmers. The premiums are decided on an actuarial basis, without any capping.
- The rest is paid by the government, divided equally between the Centre and state governments. High technology including smartphones, GPS, drones and satellites will be used for accuracy, transparency, and faster assessment of damages and settling claims.

Comparison of new scheme with previous ones:

- An appropriate evaluation of this scheme demands comparing it with NAIS plus MNAIS, over the last three years, especially with kharif 2013, which experienced a normal rainfall. It also demands comparison with kharif 2015, which experienced a severe drought — a second year in a row drought. The weather-based crop insurance scheme is a different one, and is continuing in its earlier avatar.

- But one needs to straighten out some of the implementation glitches to make it serve farmers well, and at a lower cost to the treasury. The first problem encountered with this scheme is that the actuarial premium, instead of coming down with the increasing scale of coverage, has gone up. This defies the very logic of insurance, that premiums should drop when scale increases.

Challenges to new crop insurance scheme

- **The new crop insurance scheme must be viewed from two angles.**
- The first is that there has been considerable volatility in farm output due to the vagaries of nature which has often resulted in lower production or excess unseasonal rainfall that has destroyed crops.
 1. This has in turn led to financial distress of farmers who have not been able to service their debt leading to a build-up of NPAs thus pressuring the banking system.
 2. The smaller farmers have to be targeted as this is particularly the vulnerable class. Presently the scheme does not distinguish between the large and small farmer as that does raise the issue of identification.
 3. The scheme has to work in the sense that the process has to be seamless so that all the claims are settled seamlessly. Further, given the volumes that may be involved, insurance companies have to be geared up to handle such transactions.
 4. As part of housekeeping, land records need to be in place for making assessment of the premium.
 5. We need to have access to weather data in various regions that is not captured by the IMD. Efforts by private players to create such weather stations like those by NCMSL (National Collateral Management Services Limited) have to increase as all decisions on premium as well as payouts would be contingent on this data.
 6. Last, crop loan practices are weak which has to change as often banks do not insist on this when giving a loan.

Extra issues:

- Our discussions with some insurance companies revealed that this happened because companies and their re-insurers had stretched their capacity to the brim, and then started quoting abnormally high premiums to make moolah.
- Hopefully, with competition in the subsequent seasons, these rates will drop significantly even to three per cent once 100 m ha are covered. This would bring huge savings to the treasury, and the PMO or finance ministry needs to appoint a committee to look into this issue and realise this potential cost savings.
- But the litmus test of any insurance scheme lies in how quickly it can assess crop-damages of farmers and how fast it can settle their claims. Luckily, in kharif 2016, rainfall was normal at the all-India level.
- However, there were pockets (for example, eastern Uttar Pradesh, Bihar and Assam) which faced floods, and farmers lost their crops. The assessment of the damages had to be done by eye-inspection. Drones could have been easily employed, but they were not. Under the guidelines, smart phones had to be issued to field officials, but they were not. States had to pay premiums to companies in advance, but in many cases they were not. As a result, only a miniscule of affected farmers got compensation till now. All this is not inspiring.

Conclusion:

- Unless a bold policy is matched by effective implementation, it may not deliver fully. The government is spending more than Rs 16,000 crores on the PMFBY, but a “chalta hai” attitude of some states may spoil the show. One needs a champion fully committed to the idea of PMFBY to ensure its effective implementation. Only then will it truly serve the cause of peasantry.

Question for prelims:

Consider the following statements about PMFBY(Pradhan Mantri Fasal Bima Yojana).

1. The Pradhan Mantri Fasal Bima Yojana (Prime Minister's Crop Insurance Scheme) was launched by Prime Minister on 18 February 2016.
2. It envisages a uniform premium of only 2 per cent to be paid by farmers for Kharif crops, and 1.5 per cent for Rabi crops.
3. The premium for annual commercial and horticultural crops will be 5 per cent.

Which of the following statements is/are correct:

- A. Only 1
- B. Only 2 and 3
- C. Only 1 and 3
- D. All of the above are correct.

Question for mains:

Despite of implementing several crop insurance schemes, farmers are yet to get enough protection from risks in farming.do you think that PMFBY(Pradhan Mantri Fasal Bima Yojana) is the one solution of this problem. Discuss in brief.

Suggested points:

1. Discuss briefly about many insurance schemes which were running prior to PMFBY.
2. Objectives of these schemes.
3. Why these schemes fails.
4. Discuss about PMFBY.
5. Its objectives and how can overcome the problems of previous schemes.
6. Discuss about the pros and cons of this scheme also
7. Role of the scheme in improving the financial health of farmers.

Link : <http://indianexpress.com/article/opinion/columns/demonetisation-narendra-modi-farmers-agriculture-droughts-fasal-bima-yojana-pmfby-4434146/>

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