

# De-risk the farmer

**P**ERSISTENTLY high food inflation has been attributed to a black box called “structural problems” of Indian agriculture. However, this neither helps in understanding the dynamics of food inflation nor in devising the right strategies to quell it.

For a start, we need to recognise that the prime contributors to food inflation are not cereals like rice and wheat. Instead, they are pulses, fruits, vegetables and the so-called protein basket that includes meat and milk. If we take the January-March period of this year, average inflation in cereals was a meagre 4 per cent. The average in pulses in the same period was 9.7 per cent; in eggs, meat and fish it was 18.4 per cent. This is part of a longer trend where — over the past five years or so — the relative price of non-cereal food items has risen vis-a-vis cereals.

The key to solving the food inflation puzzle then is to answer the question: why hasn't this sustained shift in relative prices brought about an appropriate supply response that would have led to a correction in the inflation differential? Why has the farmer not shifted his cropping pattern from rice and wheat to pulses or vegetables and increased the supply of the latter?

The reasons for this disconnect between relative price changes and expected shifts in cropping patterns differ across items but there are common factors. For example, pulses are fundamentally different from cereals since they need nutrients and energy for synthesising both proteins and carbohydrates unlike cereals that need to synthesise only carbohydrates. This makes them more vulnerable to the vagaries of weather than either rice or wheat and thus riskier to cultivate. This risk would have been mitigated if farmers had better marketing and price support. But unlike cereals where there is a procurement price system run by the government — that offers a minimum support price — and private trade that has developed alongside, this is not true of pulses.

Though the government declares a minimum support price for most pulses, procurement operations are far less effective than those for cereals. Thus farmers



So that critical items aren't in short supply. That's the way to fight inflation

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could see a complete collapse in prices if the crop is good. The lack of a robust marketing network also implies that in periods of deficit, when retail prices actually pick up, farm gate prices remain subdued.

It is not surprising then that in a number of the major pulses-producing states (MP, Rajasthan, Maharashtra and UP), cultivation has been pushed to marginal, non-irrigated land. Farmers have also been reluctant to invest in fertilisers and other nutrients or experiment with high-yielding but more expensive varieties of pulses. As a consequence, yields have stagnated. From about 590 kg/hectare in the 1990s, the average yield for pulses (averaged across major categories) has risen to barely 600 kg/hectare in the 2000s. The average annual growth rate in the output of pulses is less than 1 per cent. This is alarming since pulses are

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the major source of proteins for Indians and the population growth is about 2 per cent.

For fruits and vegetables, cropping risks stem from the absence of a cold chain and an inadequate food processing industry. Given these risks, farmers are reluctant to follow price signals and commit more land to these items instead of cereals. Post-harvest waste of fruits and vegetables is as high as 50 per cent, and higher output simply translates into higher levels of wastage and a collapse in farm-gate prices. A thriving food-processing industry could have provided producers an assured market and relative price stability. But that, alas, is not the case since food processing is confined to only about 2-3 per cent of fruit and vegetable output. Thailand, in comparison, processes 30 per cent and Brazil 70 per cent.

The milk sector presents a

curious irony. India is the largest milk producer in the world with an annual output of 9.6 million tonnes. The per capita consumption is higher than the minimum consumption norms prescribed by the WHO. However, these aggregates are shored up by the success of the cooperative movement in Gujarat (NDDDB or Amul), which began in the 1970s, and a handful of cooperatives in other states. A number of states are severely deficit in milk. The result again is sustained high prices of milk and its impact on food inflation. To make a dent in milk prices, we need an “Amul” in every state, providing procurement and marketing support to millions of milk-producers who are now outside any safety net.

The solution to food inflation thus lies in recognising the specific problems that plague

and a share in higher revenues when prices move up.

To achieve this, we need a more effective procurement system (based on the MSP) for items like pulses where government purchase can play a role in mitigating risk. We also need private trade to develop alongside. For fruits, vegetables and milk we need large corporate participation in the post-harvest supply chain. This would break the current monopoly of private traders, reduce the tiers of intermediation and ultimately ensure a better farm gate price for the cultivator.

There are subtler strategies as well. In pulses, for instance, we need to work on developing varieties with shorter cropping cycles so that they can be grown on the same land as wheat or rice without affecting their cropping cycles. This kind of multi-cropping could reduce farmers' risks substantially, while simultaneously boosting the output of pulses. There has been limited success with this in the case of *chana* and *mung*. Agricultural Price Commission Chairman Ashok Gulati has suggested the possibility of entering into long-term production contracts for pulses with countries like Tanzania, which have fallow land and weather and soil conditions conducive to cultivating pulses. This will enable us to bridge the domestic supply gap but with some certainty about import prices.

Whether it is through long-term contracts or purchases in the spot market, we need to import food items aggressively to bridge the domestic demand-supply gap. Some analysts will no doubt raise red flags over what this will do to the current account deficit. The way around this problem is not to hold back on imports but instead to export more. At around 80 million tonnes, the government's foodgrain stocks are about two and a half times the buffer stocking norms and a large part of this is rotting because of the lack of storage facilities. We are literally sitting on a mountain of grain that we can export and then use it to fund imports of deficit items. Let's take full advantage of this bounty.

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