After 3 rainfall shocks, governments need to wake up

That agricultural GDP will collapse after the third straight rain-shock is obvious—after a 12% deficient monsoon in June-Sept 2014 and unseasonal rains in March, this year's deficit is 14%. The impact will be worse this year since reservoir levels are lower than last year in states that had the worst drought. Maharashtra, Uttar Pradesh (UP) and Karnataka, for instance, account for 30% of India's kharif food production while the deficiency of rain was 25.2%, 45.8% and 19.9%, respectively, this year on the back of a 17.2%, 47.2% and +7.2% (that is, rainfall was over the Long Period Average) shortage last year. Add to this the irrigation levels—a mere 18.7% of Maharashtra's cropped area is actually irrigated according to ratings agency Crisil, and 34.3% in Karnataka. The figure is a higher 76.7% for UP, but this has to be seen against reservoir levels that are 25% below the long-term average for the state—the figure is minus 43% for Maharashtra and Karnataka. In other words, the picture of agrarian distress at the level of big states will be a lot worse than what the all-India picture reveals.

The bulk of the blame for this has to lie with the state governments since agriculture is a state subject and they have scandalously squandered valuable resources. While FE columnist Ashok Gulati points to how Maharashtra spent R81,206 crore in the 2000s to increase irrigation from 3.9 million hectares to just 4.1 million—in comparison, Gujarat spent just R39,369 crore and increased irrigation from 3.3 million hectares to 5.6 million—a Kotak report pointed out that state governments spent over R6.5 lakh crore on irrigation and flood control over the past decade but the total irrigated area grew by just 1.3% per annum as a result. Indeed, the bulk of the increase in irrigated area came from privately-owned tube wells, not from state government-led spending on canals or tanks. Despite this, the Centre has a big role to play and that includes pushing farm insurance—insuring around 70% of cropped area, for instance, would cost around R19,000 crore per year. Given what the Centre already spends on crop-related calamities and, perhaps, a cess on farm equipment, the amount can be financed in partnership with states, especially if less money is wasted on FCI. Curtailing FCI's inefficient procurement would also spur other reforms since farmers would be less prone to grow just wheat and rice—indeed, if farmers got direct cash transfers per acre of land instead of FCI-procurement-linked incentives for just wheat and rice in 3-4 states, this would also diversify production to states like Bihar and West Bengal. While the states will dither over reforms, the Centre needs to speed up its work.