

A REPORT ON

Performance of PMKSY and PMFBY amid

the ongoing agrarian crisis

Prepared By-

Group 25

Naman Chokhani 2017B3A70726P

Akshat Jasoria 2017B3A20648P

Shantanu Dagar 2017B3A30540P



Birla Institute of Technology and Science, Pilani

Pilani Campus

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ABSTRACT

Agriculture remains the primary sector of the Indian economy. While it accounts for merely 16 percent of the country's GDP, approximately 43.9 percent of the population depends on it for their livelihood. Agriculture in India is undergoing a structural change leading to a crisis situation. The rate of growth of agricultural output is gradually declining in recent years. The relative contribution of agriculture to the GDP has been declining over time steadily. The performance of agriculture by crop categories also clearly indicates the slowing down process of agriculture in India. The government has come up with various mechanisms to address these issues: insurance, direct transfers and loan waivers, among them. This report analyzes the performance of two such schemes, the PMKSY (Pradhan Mantri Krishi Sinchai Yojana) and the PMFBY (Pradhan Mantri Fasal Bima Yojana), which were brought in to tackle the current agrarian crisis we're in. The report consists of an introduction which gives an overview of the current situation. Further, it discusses the basic details and objectives of the two schemes. Going on, the performance assessment of both the schemes is extensively discussed. The last part of the report contains conclusions and findings based on the performance analysis.

1. INTRODUCTION

Indian economy is still considered to have agriculture as its primary sector. In recent years, indebtedness, crop failures, non-remunerative prices and poor returns have led to agrarian distress in many parts of the country. The government has come up with various mechanisms to address these issues: insurance, direct transfers and loan waivers, among them. However, these mechanisms are ad hoc, poorly implemented and hobbled by political dissension.

India is facing a “farmer crisis”. The agricultural sector contributes 61 percent of India’s GDP (as of 2017). The population employed in this sector has decreased by 10 percentage points within a decade, from 53.1 percent in 2008 to 43.9 percent in 2018. The sector is facing manifold problems such as crop failures, non remunerative prices for crops and poor returns on yield. Agrarian distress is so severe, that it is pushing many farmers to despair; about 39 percent of the cases of farmer suicides in 2015 were attributed to bankruptcy and indebtedness. While the Government of India (GoI) has made various efforts to address farmers’ grievances, the policies are insufficient, weighed down by their being merely ad hoc and subject to political wrangling. There is an imperative for a financial safety net that does not consist only of direct transfers and loan waivers—short-term solutions that often prove to be counterproductive—but a framework that is timely, consistent and improves agricultural productivity and, in turn, farmers’ quality of life.

The budget speech of 2018 stresses the Central Government’s commitment to double farmers’ income by 2022. While critics have suggested this as an unrealistic goal, the govt was confident in achieving the target by 2022. However, with the country passing through a phase of agrarian crisis the discourse has now moved to loan waivers and income transfer plans. The Union Budget in the FY 2019–20 announced the primary direct income support to small and marginal farmers in the country costing around 75,000 crores. The agrarian distress is additionally putting pressure on the govt with the advancement of time.

In this context, it's important to assess the main schemes that are implemented within the agriculture sector by the ruling NDA government. The 2 major schemes are Pradhan Mantri Krishi Sinchai Yojana (PMKSY) and Pradhan Mantri Fasal Bima Yojana (PMFBY).

The objective of this report is to analyze the performance and effectiveness of the above two schemes. It starts with the basic overview and objectives of the two schemes. Then it talks about improvements made over the past schemes as well as several structural and financial problems the current schemes might have. It compares the actual benchmarks achieved to what were initially expected when the schemes were proposed.

The report is divided into three parts. The first part talks about the PMKSY scheme. The second part discusses the PMFBY scheme. The third part consists of conclusions based on the report.

2. PMKSY(Pradhan Mantri Krishi Sinchai Yojana):

The Government of India is committed to accord high priority to conservation of water and its management. To the present effect, Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) has been formulated with the vision of extending the coverage of irrigation 'Har Khet ko pani' and improving water use efficiency 'More crop per drop' during a focused manner with end to finish solution on source creation, distribution, management, field application and extension activities.

The cupboard Committee on Economic Affairs chaired by Hon'ble Prime Minister has accorded approval of Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) in its meeting persisted 1st July, 2015. PMKSY launched on Dominion Day , 2015 with the target of accelerating the irrigation coverage and therefore the much-needed Command Area Development (CAD) (last-mile connectivity). All the prevailing schemes in irrigation were subsumed under PMKSY with an estimated amount of 77,595 crore. Of the entire amount, 65,635 crores are already released.

PMKSY has been formulated amalgamating ongoing schemes viz. Accelerated Irrigation Benefit Programme (AIBP) of the Ministry of Water Resources, River Development & Ganga Rejuvenation (MoWR,RD GR), Integrated Watershed Management Programme (IWMP) of Department of natural resource (DoLR) and therefore the On Farm Water Management (OFWM) of Department of Agriculture and Cooperation (DAC). PMKSY has been approved for implementation across the country with an outlay of Rs. 50,000 crore in five years.

OBJECTIVES :

The broad objectives of PMKSY will be:-

- a) Achieve convergence of investments in irrigation at the field level (preparation of district level and, if required, sub district level water use plans).

- b) Enhance the physical access of water on the farm and expand cultivable areas under assured irrigation (Har Khet ko pani).
- c) Integration of water source, distribution and its efficient use, to make best use of water through appropriate technologies and practices.
- d) Enhance recharge of aquifers and introduce sustainable water conservation practices
- e) Ensure the integrated development of rainfed areas using the watershed approach towards soil and water conservation, regeneration of groundwater, arresting runoff, providing livelihood options and other NRM activities.
- f) Promote extension activities relating to water harvesting, water management and crop alignment for farmers and grass root level field functionaries.
- g) Explore the feasibility of reusing treated municipal wastewater for peri- urban agriculture.

ASSESSMENT OF PMKSY PERFORMANCE :

The aim was to increase the coverage and improve efficiency. Also, the government revived the AIBP(Accelerated Irrigation Benefits Programme) and increased focus on micro Irrigation. But the expectations are not met due to following reasons :

- While there has been progress on the projects in AIBP, they have crossed their completion date.
- In case of microirrigation, the coverage has increased. But given that its potential is 10 times its current penetration so there is great scope and it should be given equal importance as AIBP.
- The prioritised irrigation programs which were to be funded by NABARD are lacking behind schedule.
- Designed as a contractor driven project which only looks into the profit and loss whereas the community-driven projects are operated and managed by the community, which is sustainable, economical and more beneficial.
- Earlier multiple ministry involvement led to hassles and corruption.

DATA ANALYSIS OF PMKSY :

As per the Economic Survey (2017–18), irrigation coverage in India stands at 48.7 percent, which suggests that Indian agriculture remains highly hooked onto monsoon.

PMKSY has set the target to finish 99 irrigation projects by December 2019 with the aim of improving the irrigation coverage within the country. However, progress in a number of these projects has been stalled and there's no further progress regarding the increase in Irrigation Potential Utilised (IPU).

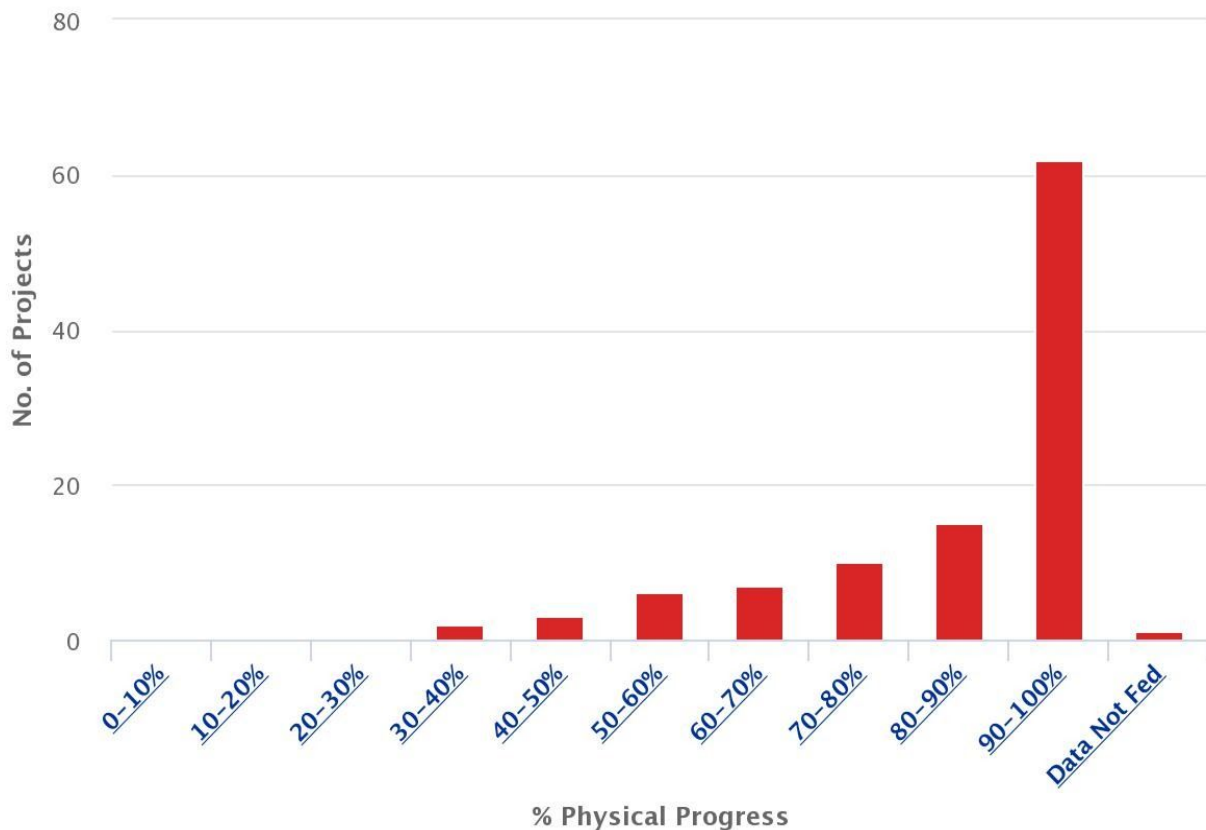


Fig. 1. Physical Progress

Out of those 99 projects to be completed before December 2019, 26 of them have a financial progress of but 70 per cent. Even within those scheduled to be completed by June 2019, seven of

them have a financial progress of but 75 per cent. Overall, 74 out of those 99 have little or no progress in CAD and construction of field canals.

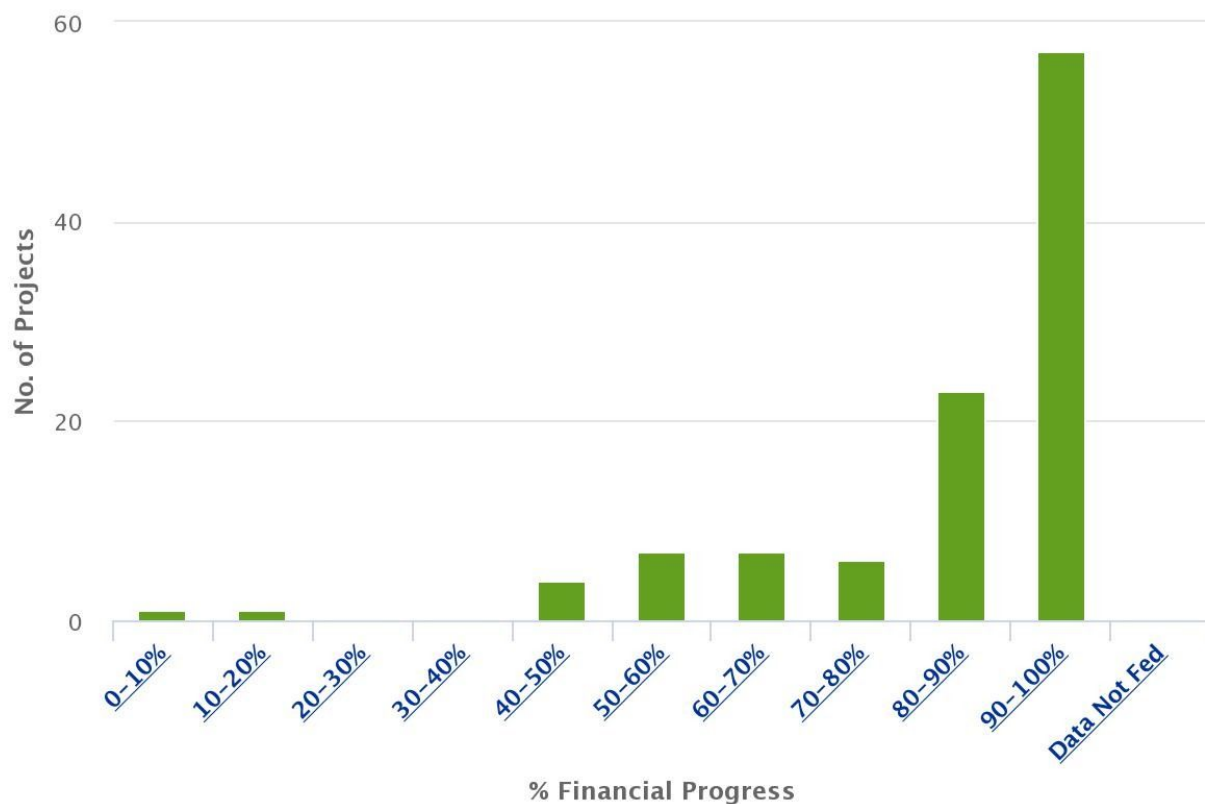


Fig. 2. Financial Progress

According to reports from the agriculture ministry and parliamentary standing committees, quite 38 percent of 39 Medium Irrigation Projects haven't started the CAD and not even one watershed development project out of 8214 projects has reached the closure date. It's also been noted that 30 percent of the projects have registered but 50 percent progress.

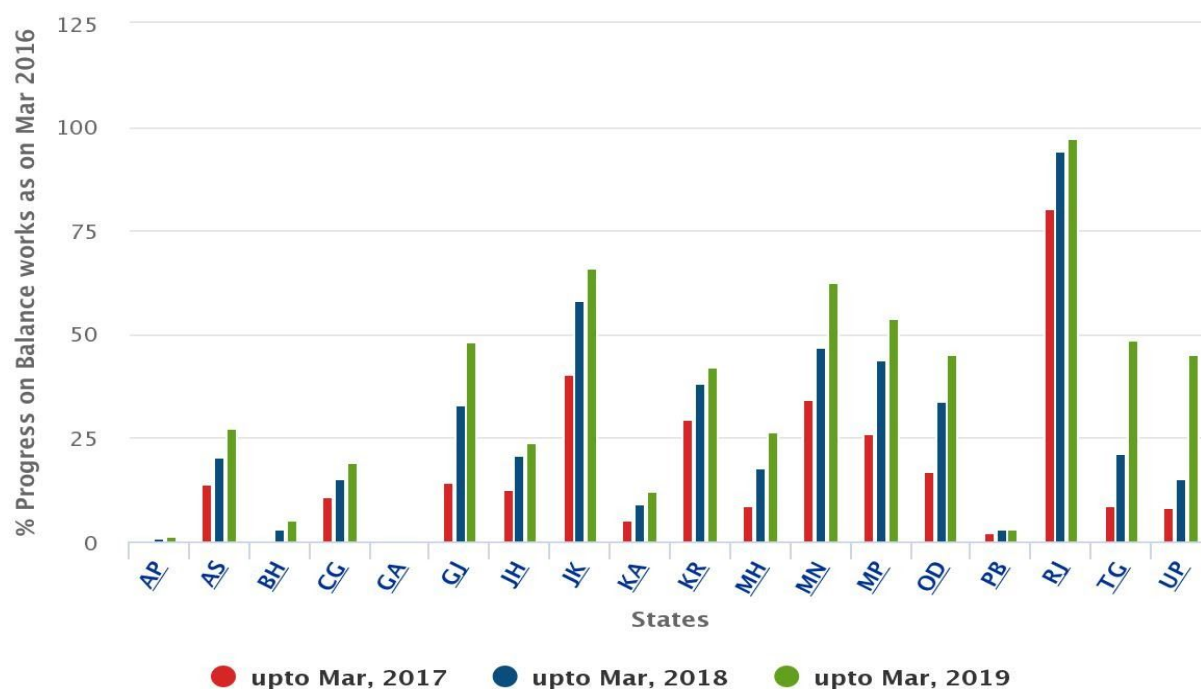


Fig. 3. Physical Progress Comparison (All States)

The fiscal burden of watershed development projects under the previous Integrated Watershed Management Programme (now a neighborhood of PMKSY) between the centre and therefore the state was 90 and 10 per cent, respectively. It had been changed to 60-40 under PMKSY which led to states effectively dropping/delaying them.

The states showed less interest in CAD due to the issues in land acquisition and a few have asked for more funds to finish them. There's also a good gap of around 22 million hectares between the Irrigation Potential Created (IPC) and therefore the Irrigation Potential Utilised (IPU). This suggests that increasing the cash which is spent on expanding irrigation won't be very productive until the last-mile connectivity is made .

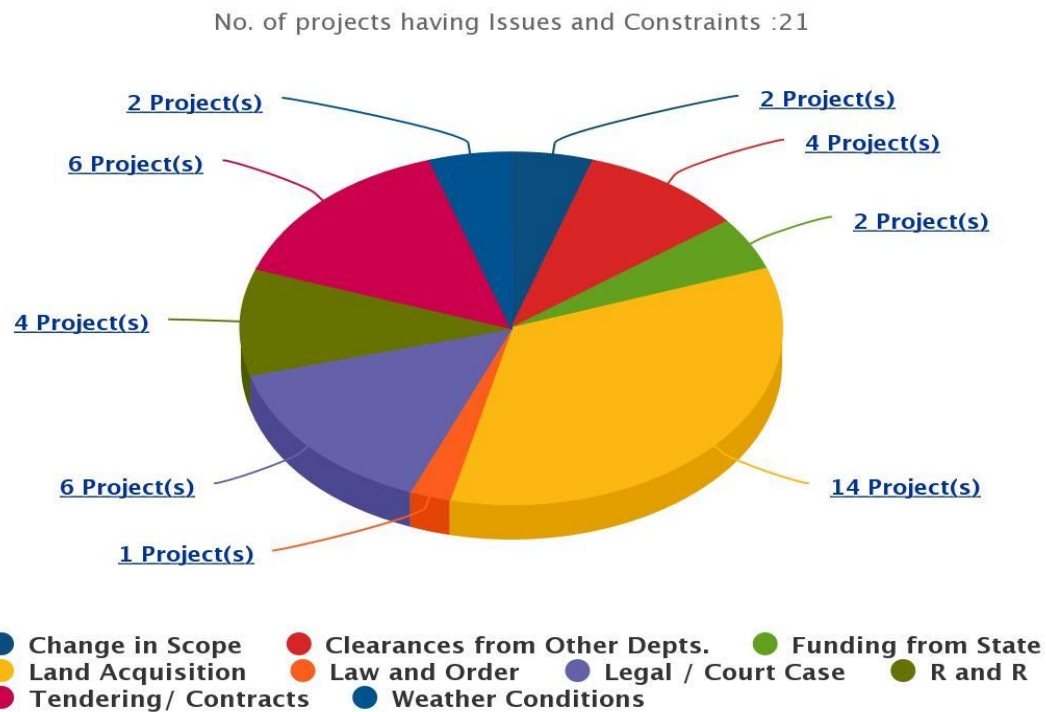


Fig. 4. Issues And Constraints

The micro irrigation targets set by the scheme are met but just a couple of states account for the progress. Most of the north eastern states have seen zero development. The central budget allocation for the scheme had increased considerably to 9429 crores within the year 2018–19.

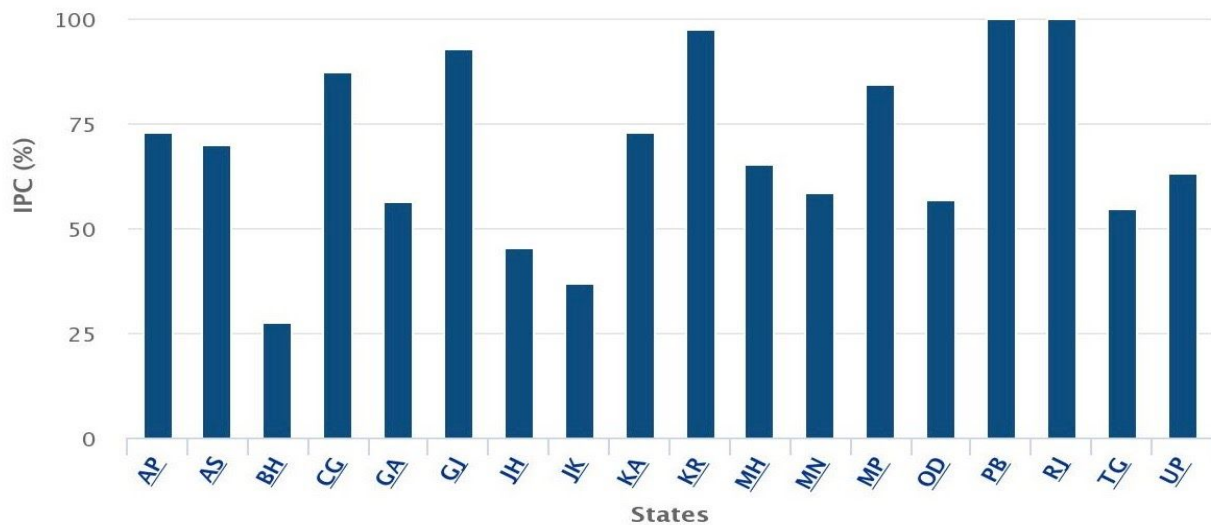


Fig. 5. Irrigation Potential Created: Target vs Progress (All States)

3. PMFBY (Pradhan Mantri Fasal Bima Yojana):

In 2016, the GoI formulated the Pradhan Mantri Fasal Bima Yojana (PMFBY) to weed out the issues in the previous crop insurance schemes. The PMFBY is a crop insurance scheme that improved upon its predecessors to provide national insurance and financial support to farmers in the event of crop failure: to stabilise income, ensure the flow of credit and encourage farmers to innovate and use modern agricultural practices. However, a close assessment of the scheme and its implementation shows that the PMFBY is afflicted by the same problems as the previous schemes.

The scheme was designed to assist farmers deal with crop losses and it replaced the National Agricultural Insurance Scheme. The scheme had more farmer-friendly provisions, with reduced burden on premium rates and aimed toward increasing the coverage. The budget outlay for PMFBY has increased from 12,976 crore in FY 2018–19 (RE) to 14,000 crore in FY 2019–20 (BE).

PMFBY aims to supply a comprehensive insurance cover against failure of the crop thus helping in stabilising the income of the farmers. The Scheme covers all Food & Oilseeds crops and Annual Commercial/Horticultural Crops that past yield data is out there and that requisite number of Crop Cutting Experiments (CCEs) are being conducted under General Crop Estimation Survey (GCES). The scheme is being administered by the Ministry of Agriculture.

It was a scheme introduced in 2016, keeping in mind that farmers are vulnerable to the vagaries of nature and need insurance support for crop loss. They are required to pay a uniform premium of 2 per cent for kharif crops, 1.5 per cent for rabi crops, and 5 per cent for commercial and horticultural produce, with the balance being incurred by the government.

The PMFBY has made several improvements compared to its predecessors, the National Agricultural Insurance Scheme and the Modified National Agricultural Insurance Scheme. One of the highlights of the PMFBY is the absence of any upper limit on government subsidy, even if the balance premium is 90 percent. The scheme was implemented in February 2016 and was

allocated an initial central-government budget of INR 5,500 crore for 2016–17. It has increased by 154 percent, as announced in the Interim Budget of 2019. This massive increase in the outlay for the scheme shows that it is important for the government to insure all farmers and guarantee financial support and flow of credit to them in the event of crop-yield loss.

AN ASSESSMENT OF PMFBY PERFORMANCE

While the PMFBY aims to be a transformative scheme, its implementation has been poor, with various issues in its execution at the state/district level. Some of the major issues of the scheme are mentioned below:

- Since states choose to voluntarily implement the PMFBY, it is their responsibility to notify crops. However, it is unclear how states should choose the major crops during a season for different districts, which results in the exclusion from insurance coverage of farmers who grow non-notified crops.
- Many state governments have failed to pay the subsidy premiums on time, as paying these premiums eat into their budgets for the sector. This leads to insurance companies delaying or not making claim payments. In 2016, the Bihar government had to pay INR 600 crore as premium subsidy, which was one-fourth its agricultural budget of INR 2,718 crore in 2016.
- In 2016–17, private insurance companies paid a compensation of INR 17,902.47 crore, and the difference between the premiums received and compensation paid was INR 6,459.64 crore. In 2017–18, they paid over INR 2,000 crore less in compensation. Thus, the outgo in compensation during 2017–18 stood at just INR 15,710.25 crore. Evidently, insurance companies are piggy-backing on the banking system, as the difference increases despite a fall in the number of farmers insured. Insurance companies continue to profit, despite a decline in the number of farmers being benefitted.

DATA ANALYSIS OF PMFBY :

The PMFBY was created to target 50 percent of all farmers, with the promise of compensation in case of crop loss. Since its implementation, the PMFBY has achieved 41-percent coverage of

farmers— this may be considered impressive, particularly when compared to the 28-percent coverage of farmers achieved under the three previous schemes combined (WBCIS + NAIS + 22 MNAIS)

While the positive effects are significant, it is important to also discuss the negative changes. As Table below shows, the number of insured farmers has declined by 14 percent from Kharif 2016 to Kharif 2017, and the total area insured has decreased by one percent over the span of one year. The PMFBY has therefore failed to achieve its main targets, i.e. increasing the area and the number of farmers insured.

	Kharif 2016	Kharif 2017	Percentage Change
Farmers insured	40,258,737	34,776,055	-0.14
Claims paid (crore)	10,496.3	17,209.9	0.64
Gross premium (crore)	16,317.8	19,767.6	0.21
Area insured (ha)	37,682,608	34,053,449	-0.10
Farmers benefitted	10,725,511	13,793,975	0.29

Table 1: Change in statistics from 2016 to 2017

In the FY 2018–19, seven major states have declared drought and every one of them barring Odisha are seeking relief funds from the centre. This comes after the definition of the drought was changed and therefore the central assistance to medium-sized droughts was reduced considerably. The relief fund requests are despite the heavy spending within the PMFBY insurance scheme which was alleged to provide the much-needed cover incase of drought or crop damage.

The recent reports suggest that the target of accelerating the amount of enrolments (which is down by 17 per cent this year) and therefore the specialise in delivering huge profits for insurance companies have made the planning impractical. Insurance companies usually collect premiums directly from the banks with none ground assessments of the farms. Using banking infrastructure and forcible enrolment to extend coverage has become counterproductive to the cause.

The recent evaluation by the Union Ministry of Agriculture and Farmers had said that the entire area insured under the scheme decreased by 13.27 per cent in 2017–18 and therefore the area insured per farmer within the crop in 2017–18 was 0.02 hectares lesser than that in 2016–17. For the year 2017–18, 91 per cent of the insurance claims in Himachal Pradesh and 86 percent of them in Tamil Nadu have remained unpaid.

However, the premium paid to the businesses was higher by 11.6per cent within the previous year while the number of claims was lower. The rise in premiums was thanks to the cut-off extensions requested by the states. The edge limits ascribed by the utmost claim also are very low, which suggests that the farmers will get only a fraction for the loss they incur. The evaluation report had asked the govt to think about capping the ‘super-normal’ profits and reducing the amount of participating companies from 18 to 10.

Number of Farmers enrolling under PMFBY decreases over the years:

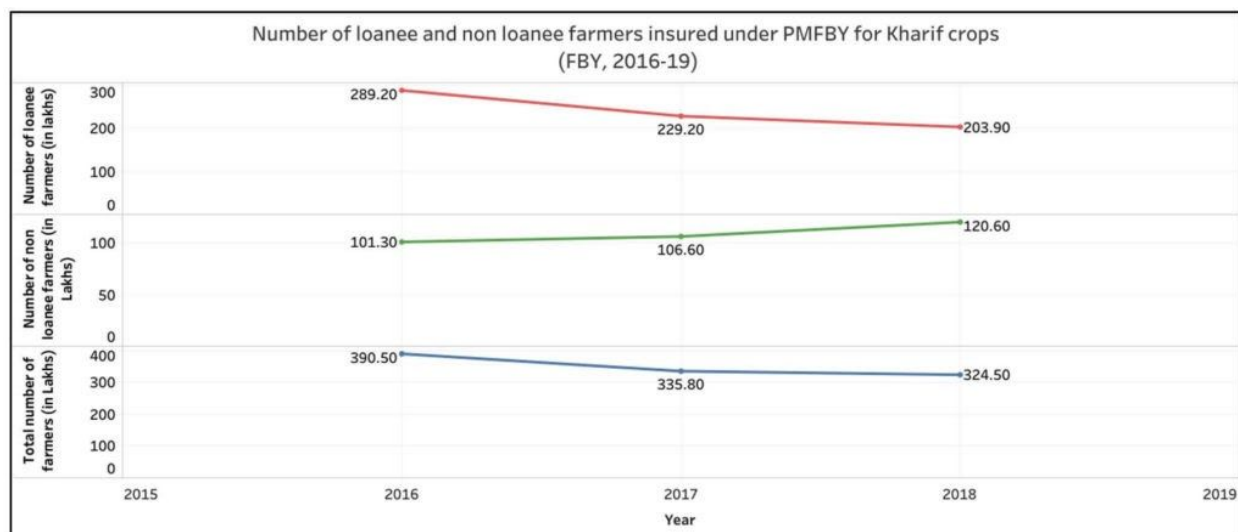


Fig 6. Farmers insured under PMFBY

In Kharif 2016, when the PMFBY and RWBCIS were introduced, a total of 405.5 Lakhs farmers got insurance coverage. This number further came down to 350.2 lakhs in Kharif 2017 and 338.4 lakhs in Kharif 2018. The following chart shows the number of farmers who have enrolled in PMFBY. The data reveals that the number of loanee farmers has decreased by 29.5%, from 289.2

lakhs in Kharif 2016 to 203.9 lakhs in Kharif 2018. Meanwhile, the number of non-loanee farmers, those who have the option of voluntary enrolment has increased from 101.3 lakhs in Kharif 2016 to 120.6 lakhs in Kharif 2018- an increase by 19%.

Claims are not being settled on time:

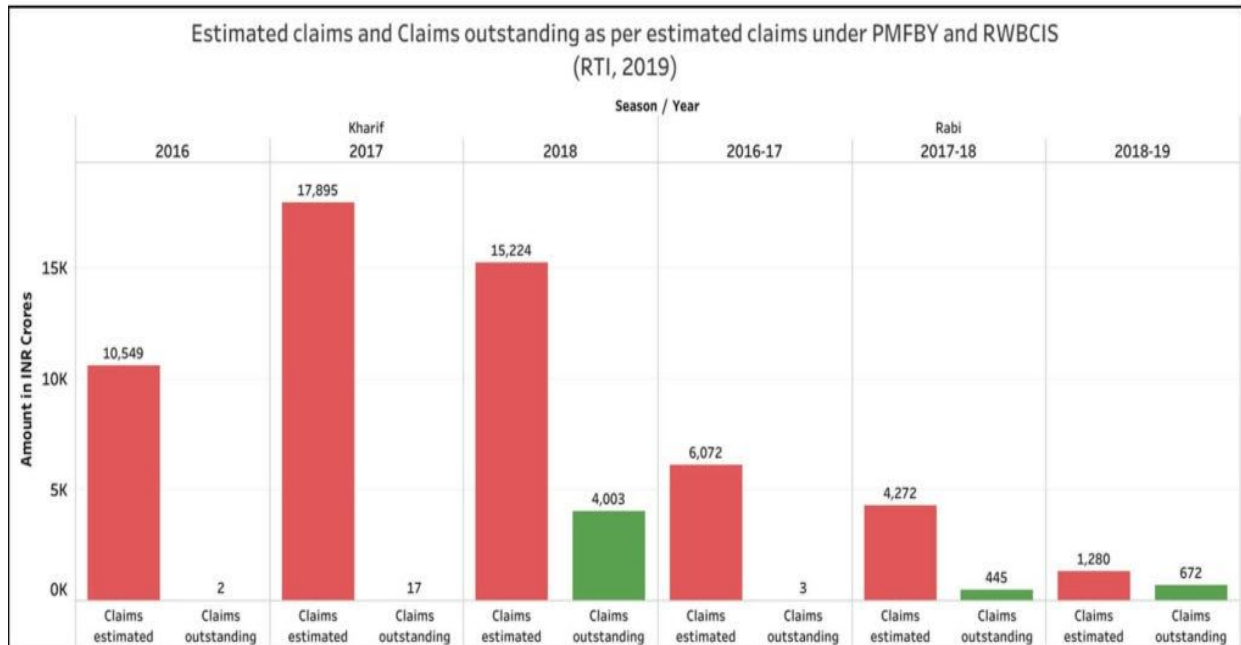


Fig 7. Claims under PMFBY

26% of the estimated claims for Kharif 2018 and 52.5% of estimated claims for Rabi 2018-19 were pending as of August this year. Claims worth Rs. 445 crores are still pending from Rabi 2017-18. This shows that the claims are not being settled on a timely basis. The data clearly shows that the delay in the disbursement of claims is still persistent. Even the governments are delaying the payment of their share of premium which is affecting the farmers.

4. CONCLUSIONS :

Agriculture has been a key contributor to India's growth story, where 650 million people or 58 per cent of Indian households are directly or indirectly dependent on agriculture. In recent years, crop failures, indebtedness, non-remunerative prices, and low returns have resulted in agrarian distress in most parts of the country. Despite the government introducing several reforms in the sector, challenges continue to exist.

The Indian agriculture sector is confronted with high price volatility, climate risk, and indebtedness. It is currently suffering from a period of crisis that has not only affected the overall productivity but also led to a massive reduction in farmers' income. Since the majority of farmers are small and marginal with declining and fragmenting landholding, these uncertainties make it even more risk-prone.

Krishi Sinchayee Yojana

Though the scheme focuses on assured irrigation through reduced water wastage and improving efficiency, it has so far failed to deliver on its promises. The target was to create irrigation potential for additional 4,293 thousand hectares by December19, but only 67 percent of the target has been completed.

Overall, PMKSY has set the target to achieve 99 irrigation projects by December19 to improve the irrigation coverage in the country. Land acquisition and delay in tendering process are the main reasons cited for the delay in the completion of the projects.

Fasal Bima Yojana

A close assessment of the scheme and its implementation shows that though the scheme provides much-needed relief as it protects the farmer from loss of income due to unavoidable risk, it does not guarantee any assured income for the produce. Being only a yield protection insurance, this scheme is not holistic and fails to provide revenue protection. Incorporation of technology through remote-sensing, drones, satellite imagery, and digitisation of land records should be promoted for effective implementation of the PMFBY.

Additionally, a regulatory framework that unifies the insurance system covering yield and price risk will ensure increased participation. The Government has taken steps to make the scheme effective, but hurdles remain in its effective implementation.

The urgency in addressing the issues in both irrigation and insurance has increased, thanks to global climate change. Changing weather patterns as results of global climate change became far more noticeable. The damaging reports from the Intergovernmental Panel on Climate Change (IPCC) and the data from the Meteorological Department, which were presented by the economic survey, suggested that global climate change will have an enormous impact on farm incomes. Kharif and Rabi rainfall on a mean has declined by 26 and 33mm, respectively. There has also been an increase within the number of hot and dry days during the monsoon season. These effects will reduce farmers' income by 4.3 and 4.1 percent for Kharif and Rabi crops, respectively. If no immediate measures are taken, the income losses in unirrigated areas may rise to 20–25 percent. Increasing anticipatory research is crucial for handling the growing farmers' uncertainty which is claimed to escalate within the forthcoming years.

It is therefore important to enhance access to irrigation while promoting efficient usage of water in semi-arid regions. High productivity must be matched with a lower amount of consumption. Diversification will help and also mitigate the risks within the price shocks/production losses. This points to the necessity for shifting from crops like rice and sugarcane in places where water consumption is already high. Implementing price policies that reflect the scarcity and value of water is equally important.

Weather-based insurance models catering to particular regions and improving access to irrigation alongside encouraging efficient usage of water are going to be of great help in absorbing the decline in incomes within the end of the day.

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