CREDIT AS A CONTRIBUTOR TO DOUBLING OF FARMERS' INCOMES

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The Prime Minister's multi-pronged strategy to double farmer's income will lead to creating an eco-system which will increase flow of financial resources to rural sector that would generate and sustain demand. In addition, there is need to increase the flow of resources in the rural sector through the existing channels of network of brick and mortar branches as well as strengthening the model of business correspondents. The recently licensed small and payment banks are also expected to contribute to larger credit flow in the rural sector.

The Prime Minster has set an objective to double farmer's income by 2022.The proposed strategy involved focus on irrigation combining water conservation to have 'per drop, more crop'; quality seeds and efficiency in using of nutrients; reducing post-harvest losses; promoting food processing; creating national agriculture market; ensuring risk mitigation; and encouraging ancillary activities. The Finance Minister, through Union Budgets, of last two years has also been stressing strategies to increase irrigated area under net cultivation; creating a long term irrigation fund in NABARD; ensuring sustainable management of ground water resources; allocating additional resources to MGNREGA for creating ponds and digging wells; and establishing a dairy processing and infrastructure development fund.

The goal of doubling farmers' incomes by 2022 is indeed laudable albeit a Herculean task. The goal attains importance in the context of India's labour market and nature of our agriculture which employs nearly half of total workforce and nearly two-third of rural workforce. Increasing the incomes of farmers without causing a sharp increase in prices to the consumers makes this task even more formidable. The goal has to be contextualised in the nature of income generation for household's wherein, almost 63.7 per cent generated from cultivation is from agriculture while only 3.7 per cent is from livestock.[1]

The doubling of farm income requires a fundamental transformation of the way agriculture is undertaken in the country[2]. Should the country try for another green revolution? The socio-economic impact on Punjab, since the introduction of green revolution has not been very encouraging with soil degradation, greenhouse gases and rapidly falling water table, which has resulted in highly indebted farmers and high incidence of ailments like cancer and kidney failure.

The gigantic task of doubling farmer's income implies that there is a need to pursue a holistic approach towards transforming and modernizing present day agriculture. This new approach will have to concentrate on improving and expanding market access, yields, productivity, quality and reach of inputs, agricultural extension services, expanding commodity production in rural areas while redefining and reworking the present supply of agricultural credit. The empirical studies substantiate that nearly two-third of farmers who did not like to continue in farming ascribed the reasons to the fact that agriculture was not profitable[3]. To ensure profitability, policy makers need to consider sale price and cost of agriculture produce. In this context, some agriculture economists have propounded the hypothesis of shifting to high value agricultural crops (HVCs) to increase incomes[4]. Smart farming and credit supporting smart farming has also been suggested as another possible strategy of a larger holistic approach to doubling farmers' incomes[5].

The shift to high value agricultural crops, especially commercial crops is a welcome suggestion. However, a large scale adoption of the strategy implying a complete shift from foodgrains could disrupt the present culture of a staple diet, and

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[1] *NSS Report No.569: Some Characteristics of Agricultural Households in India, 2012-13, p.23 and p.63.*

[2] *NSS Report No.569: Some Characteristics of Agricultural Households in India, 2012-13, p.17-19*

[3] *NSS 59th Round, Jan-Dec 2003, GOI – Situation Assessment Survey of Farmers – Some aspects of Farming.*

[4] *Ramesh Chand, "Doubling Farmers' Income: Strategy and Prospects", Presidential Address, Indian Journal of Agricultural Economics, Volume 72, Number 1, January – March 2017.*

[5] *CL Dadhich, "Time to Push Credit for Smart Farming", The Hindu Businessline, 25 March 2017.*

endanger India's food security. This endangering of India's food security risks a revival of the fears of shortages and the dependence on US Aid under PL-480. Hence, instead of a excessive stress on growing high value crops, there is a need to encourage diversification of agricultural income where income from agricultural activities forms an important but only one component, while shift to food processing and value addition can comprise the rest. A similar emphasis on commodity production like milk or honey could increase incomes of agricultural households. Similarly, adopting ways to enhance value of produce through procedures of simple agro-processing on the farm itself, given that growing mechanization provides ample spare time for farmers. Illustratively, tomato farmer could consider part sale in the market and part conversion to ketchup which can enhance income. Similarly, sugarcane farmer could convert partial produce into jaggery on farm while selling other part to sugar factory. However, such a diversification and changed emphasis will require large scale additional infusion of credit by the formal sector for working capital, financial literacy, and marketing skills. Further, if value addition and agro-processing has to be encouraged, it will require large investments in better post-harvest methods which should also be considered as an essential ingredient of production cycle.

A sustainable way to encourage such a transformation will be to encourage Farmer Producer Organisation, and create forward and backward linkages for agricultural produce. Invariably, these linkages will require new investments, which are already being planned by the Government in the form of better water management techniques including improved irrigation facilities, road network, and technology infrastructure, contributing to a larger and better ecosystem.

Despite urgency, there is scarce discussion amongst policy circles on the role that credit can play in improving incomes. This largely stems from the misconception that credit to agricultural sector has constantly increased with each budget. Credit to the agricultural sector by the formal banking sector encompassing the scheduled commercial banks,

cooperative banks and regional rural banks was budgeted at Rs.10 lakh crore in 2017-18 from was Rs.8.8 lakh crore in 2016-17.

The direction and nature of rural credit can play an important role in increasing farmers' incomes, especially in the context of generational shift and changing profile of agriculturalists. First, the pattern of land ownership and changing dynamics in rural India. The last two decades witnessed a gradual change in the land ownership pattern. This land ownership pattern is largely due to changing demographics of the country and increased emphasis on education. Together, these have triggered an outmigration from villages to cities. Consequently, there is an increase in tenant farmers in agriculture, particularly pronounced in the segment of population holding more than ten hectares of land[6]. There are no accurate estimates about the number of tenant farmers though they are estimated at around two crore households[7]. Fragmentation of holdings is another bane that has already received a lot of attention and has been stressed in official documents[8]. According to estimates, land holding in India is small, and about 69 per cent of agricultural households in rural India possessed land less than one hectare while another 17 per cent had land between 1.00 hectare and less than 2.00 hectare[9]. According to NSSO, about 36 per cent of the tenant farmers are landless while 56 per cent of the tenant households are marginal landowners having less than one hectare of land[10].

6 NSS Report No.569: Some Characteristics of Agricultural Households in India, 2012-13, p.32.

7 Tim Hanstad, "India's Land for Rent: The Future of Indian Land Reform", Foreign Affair, April 2016, https://www.foreignaffairs.com/articles/india/2016-04-29/indias-land-rent

8 Three Year Action Agenda 2017-18 to 2019-20, Niti Aayog, Government of India, New Delhi, April 2017.

9 NSS Report No.569: Some Characteristics of Agricultural Households in India, 2012-13, p.19

10 Cited in Report of the Expert Committee on Land Leasing, Niti Aayog, New Delhi.(http://niti.gov.in/writereaddata/files/document_publication/Final_Report_Expert_Group_on_Land_Leasing.pdf)

The benefits from various government programmes, including subsidised credit, also flows to those land owners, who may not be cultivating land. In contrast, tenants cultivating land are forced to borrow from informal markets at higher interest rates which directly impact cost of agriculture. Additionally, there is lease cost which could vary from 10-25 per cent of agricultural produce. Further, to add to the burden, an agricultural household often borrows for their increasing consumption needs like expenditure on health, education, and even daily needs. Thus, in Indian agriculture, cost, access and availability of institutional credit is an important input on which profitability is dependent. In 2012, institutional sources provided credit to about 7.9 per cent of the bottom 10 per cent of rural households and about 32.6 per cent to the top 10 per cent of the rural households, indicating that informal sector continued to be an important source of credit to rural households. Interestingly, share of credit from institutional sector was 56 per cent in 2012 while non-institutional sector accounted for 44 per cent. The All India average amount of debt for cultivator household was Rs.70,580[11].

Increasing access to subsidised credit for those agricultural households who actually cultivate land will increase their bargaining power vis-à-vis the rural informal credit and input providers who generally coerce producers to sell their agricultural produce to them. In many regions, the cost of credit is linked to the sale price of the produce meaning that the small and marginal farmers, along with tenant farmers, have limited or no ability to hold their produce or seek the best price. It is estimated that except for sugarcane, 40 to 60 per cent of agricultural households sell their produce to the local private trader or the input dealer[12]. Expanding access to institutional credit to those small, marginal or tenant farmers will increase the margins and incomes of agricultural households substantially.[13]

The Prime Minsters multi-pronged strategy to double farmer's income will lead to creating an eco-system which will increase flow of financial resources to rural sector that would generate and sustain demand. In addition, there is need to increase the flow of resources in the rural sector through the existing channels of network of brick and mortar branches as well as strengthening the model of business correspondents. The recently licensed small and payment banks are also expected to contribute to larger credit flow in the rural sector. The government could consider strengthening cooperative banks through technological improvements and introduction of core banking which would lead to higher credit flow in the rural sector. The emphasis on agro-processing and ancillary activities would require financial support and higher flow of credit to the rural sector. To address the need for higher flow, policy makers would need to think out of the box. One way to ensure such a flow would be to strengthen mandi merchants in the rural areas. The mandi merchants usually dispense short term credit, generally pertaining to one cropping cycle, and factor in risk and volatility in price and produce. Probably, tailoring a scheme of associating mandi merchants with banks to enhance medium and long term credit in the rural sector can be considered, as a substitute of brick-and-mortar bank branch, mainly to compete out high cost money lender. The proposed scheme involving mandi merchants, refinanced by institutional framework, will have a steady flow of customers throughout the year, wherein mandi merchants will charge nominal rates of interest, as prescribed by norms of institutional banking, for stipulated purposes of dispensing loan, mainly for agriculture equipment and investment purpose. The government could provide subvention support to mandi merchants to further lower the costs. In such a case, mandi merchants will serve like ATMs and cost of inputs to farmer will be contained as compared to resorting to high cost loans from money lenders.

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[11] *NSSO Report, Key Indicators of Debt and Investment in India, 70th Round 2013, Ministry of Statistics and Programme Implementation, December 2014, p.16*

[12] *NSS Report Number 570 (70th Round), Some Aspects of Farming in India, January – December 2013, NSS Report Number 570, p.20*

[13] *Sudha Narayanan, "The Productivity of Agricultural Credit in India", IGIDR Working Paper, 2015, http://www.igidr.ac.in/pdf/publication/WP-2015-01.pdf*