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Farm Distress in India – Causes and Possible Remedies

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Executive Summary

A farm loan waiver announced by several state governments is unlikely to solve the agrarian distress, caused by increasing costs and lower incomes. Crop specific and state-centred solutions need to be implemented.

Writing Off Farm Loans

Mr Kamal Nath, who took an oath as the Chief Minister of Madhya Pradesh (M.P.) on 17 December 2018, fulfilled his electoral promise of waiving off farm loan arrears within minutes of assuming office. The order waives all short term crop loans of up to Rs. 200,000 (S$3,895) due from nationalised and co-operative banks as on 31 March 2018. It is presumed that the state government will compensate the amounts to the respective institutions. The Karnataka government too waived farmer loans in the budget presented in June 2018, writing off all unpaid loans of small and marginal farmers up to December 2017. The Assam state government has also announced that they will waive loans up to Rs.25000 (S$487).

It is clear that the rural distress is real, with stagnant real incomes for farmers and declining wages, along with a slowdown in the non-farm sector. Rural distress has widened in the last decade, as input costs and wages have risen while incomes have remained stagnant. In the case of cereals, primarily rice and wheat, a system of a Minimum Support Price (MSP) and a mechanism of procuring farmers' outputs through the Food Corporation of India and the state marketing federations have been in place in several states, assuring the farmer of a reasonable price for his output. However, the MSP has been increased only this year after stagnating for three years during which farm incomes stressed.

Causes of Distress

In the last two decades, agricultural production has diversified, with substantial area allocated to commercial crops, fruits, vegetables and oilseeds. Some of the change has been farmer and market-driven, while others, most notably oilseeds, arose out of government programmes and incentives. While cereal production was linked to a well-managed programme of supply of inputs, credit and marketing support, a similar infrastructure has not come up for other crops. As a result, farmers producing vegetables and fruit, in particular, are at the mercy of markets and middlemen, and, in the absence of storage and processing facilities, are at the mercy of middlemen who offer very low returns to the farmer.

There is also the question of the sheer number of people still dependent on agriculture, and the lack of alternate sources of livelihood. At a macro level, the problems appear to be different across the different agro-climatic zones. In Uttar Pradesh (U.P.), the pattern of agriculture continues to be alternating between cereals and sugar cane, with the farmer confined to a low income margin output from cereals, and a wildly fluctuating expectation from sugar cane. Currently, for example, since international sugar prices are low, a new variety of sugar cane resulting in greater yield and sugar output is being cultivated, but the sugar mills in the state are not willing to pay the high state-determined price for sugar cane. The sugar cane crop should have started moving to the mills by now, but it is still in the fields in western U.P., and this is affecting the sowing of winter wheat as land has not been freed up from sugar cane. A poor winter wheat crop is likely to reduce income for farmers by the first quarter of next year, when there is an election in sight. The U.P. farmer is not venturesome to experiment with alternate crops, and hence, for a long time to come, policy interventions will have to manage farm incomes within the ambit of his farming pattern, while at the same time providing opportunities for the youth to earn off farm incomes through small businesses. These youths are already looking to migrate to urban areas in the north in search of livelihoods. There appears to be very little in state or central policy or programmes that recognises and deals with this phenomenon.

Punjab and Haryana have traditionally been wheat and rice producing states and, in the years succeeding the Green Revolution of the sixties and seventies, served as the granaries for the whole country. There was also an organised pattern of purchase and storing of produce in these states, and the farmers were regularly compensated. Currently, the overuse of fertilisers and water have depleted soil fertility, and there is market competition as other states have improved in cereal production. Agriculture is in decline in Punjab as the local youth are no longer willing to work in the fields, and imported labour from Bihar and other states is costly, scarce and less productive. Farm distress is a result of current low productivity and lack of markets, and an unwillingness to take risks with other crops, in the absence of a marketing framework. In Haryana, the youth are looking for employment in the urban centres of Delhi and Mumbai, and creeping urbanisation is making it more attractive for landholders to part with agricultural land for real estate construction. The money earned from such sales is soon dissipated, and the farmers are back to subsistence living. The issue in central India, especially in M.P., appears to be quite different. Fifteen years of BJP rule focused on improvements in agriculture, and there is a problem of plenty, as Nath put it. There is a diversity of crops as well. Apart from wheat, which is now in abundance, there is considerable production of spices, chillies, soya and other minor grains as the problem appears to be primarily one of finding a profitable market for this produce. Loan waivers will not be a long term solution, for the farmer lacks liquidity for the next crop, and also faces uncertainty regarding the prices of the output. The recent crash in prices of tomatoes, and earlier, of onions, highlight the plight of the farmers.

This is true of substantial portions of Maharashtra as well. In areas where there are sugar factories, farmers cultivating sugar cane are relatively better off. There are also adequate earnings for farmers growing grapes and other fruits which have a ready market in Mumbai as well as in Kerala. The distress occurs in rain-fed agriculture in southern and central Maharashtra as well as in parts of Karnataka and Telangana that are adjacent. Dependence on rain fed agriculture has exposed the farmers to an uncertain cropping pattern and stressed earnings. It is in these areas that there are reported cases of farmer suicides. A programme of purchase price support for non-cereals, with a procurement machinery with logistics and warehousing hubs, and encouragement to agro processing industries and marketing (including exports) is not likely to be a large drain on the state budget, yet will alleviate farm incomes substantially within a short period.

It is interesting that states like Tamil Nadu and Kerala have moved out of significant agrarian distress, primarily due to higher education, urbanisation and growth of non-farm incomes that support even the rural families. In Andhra Pradesh, the larger size of landholdings, and the cash crops grown, other than rice, enable farmers to have some market power, and sustain themselves during lean years. They also appear to be ready to experiment with new crops and methods, unlike the U.P. farmer.

Policy Review Needed

Some of the recent programmes do not appear to have worked in the way intended. The crop insurance scheme, introduced by the current government at the centre, involves a deduction of premium from the farmers' Kissan Card accounts by the Banks. However, relief under the insurance scheme is in the hands of the insurers, who appear to be private players with little incentive to pay up. As a result, farmers are receiving only a small proportion of the amounts due. States like M.P. could immediately set right the crop insurance programme, which could provide relief to the farmers.

Direct payment of subsidies on fertilisers is also not working effectively, as tenant farmers are not able to take advantage of these facilities. As a result, fertiliser use is stagnating and going down in some areas. This is being mistakenly taken as a reduction in chemical use and more natural farming, but in actuality it is an inability of the small farmer to access the fertiliser subsidies.

Waiver of loans taken from banks and co-operative societies is unlikely to alleviate the distress. First, it is temporary in that the farmer has to access credit again for the next crop. Second, it does not take into account credit from a number of informal channels. These include the moneylenders, advance taken for crops from the middlemen-purchasers and also informal credit availed of for inputs. If there is a failure of the crop, the wages that are paid in kind are also in default, resulting in stress not only for the farmer, but for the farm workers as well. Third, the banks, as well as the co-operative societies, whose loans have been written off need to be compensated. If they are not paid, then they would be reluctant to lend for the next crop, and if they are, it would impose an additional fiscal burden on the state.

There is also the question of youth in agriculture. The educated youth do not want to toil in the fields, but want to work in urban centres. Rural distress is thus intricately linked with job opportunities for the youth in non-farm avocations. This is again an area that policy and programmes have ignored.

There is an interesting implication to this. In Punjab and Haryana, fields have to be cleared for the winter wheat soon after the harvesting of paddy, around November- December. Earlier, the harvesting was done by hand, leaving stubbles which were very short. In the absence of labour, and the disinclination of local youth to work on the land, harvesters are being used to harvest the rice crop, leaving stubble that is more than eight inches high. The farmers have no option but to burn the stubble to clear the land for winter wheat, and the smoke from the burning wafts down to Delhi, making it the most polluted city in the country in winter months, and aggravating environmental hazards.

The problems of agriculture and the farming sector are multifaceted, state specific and even crop specific. A simplistic solution like waiver of crop loans may alleviate indebtedness temporarily, but will in no way lead to sustainable livelihood for the farmers. At the time of the green revolution, state and national universities in agriculture, as well as an army of qualified support workers, ensured that the value chain was unbroken from seed to inputs to credit to farming to markets. This succeeded for wheat and rice, and now it is important to revive that machinery in every state to do the same for other crops.

There is a dual opportunity here. At the state level, a comprehensive programme could set right the deficiencies of central programmes while taking advantage of central incentives which are not reaching the farmer. At the same time, especially in M.P., there is an opportunity of converting the significant agricultural growth that has happened into real income for the farmers.

At the central level, it is possible to look at the existing programmes from the point of view of different states and make much more state specific allocations of programme funds and resources that will solve problems of different agro-climatic zones. It does not appear to be a problem of resources, but more of fitting the programmes to the expectations and benefits of individual farmers.

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