

Reforms for Achieving 4% Growth in Farm Sector

Presentation To,

Shri Pranab Mukharjee,

Union Minister for Finance, GOI

Pre-Budget Discussions – 2009-10

By

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FINANCIAL REFORMS NEEDED IN FARM SECTOR

- 1. Increase in Public and Private Investment in Agriculture.**
- 2. To redefine agriculture credit flow guidelines to small farmers.**
 - a) Indirect finance should not be included in 18% target for agriculture credit.**
 - b) Sub limit of 10% out of 18% should be fixed for marginal & tenants.**
- 3. Rural credit / deposit ratio of banks (now 57%) to be maintained at 75% (CD for metros is 90%)**
- 4. To increase the number of Rural Bank Branches.**
- 5. To implement the recommendations of Committees headed by Prof. Arjun Sen Gupta, Prof. Radha Krishna and Prof. Vydyanathan.**

(Details in Annexure -1 on page 6, 7, 8, and 9)*

POLICY REFORMS

- 1. Direct fertilizer subsidy to farmers.**
- 2. To reorganize the functioning of Food Corporation of India**
- 3. To have long term export policy for agriculture produce.**
- 4. Encourage APMC, Contract Farming and commodities trading.**
- 5. Incentivize PPP in Agriculture research, extension & rural programmes -
Health -Education.**
- 6. Incentivize mechanization of agriculture and water conservation.**
- 7. To establish Kisan TV / Radio channels under PPP.**
- 8. Incentivize organic manure production and farming.**
- 9. To converge NREGS with farm activities.**
- 10 To utilize opportunities in Tobacco sector. (Details in Annexure-2 on page on
page 10 and 11)**

IMPLEMENTATION OF NATIONAL COMMISSION ON FARMERS REPORT

- 1. MSP should be C2+ Minimum 50%.**
- 2. Provision of social security.**
- 3. Commodity based farmers' organizations.**
- 4. Statutory status to CACP.**
- 5. Market Stabilization Fund and Risk Mitigation Fund to be provided.**
- 6. Agricultural Planning and implementation through Panchayat.**
- 7. Agricultural progress should be measured by growth in net farm income**
- 8. Irrigation, projects and conservation as a priority development**
- 9. Other recommendations of the Commission to be implemented.**

Reforms in Crop Savina- Protection

S.No.	Issue	S.No.	Suggestion
1.	Rs. 90,000 Crores Crop losses estimated by Parliament Standing Committee in 2002.	1.	Encourage awareness by providing extension services through PPP. Incentivize for private extension services.
2.	Rs. 140000 crores crop losses estimated by Ministry Agriculture in 2007.	2.	Encourage Crop protection usage in backward States through subsidy.
3.	Pesticides usage in Paddy Orissa Rs.100/-; in A.P. Rs.1500/-.	3.	Encourage R & D in Crop care by incentivize on par with IT and Pharmaceutical sector.
4.	Productivity of Paddy in Orissa 850 kg.; in A.P. 2500 kgs.		

ANNEXURE – 1

1. DEFINITION OF AGRI CREDIT DILUTED- Small Farmers neglected

S.No.	Issue	S.No.	Suggestion
A.	Doubling of credit in three years since 2004 is achieved quantitatively but without real benefit to the small holders and the needy.	1.	Indirect finance should not be included in 18% target for agricultural credit.
B.	About 1/3 rd of the increase in credit flow to agriculture between 2000 and 2006 was on account of the increase in indirect finance due to changes in definitions effected since late 1990s. These changes broadly involved.	2.	Finance to the extent of 18% of bank credit should be made available as direct agricultural finance for production and investment purposes as was the position obtaining up to 1993, with only credit limits not exceeding Rs1 crore coming under this category.
C.	These changes broadly involved.	3.	Sub limit of 10% out of 18% should be fixed for marginal small farmers and lease holders, as recommended by Arjun Sen Gupta Commission.

S.No.	Issue	S.No.	Suggestion
D.	The addition of new forms of financing commercial, export-oriented and capital-intensive agriculture;	4.	Higher credit limits exceeding Rs1 crores may be categorized as agri business loans and extended as part of other business loans.
E.	Raising the credit limit of many existing forms of indirect financing.	5.	Implement Sri Arjun Sen Gupta Committee recommendations for the benefit of weaker section farmers.
F.	The entire growth of indirect finance to agriculture in the 2000s originated from a major expansion of loans with a credit limit of more than Rs 10 crores and particularly 25 crores and above.		
G.	The amount of direct advances with a credit limit of more than Rs 1 crores formed 5% of total direct advances in 2000; the corresponding share in 2006 was 9%.		
H.	The most important beneficiaries of the increase in direct advances since the late 1990s were the big borrowers.		

Other Issues:

- 1. Share of small loans of Rs. 25,000 declined from 50% in 1990 to mere 11% in 2007.**
- 2. Loans of over Rs 1 crores skyrocketed by more than 400% during the same period.**
- 3. Banks have to give agricultural loans of about Rs 4 lakh crores by March 2009. From the current trends there is likely to be a short fall of about Rs. 1 lakh crores.**
- 4. The ratio of agricultural credit to agricultural GDP was only 33 per cent at end-March 2007. The ratio of industrial credit to industrial GDP was 94%.**

PUBLIC INVESTMENT IN AGRICULTURE

- 1. Over the years there is a decline in the share of agriculture investment in the total investment from 14% in 1970s, to 11% and 8% 80s and 90s respectively and further fall to 5.7% by 2005-06.**
- 2. The share of public sector in total investment in agriculture has declined too more sharply during the 1990s (6.5%) as compared to the 1980s and 1970s (11.6% and 14.3% respectively).**
- 3. The average share of Public Sector investment during 2001-06 still remained below the level of 1990s. Moreover, the share of the agricultural sector investment in GDP declined from 2.2% in the late 1990s to 1.9% in 2003-04 and has remained unchanged up to 2003-06. It has, however, increased to some extent during recent years.**
- 4. There is a need for increasing public investment to total investments substantially to reach the level in 1970s i.e., 14% from the present level of 6%, to sustain higher Agri GDP growth. 4%.**

TOBACCO ANNEXURE – 2

Issue	Suggestion
<p>➤ Tobacco provides livelihood to over 30 million farmers. Labour, Women and Tribal's.</p>	<p>☉ Provide a new excise duty slab for “filter cigarettes not exceeding 60 mm in length” at an excise duty rate of Rs.350/- per 1000 cigarettes to enable the legitimate domestic cigarette industry to compete with the excise evaded RSFTs.</p>
<p>➤ It provides Rs.10, 000 crores taxes to Governments.</p>	<p>☉ Reduce the large duty differential between cigarettes and other tobacco products. This will allow natural movement from low taxed traditional products to cigarettes, thereby benefiting the Government through higher revenue collections.</p>
<p>➤ The world demand for Tobacco is growing at 2% per annum.</p>	<p>☉ Retain the Specific Duty Structure for cigarettes. As compared to the Advalorem system, the Specific Duty structure has resulted in better price realizations for the farmers, through use of better quality tobaccos and higher exports.</p>

Issue	Suggestion
<p>➤ India has a highly advantages agro climatic and experienced farmers in Tobacco production.</p>	<p>★ Cigarettes should continue to be taxed under a Specific excise duty structure at the Central level. Advalorem form of GST would encourage undesirable practices associated with advalorem form of taxation of tobacco products. It would again provide an opportunity to unscrupulous manufacturers to manipulate their prices to evade taxes. This will lower product quality and come in the way of farmers upgrading their quality.</p>
<p>➤ If India does not utilize these opportunities: other countries like China, Brazil and Zimbabwe will utilize them.</p>	<p>Given the present advantages position to Indian tobacco sector, to formulate favorable policies.</p>