

PREFACE

FARMERS STRATEGIES

TO ACHIEVE ECONOMIC EQUITY

The Indian farmers are caught in a dilemma whether to continue in Agriculture or not. In the past 30 years, the noble profession of Agriculture has become unremunerative and farmers have become Untouchables in their social circles. The farmers life of uncertainty is endless. Day after day, he has to face the nature's fury, exploitation by the markets and negligence by the Ruling classes and humiliation by the organized sectors.

We, farmers wonder as to why we have become second class citizens like **Roman Slaves** in free India. CIFA, an Organization of the farmers and by the farmers is dedicated to unite the 600 Million farmers of India under common umbrella. We prepare strategies by consensus amongst farmers Origination and endeavour to achieve Economic Equity and social recognition for the farmers of India.

BHARAT AND INDIA DIVIDE :

The urban and organized sectors in our Country are able to become globally competitive. They have established Unions and Associations, lobbied and coerced the Governments for maximum financial allocations, obtained concessions and got the best facilities. They prefer to be called as Indians consisting of Businessmen, Industrialists, Doctors, Bank employees, Government servants, etc. They got the benefit of secured job, promotions, medical facilities, education to their children, housing for the family and retirement benefits etc.

On the contrary, the rural people consisting of 70% (including farmers, artisans, fishermen, 93% Tribals, 86% Scheduled castes, nomads etc.) do not have the basic facilities as secured by the organised sectors. These people living in Villages of Bharat are illiterate, do not have basic facilities of health & education neither regular income nor growth. They are like "Kulle ka Bhal" (A Bull operating Oil extracting Equipment). Farmers existence is like a animal surviving with in a circle.

The reason for the economic disparities and lack of facilities between India and Bharat is due to lopsided policies adopted in the past after Liberalization process. The leaders as well as Intellectuals have become immune to the problems confronted by Rural people.

Double standards are adopted in dealing with India-Bharat. The facilities provided to farmers are called subsidies, whereas, the facilities extended to the Industries are called incentives. During the year 2008 the Finance Minister Mr. P. Chidambaram announced 60,000 crores loan waiver to the farming community. This is hailed as a historic decision by the UPA Government. However, at the

same time Rs. 2,78,644 crores subsidy and incentives are given to Industries by way of Revenue forgone. Similar incentives are provided since 25-30 years to Industrialists. This huge benefit is never publicized nor questioned! The reason is India intellectuals are ignoring the Farm sector due to their highly individual Western orientation, the politicians apathy and the Media's lopsided priorities.

WHAT SHOULD FARMER OF INDIA DO?

The Indian farmers inherently are strong willed and innovative. However due to fragmentation of the Rural people farmers are ignorant of their strengths. It is at this juncture that CIFA places a Plan of Action before the 600 million Indians farmers.

FIXING THE GOALS

"Farmers Demand Profitable Price":

"A Politician wants power", "An employee works for salary", and "A Businessman wants profit" The UPA Government headed by Dr. Manmohan Singh has appointed the "National Commission on Farmers" under Dr. M.S. Swaminathan and another Commission on Problems of Enterprises in Un-Organised sectors under Mr. Arjun Sengupta. We farmers of India demand UPA Government to implement these reports. If the reports are not implemented by December 2008, CIFA will convene a meeting of farmers organization of India and take a unified decision on the course of action to be taken. We request every farmer in India to join CIFA and work unitedly for their development. Please send your comments suggestions.

(P. CHENGAL REDDY) New Delhi
Secretary General 30th July 2008

Contents

Sl. No P.No.

1. Preface

2. Index

a. Agrarian Distress	5
b. Plight of Small & Marginal Farmers	13

ACKNOWLEDGMENT

CIFA greatly thanks I.F.F.C.O for providing support to print the brochure.

AGRARIAN DISTRESS AND INDIAN FARMERS PLIGHT

A. Findings of National Commission on Farmers :To make farming sustainable:

Need for Immediate Implementation

'There is a general feeling among farmers of being **'left behind'** in large parts of rural India. The widening disparity in per capita income between farm and other than farm sector, the very slow rate of growth in agriculture, the declining profitability, extremely weak social security arrangements, weakening family and community based mechanism of social protection, lack of employment opportunities etc., and the rising aspirations are building up social unrest which, if not arrested, could lead to threats to internal peace and security. The worsening cost-risk-return structure of farming, the low and stagnating income of farmers and the huge and widening income divide between farmers and non-farmers are the main deterrents. So much so, as per the 59th Round of NSSO, 40 per cent of the farmers wish to quit farming. **Economic growth which bypasses a large population is joyless growth and not sustainable in the long run.** What then is the future for India's rural population numbering over 700 million? **We cannot be silent onlookers to a situation where 30% of India is shining and 70% is weeping.** Equity considerations cannot be ignored for too long. Faster growth in agriculture with improvement in welfare of the rural population is important. The need is not only to register increase in agriculture production in million tons but actual improvement in rural incomes.' - **Chairman: Prof.M.S.Swaminathan**

CAUSES OF DISTRESSING CONDITIONS

1. MSP less than Cost of Production

The cost of production is invariably higher than the minimum support price due to ever-increasing prices of diesel and other inputs. An examination of the projections of cost of cultivation for 12 food grain crops given by the Commission for Agricultural Costs and Prices (CACP) for the crop season 2005-06 with the MSP prevailing in 2004-05 clearly shows that C2 cost (cost of production per quintal) is not covered by the MSP in most States . MSP should be regarded as the bottom line for procurement both by Government and private traders. Purchase by Government should be MSP plus cost escalation since the announcement of MSP. This will be reflected in the prevailing market price. Government should procure the staple grains needed for PDS at the same price private traders are willing to pay to farmers.

2. Agriculture: A losing proposition:

During the nineties, the profitability in agriculture declined by 14.2%. This was mainly due to stagnancy in yield growth and increase in prices of inputs outpacing the increase in prices of output. Even if we look at the latest cost of cultivation for major food grain crops for 2005-06 [CACP data] and compare it with MSP prevailing in 2004-05, it would appear that the C2 costs of paddy, jowar, bajra, maize, tur, moong, urad, gram and barley were not covered even by MSP in many States. **It would be extremely unlikely that in the long run farmers would continue to cultivate these crops.** The total monthly income of farmers households for land holding upto 2 hectares was lower than the total consumption expenditure indicating the non viable status of these farmer households. Indebtedness of farmers is rising not only because of farming-related expenditure, but also because of the need for healthcare

6

3. DECLINING TRENDS-INDICATORS

A. *Sharp decline of agri sector income in National income from 55% in 1950 to 18% in 2007. Yet, people dependant on agriculuture remained almost the same.

B. *The rate of agri sector growth is very low at 2.2% during 1993-2004 (economic reform period), compared to the rates of growth in industry sector at 6.7% and service sector at 9.1% during the same period .Taking into account the rate of population growth, the per capita real income of those working in agriculture sector remained stagnant while those working in other sectors more than trebled and quadrupled, during the economic reform period.

C. *Decline in AGRI. Share in Gross Capital Formation by half from 10.2% (2001-02) to 5.8% (2006-07),

D. *Decline in AGRI loans by banks from 18% (1980-81) to 8.7% (2004-05), as against the mandated 18% annually.

E. *Decline in area under food grains over 16 year period from 1990-91 at an annual rate of 0.25%,

F. *Decline in the rate of NPK use from 8.2% (1980-81/90- 91) to 2.3% (1995-97/2005-06),

G. *Near stagnation of food grain production 213 M.Tons (2003-2004), 217 M.Tons (2006-07) H. *Decline in the rate of growth of food grains during 1990-2007 to 1.2%, less than population growth of 1.9%

I. ***Slow growth in irrigated area at the rate of 1.25% (1989-90/2006-07),**

J. ***Increasing Rural Urban disparity in consumption (Rural people per household consumption only half of urban people consumption).75% of the poor live in rural India,**

K. ***Increase in unemployment rate to 8.28% (2004-05) from 6.28% (1993-1994)**

L. ***POOR EXTENSION AND INPUT SUPPLY:Linkages** between the laboratory and the field have weakened and **extension services have often little to extend by way of specific information and advice on the basis of location, time and farming system.**

4. Poor marketing and Distress sales:

Distress sales by small/ marginal farmers to square off their debts or for immediate consumption purposes soon after harvest are quite common. It is normal for a farmer to get 15-30% discounted price for spot payment for his produce. According to reliable resources, about 50% of the marketable surplus of small/marginal farmers is disposed of in this manner.

5. Suicides of Farmers:

An unfortunate consequence of the constellation of hardships faced by small farm families is the growing number of suicides among farmers in thousands, which is not prevalent in any other profession.

6. BAN and RESTRICTIONS ON EXPORT OF AGRI. COMMODITIES

Resulting in loss to farmers of price realization at higher international prices prevailing.

B. Important Recommendations of NATIONAL COMMISSION ON FARMERS, headed by Prof M.S. Swaminathan.(These recommendations are not yet implemented by the Government even though 1 1/ 2 Years have elapsed,since the submission of the report in Oct 2006)

PUTTING FARMERS FIRST “Everything else can wait, but not agriculture”- Jawaharlal Nehru, 1947 “Agriculture is a high-risk economic activity” “Agriculture is not just a food producing machine for the urban population”

AGRICULTURE MUST TAKE CENTRE STAGE IN ECONOMIC DEVELOPMENT OF THE NATION

TEN POINT PROGRAMME

1. MSP TO BE AT LEAST 50% MORE THAN C2 COST The Commission on Agricultural Costs and Prices

(CACP) should be an autonomous statutory organization with its primary mandate being the recommendation of remunerative prices for the principal agricultural commodities of both dryfarming and irrigated areas. **The MSP should be at least 50% more than the weighted average cost of production. The “net take home income” of farmers should be comparable to those of civil servants.** The CACP should become an important policy instrument for safeguarding the survival of farmers and farming. Suggestions for crop diversification should be preceded by assured market linkages. The Membership of the CACP should include a few practising farmers. The scope of the MSP programme should be expanded to cover all crops of importance to food and income security for small farmers.

2. A MARKET PRICE STABILIZATION FUND

It should be established to protect farmers during periods of violent fluctuations in prices; as, for example, in the case of perishable commodities like onion, potato, tomato.

3. COMMODITY-BASED FARMERS' ORGANIZATIONS

They should be promoted to combine decentralized production with centralized services such as post-harvest management, value addition and marketing, for leveraging institutional support and facilitating direct farmer-consumer linkage. An efficient marketing system **with Farmer's Organizations as important players** could significantly add to farmer's income from his produce. As a matter of fact farmer's organizations are needed at various levels of the value chain. The small and marginal farmers, suffering apart from loss of income due to distress sale immediately after harvest, are also on the receiving end against the Commission agents/traders etc.

4. INFRASTRUCTURE INVESTMENT FUND FOR FARMERS (IIFF)

India has accumulated foreign exchange reserves (FER) of \$165 billion, equivalent to about Rs.7.2 lakh crore (Now Rs.14 Lakh crores.) Part of these funds should be utilized for infrastructure investment for farmers, targeting and

monitoring income generating schemes and improving marketability of their produce.

5. ADEQUATE CREDIT AND FULL INSURANCE COVER:

The banking system needs to meet the large unmet credit potential needed to raise agriculture, at 4% interest rate. (Presently only half the farmers are covered, that too with insufficient credit) Agriculture is a high-risk economic activity.

In drought prone areas. Credit should not be just for the season, but for a Credit Cycle of 4-5 years and include consumption credit, so that the farmer has the capacity to spread his/her liabilities and meet the repayment requirements. The banks need to liberally provide pledge loans. However, as there are not many accredited godowns, the bankers may have to rely on storage of produce with the farmers.

Farmers need user-friendly insurance instruments covering production, right from sowing to post-harvest operations and also to cover the market risks for all crops throughout the country (Presently only 17% of the farmers are covered). The scope of Agricultural Insurance Policies should become wider and should also cover health insurance.

6. SOCIAL SECURITY :

Coverage of farmers, particularly small and marginal farmers and landless agricultural workers, under a comprehensive National Social Security Scheme is essential for ensuring livelihood security. Such a scheme should take care of expenses up to a ceiling for hospitalization in case of illness of a family member, maternity, life insurance and old age pension .

7. TO MINISTER TO THE WELFARE OF FARMERS

Agricultural progress should be measured by the growth in the net income of farm families. Along with production growth rates, income growth rates should also be measured and published by the Economics and Statistics Directorate of the Union Ministry of Agriculture.

The Ministry and Departments of Agriculture both in the Centre and States may be restructured to become **Ministry / Department of Agriculture and Farmers' Welfare** in order to highlight their critical role . **Agriculture is not just a "food producing machine" for the urban population, but a the major source of skilled and remunerative employment and global outsourcing hub.**

8. TO INCLUDE AGRICULTURE IN THE CONCURRENT LIST

Central and State Governments to consider seriously the question of including Agriculture under the Concurrent List in Schedule VII, Article 246 of the Constitution. Important policy

decisions like those relating to prices, credit and trade, are taken by the Government of India .

9. TO ENTRUST RESPONSIBILITY TO PANCHAYATS

Article 243 G of the 11th Schedule of the Constitution (73rd Amendment) Act, 1992 entrusts Panchayats **with responsibility for agriculture planning, including agricultural extension.**

10. TO CREATE AGRI RISK FUND

An **Agriculture Risk** Fund should be set up to insulate farmers from risks arising from recurrent droughts and other weather aberrations, **Prime farmland must be conserved for agriculture** and should not be diverted for non-agricultural purposes and for programmes like the Special Economic Zone. Extension, Training and retraining and retooling of existing extension personnel, promote farmer to farmer learning.

Jai Kisan

Prepared by **K.Ramasubba Reddy**, *Advisor, CIFA.*

Email : konda42@yahoo.com

Cell : 98663-21708: 98663-21708

PLIGHT OF MARGINAL AND SMALL FARMERS

(From Report of National Commission for Enterprises in Un-organised Sector- NCEUS-2007, Chairman: Arjun Sengupta)

Of the total of 166million farmers, 84 per cent belong to the marginal and small categories and the produce from such activities helps them merely maintain subsistence levels of living. The small and marginal farmers constitute a highly impoverished group. Hardly having any form of organization they lack a common forum to articulate their problems and often issues of concern to them are not addressed adequately. These categories of farmers have limited access to credit facilities. The National Agricultural Policy of 2000 observed **“Agriculture has become a relatively unrewarding profession due to generally unfavourable price regime and low value addition, causing abandoning of farming and increasing migration from rural areas....”**

2. High level of Indebtedness- Leading to Suicides

Small and marginal farmers' households need credit to meet both consumption needs to maintain subsistence levels as well as for production purposes to meet the increasing costs of cultivation. Increased indebtedness is noted as a major reason for the spurt in farmer suicides during recent times. The economic status of the suicide victim was very poor, being small and marginal farmer. Among the reasons for suicides, indebtedness featured as the prime reason. Although a direct link between distress and indebtedness has not always been established, the spate of suicides has been associated with it. After the Green Revolution agricultural activities have become cash based individual enterprises requiring high investment in modern inputs and wage labour. This is evident from the list of states with high incidence of farmer suicides, which are not necessarily backward or predominantly agrarian or with low income. A common feature that we discern is the high level of commercialization of agriculture and the trend towards cash crops in these states. Increased liberalisation and globalization have in fact led to a shift in cropping pattern from staple crops to cash crops like oilseeds and cotton, requiring high investment in modern inputs and wage labour, and increasing credit needs. But when the prices declined, farmers had no means to supplement their incomes. When crops failed and or prices went down they had no means to repay the loans, which drove them to the wall. As the saying goes - **Desperate as they were and further burdened by a sense of social shame, ending one's own life might have provided an easy exit.** With mounting debt burden along with the rising risks in production and price fluctuations leading to low remuneration, it is no wonder that a lot of distress is generated among the farmers. Incidence of indebtedness among farmer households was the highest in Andhra Pradesh (82 per cent), followed by Tamil Nadu (75 percent) and Punjab (65 per cent).

3. Farming - Acute and Pressing Problems.

Being a nature-based activity, cultivation is highly risky. Further, in the liberalized scenario price risks have also increased. Heightened dependence on market has exposed the farmers to fluctuating price regimes, more so in the areas of commercial farming. This is of particular concern for the small and marginal farmers who do not have the means to cope with such shocks, either through market support or through insurance. The entire crop of the small holders comes to the market at one time. The small cultivator, who is often heavily indebted, has poor bargaining strength to get a favourable deal from the more resourceful traders. In such a situation the state support price system is of prime importance in protecting the interest of the farmer. However, the Government's attempts to mitigate these risks through such measures as the Minimum Support Price (MSP) have also not been very successful as the coverage of the scheme in terms of crops and area is small. The small farmer is thus not assured of a minimum return on his labour and investment. The now dilapidated public

extension support system has increased the dependence of the farmer on private dealers, often resulting in inappropriate choice of crops and inputs.

Inadequate crop insurance cover: In case of crop failures, insurance is important. However, crop insurance has made little headway except where it is built into other transactions such as cooperative credit. Insurance is an uncommon practice with only 4 per cent farmers having ever insured their crop. Compared to 14 per cent of the large farmers, only around 2 per cent of the submarginal farmers, 2 per cent of the marginal farmers and 5 per cent of the small farmers had crop insurance.

4. High costs-low returns-Nearly half the farmers dislike their occupation

Economic organisation of farmers, particularly the marginal and small farmers, which could have helped them overcome the size constraint, is extremely insignificant. Rising costs of cultivation, low remunerations, high risks with frequent crop failures, declining agricultural growth, and mounting debts have all led the farmer to a distress like situation. **Nearly 40 per cent of the farmer households disliked their occupation.** The disinclination to farming is higher among smaller farmers. While nearly 44 per cent of the sub-marginal and marginal farmers reported they disliked farming, only 28 per cent of the medium and large farmers said so. The main reasons for this disinclination were the lack of viability of farming, followed by its perceived risks. It is important to ensure the protective social security of the landless and marginal and small farmers. Given the high risk and low profitability of the farmer's activities, social security measure that provides for health expenses, life and unemployment insurance and old age pensions is important. Presently, there have hardly been any welfare provisions for farmers.

5. Adverse changes in the banking policy since the economic reforms of 1991, reducing loan availability

One of the key policy instruments to provide access to credit to the small industries was the RBI directions on 'priority sector' lending. The commercial banks were asked to advance 40 per cent of their net bank credit to the priority sector. This included the small and tiny enterprises for which, however, no separate targets were specified. In the case of co-operative banks the priority sector lending was to be 60 per cent. However, there has been a change in the banking policy since the economic reforms of 1991. The concept of priority sector lending itself has come under attack, with the suggestion by the Narsimhan Committee Report (1993) that the 40 per cent direct credit to the priority sector should be phased out. While this recommendation has not been implemented, there has been a dilution of the priority sector lending policy. The operational relevance of the priority sector lending has been weakened by the inclusion of a vast number of items, including agricultural machinery, direct finance to the

housing sector etc. It needs to be noted that the growth in agriculture in the early periods was facilitated by the spread of rural credit institutions and improved access to credit. A step in this direction was the Nationalisation of banks in 1969 and making imperative that the banks expand their rural coverage. The Commission is concerned that the position of institutional credit with respect to agriculture, and more so, with respect to marginal and small farmers continues to be extremely unsatisfactory. The share of agricultural credit in the Net Bank Credit (NBC) declined from 17 per cent in 1994 to 9 per cent in 2004. Agricultural credit as a percentage of NBC it still stands at all 11.9 per cent in 2006. Between 1972-1983 there were 21.2 million additional bank loan accounts in the aggregate given by the banks, of which 19.9 million, or 93% were accounts with credit limits of Rs10, 000 or less. This trend continued for another decade. Between 1992 and 2001, however, there has been an absolute decline of 13.5 million in the aggregate bank loan accounts. This has happened entirely because of a larger decline 25.3 million accounts for the redefined small borrowal accounts of Rs.25,000 or less. In the post banking sector reforms period, during 1992-93, small borrowal accounts (Rs.25000 and below) went down from 62.55 million in March 1992 to only 38.73 million by March 2005. The number of commercial banks branches in rural areas declined from 35,134 in March 1991 to 30,572 in March 2006. A large number of staff vacancies remain unfilled for quite some time.

6. Apathy and dilution at policy level

A close look at RBI guide lines/directives to banks, reveal that apathy either deliberately or by mistake also exists at the top and policy planning level... as the credit system operating under the existing guidelines of RBI. It emerges that small borrowers are competing with large and strong borrowers. The coverage under priority sector lending has increasingly been diluted, enabling big borrower loans at the direct expense of small borrower loans.

As part of the so-called process of "aligning bank credit to the changing needs of the society", the scope and definition of the priority sector, once dominated by small farm related loans ,were fine-tuned by including new items and enhancing credit limits of constituent sub-sectors to more than Rs.40 lakh..**Over the years** particularly after the mid-nineties, relatively high credit worthy activities like housing, education, transportation and loans to professionals have been included in the priority sector.

This has affected unfavourably the credit flow to the needy sector.

7. Reduction in Credit for Marginal-Small Farmers

Surveys such as the Situation Assessment Survey of Farmers (2003) bring out their dismal state as the following statistics show:

1. Percentage of non-institutional credit, with very high rate of interest, is taken more by Marginal and Small Farmers than by other farmers with larger land holdings whose share in institutional credit, with normal interest, is more.

Size of land holding (Ha)

**Sources Less than 0.41-1.00 1.01 - 2.00 Above
of loans 0.4 2.00**

Institutional 42.4 52.8 57.6 66.8

Non-Institutional 57.6 47.2 42.4 33.2

2. About 1/3rd of loans obtained are used for no-productive purposes like consumption, marriage etc;

Purpose Percentage

Production & Investment 58

Business 7

Non-productive 35

3. Population Distribution

Average monthly per-capita consumption expenditure (MPCE) 2004- 05. The poor and vulnerable constitute 77% of the total population. The share of poor in monthly consumption expenditure has come down by 50% during economic reforms period., while mpce of middle and high range people increased by 15%.
Millions % Avg.mpce Share% Share%

Rs. -93-94 -04-55

Poor 237 21.8 330 15.4 10.2

Vulnerable 599 55.0 540 50.0 44.0

Middle 210 19.3 1110 Middle & High
38.7 45.6

High 048 4.0 2800

4. Average monthly income per family household (Rs./ Month) from cultivation 2003

The monthly income derived from cultivation by marginal and small family holdings is not sufficient to eke out a lively hood by marginal and small farmers. (Rs/Month)

MF SF SM M L TOTAL

All India 435 1578 2685 4676 8321 969

MF: Marginal less than 1 Ha, SF:Small 1.01-2.00 Ha, SM:Small medium 2.00 -4.0 Ha M; Medium 4 - 10 Ha, L: Larger Over 10 Ha..

The Commission is of the view, that in addition to the steps already taken by Government and the banking system, the following measures need to be initiated:

8. Commission's recommendations

1. Change in the priority sector guidelines with a target of 10 per cent needs to be fixed for marginal and small farmers. The agricultural quota includes direct agricultural loans to corporate entities up to Rs.10 million and for even higher amounts for indirect agricultural activities. The limit of loan for activities eligible for direct agriculture has been raised to Rs.2million. The Commission recommends that the priority sector guidelines of the RBI be amended and a 10 per cent quota, out of the 18 per cent presently assigned for agriculture, be fixed for farmers with land holdings below 2 hectares.

2. Close monitoring by RBI of the credit flow to this segment of farmers i.e. marginal and small farmers.

3. Measures to extend credit to the 20 - 40 per cent of the marginal and small farmers who are excluded from the formal financial sector due to lack of patta and title deeds. The Commission is of the view that the Government may set up a Credit Guarantee Fund in NABARD, on the lines of the CGF set up by the Ministry of Micro, Small and Medium Enterprises which provides guarantee cover on loans to small units.

Observations of FFAP:

In post reform era, there has been studied indifference of financing priority sectors. Neither the Government nor the RBI, bothered to reverse the trend. The RBI also very silently refined definition of priority sector and allowed loans given to big borrowers also to be included under this category. It is very clear that during the decade commencing from 1991, the successive governments neglected loaning to agriculture sector, the RBI was a silent spectator and banks took cue from this and decelerated the quantum of loaning to priority sectors. NCEUS recommendations should be implemented forth with to better the lot of Marginal and Small Farmers, who constitute 84% of all the farmers.

Prepared by K.Ramasubba Reddy,
Advisor, CIFA.
Cell : 098663 21708