

## Special Topic Agrarian Policy

Startled by a rising number of suicides of poor farmers and aware of the bitter resistance amongst the population against any land claims for industrial projects, the government commissioned a status report on the economic stability of the agricultural sector in India in the summer of 2007 (report of the expert Group on Agricultural Indebtedness, Banking Division, Department of Economic Affairs, Ministry of Finance).

The report identifies 100 agriculturally less developed and distressed districts.

They are the following:

- 16 in Andhra Pradesh
- 7 in Bihar
- 4 in Chattisgarh
- 2 in Gujarat
- 5 in Jammu and Kashmir
- 8 in Jharkhand
- 6 in Karnataka
- 3 in Kerala
- 18 in Madhya Pradesh
- 11 in Maharashtra
- 4 in Orissa
- 8 in Rajasthan
- 1 in Tamil Nadu
- 3 in Uttar Pradesh
- 4 in Uttaranachal.

They have been included under the following criteria; low agricultural production in the last 3 years; a small proportion of urban population; high loans relative to the savings deposits.

The report confirms that Indian agriculture is in a continuous crisis. From the estimated population of 1.1 bn. people in 2005, 71.4 per cent lived in rural areas.

The estimated labour force was 467 million, and out of this, 348 million (74.61 per cent) lived in rural areas. Of the total workers, 56.5 per cent worked in agriculture.

This percentage has clearly decreased during the last 30 years. The share of employment in agriculture declined from 74 per cent in 1973 to 56.5 percent by 2004-05. This is an indication of the increasing industrialization and modernization of the country. During the same period, the share of agriculture in GDP declined from 41% to 20%. The relative productivity of workers in agriculture is only one fifth of those employed in non-agricultural occupations such as industry or service.

Since 1960, the number of agricultural holdings has doubled from 51 million to 101 million, although the operating agricultural area has declined from 133 million hectares to 108 million hectares. The increasing burden of labour force on a slowly contracting cultivable land area leads to an increasing number of holdings of a lower size. This has resulted in a sharp decline in the average size of holding and growing marginalisation. The average cultivated area per holding dropped from 2,6 hectares to 1 hectare. The portion of marginal operational holdings rose from 39% to 71%! Of it 22% is allotted to the operated area. However, the portion of large-scale operational holdings decreased from 4.5% to 0.8% and they use only 11.8% of the operated area instead of 29%.

Under the climatic conditions, irrigation is vital. 60% of usable agricultural land is dependent on rain water. It is difficult to predict a forecast for growth and yield from a rain dependant area. The error margin is too large.

The remainder must be kept fertile with irrigation systems. However, these systems are not in the best condition. Many new projects supported by the Government were given up during the conversion. Also, existing arrangements, such as for example irrigation canals, come with problems of their own. Deep wells lower the ground-water level. Meanwhile the irrigation of agrarian surfaces increasingly competes with the needs of industry and the cities. The Diesel pumps, which the farmers use for irrigation become more expensive with rising fuel prices. Electrical pumps fail due to regular power shortages.

In addition, contamination of the rivers and channels increases. Industry, urban households, and agriculture itself contribute to this by over-fertilisation and an aggressive use of pesticides. Additionally, soil erosion has a negative impact on water supply.

Although the Indian economy grew by 8% over the last number of years, the agricultural sector has not kept up. The government had budgeted an annual growth of 4%. In reality, only half of this was achieved.

Important arable crops such as rice, wheat, legumes and oil seeds were not able to sustain their growth rate. Even sugarcane and cotton show negative growth rates. Over all arable crops yielded growth rates of 0,9 per cent over the last 10 years. In the preceding decade the figure was 2,5%.

In addition to this, productivity is very different in individual regions. In the grain chamber of Punjab, an Agrarian worker earns more than sevenfold of his colleague in Bihar. Still within the federal states the gap is even bigger between the productivity in the agrarian sector and the productivity in industry and service. In the federal states of Gujarat and Maharashtra, both of which have major ports, a worker in the oil industry and the industrial manufacturing sector earns tenfold of what his colleague in the Agrarian sector gets paid.

It is also alarming that the cultivation of food is stagnating. Already in the 90's there were phases when the growth rate of the population was higher than the growth rate of food production.

Productivity per employee in 2005				
	Agrarian		Industry / service	
Andhra Pradesh	170,90	11.245	857,36	56.414
Assam	139,89	9.205	753,68	49.592
Bihar	73,89	4.862	340,30	22.392
Gujarat	196,57	12.934	1588,33	104.512
Haryana	398,05	26.192	1293,74	85.128
Himachal Pradesh	148,88	9.796	1061,06	69.818
Jammu und Kashmir	222,98	14.672	689,97	45.400
Karnataka	146,70	9.653	1251,00	82.316
Kerala	245,27	16.139	855,90	56.318
Madhya Pradesh	100,40	6.606	683,59	44.980
Maharashtra	138,75	9.130	1624,80	106.912
Orissa	119,62	7.871	628,28	41.341
Punjab	533,24	35.087	1065,93	70.138
Rajasthan	161,23	10.609	863,68	56.830
Tamil Nadu	163,97	10.789	893,51	58.793
Uttar Pradesh	157,55	10.367	648,68	42.683
West Bengalen	260,08	17.113	916,52	60.307
All India	188,01	12.371	933,62	61.432

	EUR	INR	EUR	INR
Kurs	1	65,8		

Meanwhile, the government has marked up export prices on some products prohibitively while banning the export of other products completely. Exports of cotton and sugar collapsed. After supplies in the country have been reduced over the past number of years and have now reached a low point, world market prices are rising and driving inflation. Though the government strongly regulates prices, the purchasing power in the agricultural sector is stagnating. It is developing below average in comparison to the Gross Domestic Product and other sectors. The exchange rates only favoured agrarian exports into some markets, while making them more difficult for others.

The whole sector suffers from a lack of capital. The farmers need loans for seeds, fertilizer, maintenance and repair. They get them only partially from chartered financial institutions. Of the 89 million farmer households estimated in 2003, half were indebted. Loans only came in 61% of the cases from banks, in all other cases from private institutions, money lenders or dealers.

Creditors in per cent of 2003					
Institutional		Private			
State	Cooperatives	Banks	Money	Lenders	Dealers Other
2,5	19,6	35,6	25,7	5,2	11,4

The interest rates offered by private financiers are extremely high. Interest rates of 30% and above are not a rarity. However, interest rates of between 12% and 20%, offered by the public creditors are also not that favourable. Small farmers, who do not have access to financial institutes, pay the highest interest on private loans. They are the ones caught in the debt trap. The majority of small and marginal farmers have a holding of up to 2 hectares. 84 per cent of all farmers will take half of their loans from public financiers and the other half from private money lenders. Only the largest farmers, with holdings starting from 10 hectares in size, take two thirds of their loans from banks and only with a third rely on non-institutional sources to get their loans.

Only 65% of the loans are used for agricultural purposes. 35% are used for own consumption and are even spent on weddings. A farmer, who has to marry off several daughters, is often ruined. Only 1% of the loan sum is used for education, training and schools.

#### Counter measures

The agricultural sector is about to embark upon a radical change. In order to

provide stable conditions on a long-term basis, a growth of 4% is considered to be absolutely necessary.

\* In addition, the fragmentation of agricultural enterprises and effective usable areas must be counteracted. Cooperative unions, cooperatives and self-help organizations offer a way out.

\* Diversification in dairy farming, cattle breeding, aqua-farming and bio energy should be promoted.

\* In order to prevent further deterioration of the yields, ground erosion and water pollution, the farmers and their organizations need to be informed about biological cultivation. Research and development must point out possibilities to them regarding lucrative crop rotation, careful pest control etc.

\* Irrigation projects need to be carried out rapidly, and the maintenance of existing facilities needs to be provided. Especially those areas without irrigation are in need of state support.

\* In order to revive investment in the sector, the entire agricultural credit system needs to be reformed. All farmers should have access to credit institutes or credit cooperatives. Farmers must have an alternative to private money lenders with their ruinous interests. As a first step, the government has issued 15 billion USD towards farmer debts.

\* Risk management is demanded at a national level for security against damages caused by weather, parasites etc.

\* The modernization of agriculture will set workers free. In time, the agrarian sector must attach itself to adjacent areas, in order to allow possible alternatives. These are for example; food production, transport and logistics, marketing and distribution.

\* For the transformation to take place successfully, specialists are necessary - agricultural engineers, biotechnologists, chemists etc. as well as experts from foreign countries.

Sources: Report of the Expert Group on Agricultural Indebtedness, July 2007, BBC

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