

Farmers' Plights, its Economic Challenges and Potential Remedies

Overview and Analysis

I. Background

India ranks seventh in the world in terms of area under cultivation, at 329 million hectares and 4th among the BRICS nations. We are only second to China in terms of volume of paddy, wheat, and oilseeds and several fruits and vegetables produced¹. Agriculture still remains the highest employer in India, engaging more than half of the total workforce and contributes 17.4 percent of the country's Gross Value Added (GVA) in 2016-17 (current prices)². Despite such significant roles in the economy of the country, farmers and cultivators are perhaps routinely neglected in policymaking, budget planning and welfare schemes. However, the current administration has made attempts to address the issue and institutes two new schemes to address water availability and risk mitigation in agriculture through the Pradhan Mantri Krishi Sinchai Yojana (PMKSY) and Pradhan Mantri Fasal Bima Yojana (PMFBY), which will be discussed presently.

However, these measures prove inadequate given the mammoth size of the sector and the myriad of issues confronting farmers and agriculturalists in the country today. Owing to the proportion of the population impacted by agriculture, it is crucial to examine the nature of agricultural households in the country. As per the *Situation Assessment Survey of Agricultural Households 2013* conducted by the National Sample Survey Organisation (NSSO) in its 70th round, Rural India has an estimated total of **90.2 million agricultural households**, which constitute about 57.8 percent of the total estimated rural households of the country. It is important to highlight that an agricultural household was defined as a household receiving value of produce, more than Rs.3000/- from agricultural and having at least one member self-employed in agriculture either in the principal status or in subsidiary status during last 365 days. Out of the total estimated agricultural households **45.4 percent belong to the OBC category, whereas 16.3 percent belong to the SC category and 13 percent to the ST category.**

When it comes to the land holdings in India, **about 69 percent of the agricultural households possessed land less than 1 hectare** whereas only 0.4 percent households possessed land 10 hectares or more. The small size of land holdings also implies that in India, small-scale farming is practiced. Now, let us compare this land-holding to the land-holding in other countries and regions:

- The United States of America: 179.68 hectares

¹ Pocketbook of Agricultural Statistics- 2017, Department of Agriculture, Cooperation & Farmer's Welfare.

² Annual Report 2017-18, Department of Agriculture, Cooperation & Farmer's Welfare.

- Western European countries: 18 – 69 hectares
- Japan: 1.4 hectares
- South Korea: 1.2 hectares
- China: 0.6 hectares

Agricultural activity was reported to be the principal source of income for 68.3 percent of agricultural households (Cultivation (63.5 percent), Livestock activity (3.7 percent) and other agricultural activities (1.1 percent)). Also, it is important to note that 4.9 percent of agricultural households possessed Antyodaya card whereas 36.4 percent of agricultural households possessed a BPL card.

The average monthly income per agricultural household was calculated to be INR 6426/- while the average monthly consumption expenditure per agricultural household was INR 6223/-. Net receipt from farm business (cultivation and farming of animals) accounted for 60 percent of the average monthly income per agricultural household. Nearly 52 percent of agricultural households in India are indebted and levels of debt are as high as 93 percent in Andhra Pradesh and 89 percent in Telangana. The average amount of outstanding loan was highest for Kerala (INR 2,13,600) followed by Andhra Pradesh (INR 1,23,400) and Punjab (INR 1,19,500). Nearly 40 percent of all loans came from informal sources with 26 percent advanced by moneylenders; indebtedness major cause of farmer suicides in the country at 38.7 percent³. Telangana (1358 persons), Karnataka (1197), Chhattisgarh (854) and Andhra Pradesh (516) are high- burden states in the terms of number of farmer suicides in 2015.

II. Farmers' Plights: Analysis of Causes

The Pocketbook of Agricultural Statistics 2017 released by the Department of Agriculture, has a wealth of data that speaks about the various factors that affect farmer's activities and livelihoods on a very granular basis. Some such statistics are discussed in this section. One of the key issues affecting farmers is their **access to credit and crop loans**. Though farming has been identified as one of the priority sectors in lending (PSL), State-Level Bankers' Committee reports consistently make observations that they have fallen short of the targets set for primary sector credit. Banks hesitate to lend to farmers for various reasons and a cross-examination of the quantum of crop loans will give insights into the prevalent gap in lending.

Figure 1 below illustrates the amount of loans disbursed against major agricultural states and the number of agricultural accounts in those states. As can be observed, **high-burden states** like Telangana, Andhra Pradesh, Karnataka and Chhattisgarh, which have a high rate of farmer suicide due to indebtedness, have a **very low number of agricultural accounts and an even lower amount per account**. The states that show a significant gap as marked in the graph—high rate of account opening but very low disbursement of credit amount per

³ Accidental Deaths & Suicides India 2015, National Crime Records Bureau

account—are the states where the farmer crisis has intensified in the recent past, leading to eruptions of protests along the rural areas. This analysis points to a dire and urgent need for increased lending to the primary sector, as mere opening of agricultural accounts does not satisfy the needs of the farmers.

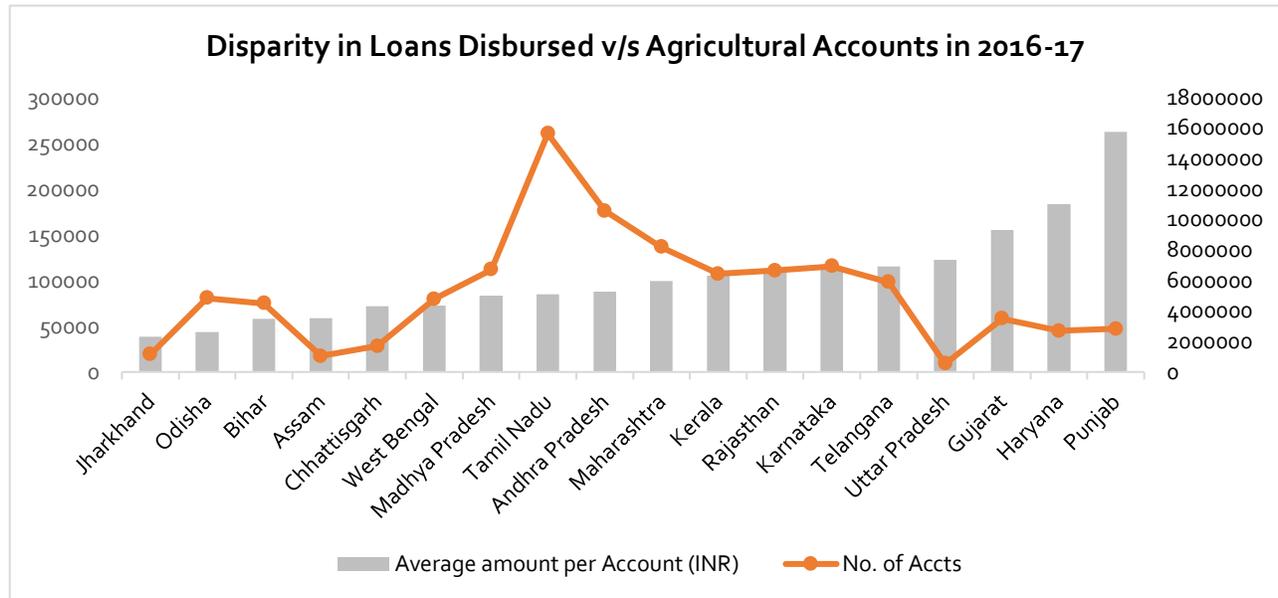


Figure 1 Average Amount Disbursed Per Account as Agricultural Credit and No. of Agricultural Accounts in 2016-17; Analysis by Swaniti Initiative/ Source: Pocketbook of Agricultural Statistics 2017

Another crucial factor that affects farmer's income and financial security is that of crop insurance. The all-India percentage of net irrigated area to total cropped area was 34.5 percent, which makes a large segment of cultivation dependent on rainfall. Due to relatively small proportion of agricultural land under irrigation, reliance on weather patterns is very high among Indian farmers, which is upset by erratic monsoons and comprehensive climate change. This makes it all the more important to **insure crops** due to increased vulnerability to the vagaries of the weather. Only two States, Punjab and Uttar Pradesh have more than 50 percent irrigated area to total cropped area and only five other states – Haryana, Tamil Nadu, Madhya Pradesh, Bihar and Andhra Pradesh have above 34 percent irrigated area to total cropped area in 2014-15⁴.

Figure 2 below illustrates the percentage of crop area insured for the past 3 years. As evident, the **high burden** states show a **decline in the share of crop area covered by any insurance scheme** in the last year. The correlation between lack of credit and insurance is hard to miss here; this trend places double pressure on farmers in terms of their financial stability and economic well-being, therefore leading to decline in income and debt traps. Except for the central states who have witnessed a steep climb in crop insurance, decrease elsewhere is not promising; additionally, there are states like Punjab and Haryana that have

⁴ NSSO 70th Round, 2013, "Situation Assessment Survey of Agricultural Households".

almost no crop insurance, but have a high degree of agricultural borrowing, therefore offsetting the impact of post-sowing climatic shocks. However, this extra credit is better directed towards insuring the crops as it is a more judicious use of funds.

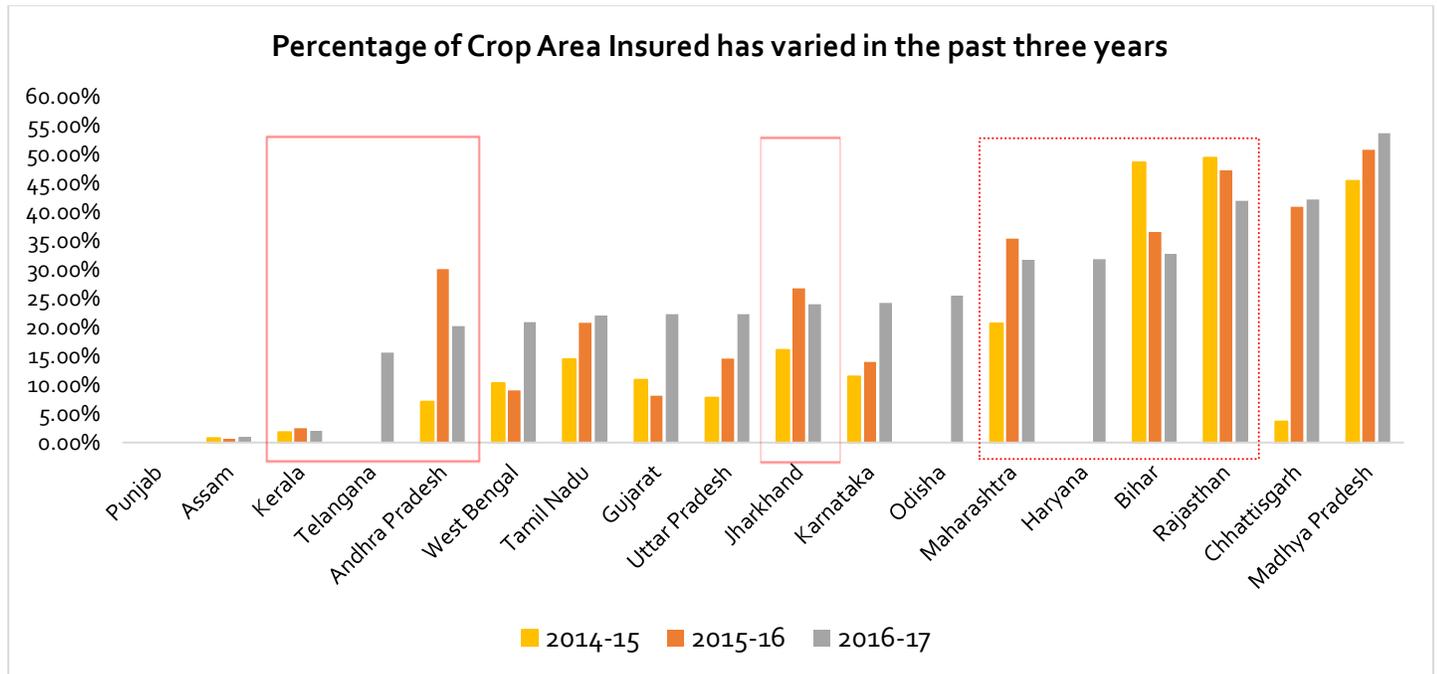


Figure 2 Variation in Crop Area Insured in Three years; Source: Pocketbook of Agricultural Statistics, 2017

The proportion of indebted households by land holding size adds another dimension to the analysis of abjection among farmers in the country. The fact that most agriculturalists are small scale farmers with very little social or economic welfare to fall back on is nuanced by Figure 3 given below. At an All-India level, **51.9 percent of the agricultural households are indebted and 63.6 percent of households with landholding size less than 1 hectare are indebted**. These grim statistics testify further to the plight of small-scale farmers reeling under multiple adverse conditions and lack of facilities.

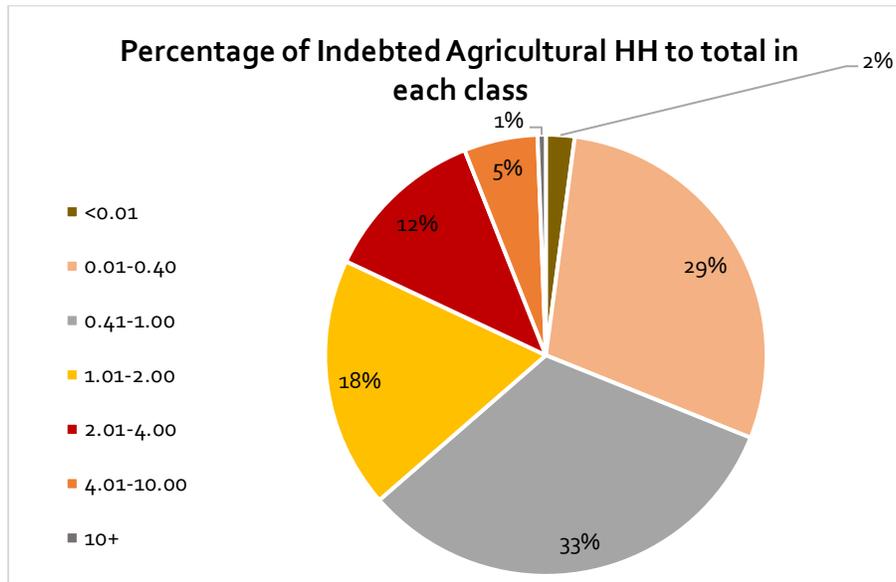


Figure 3 Distribution of Indebted Households by size of landholding; Source: NSSO 70th Round

A potential and often relied upon tool is the price correction and market alteration mechanism of the Minimum Support Price (MSP). However, **low levels of awareness among households about government procurement operations—at MSP—and even lower level of sale of these crops to procurement agencies, remain as major bottlenecks.** This has also meant that in poor harvest years, farmers are not necessarily compensated by an increase in crop prices, while in bumper years low prices would hit their net incomes, depending on how global prices move. There are regions of the country where the procurement programme is weak and not accessible to many farmers; there are constant complaints that procurement operations are too tardy, brief and inadequate to be of real benefit in ensuring a minimum price for farmers.

Figure 4 below illustrates the average monthly expenditure versus receipt for crop production in major agricultural states in 2012-13, giving an **estimate of the costs incurred by farmers** in the country. This plot pitches the expenses and income of farmers in those states against the number of households (HH) per 1000 households engaged in agriculture. The plot yields a picture of prosperity in states like Punjab and Haryana, where the highest agricultural incomes get spread over a few number of households, while also showing that impoverished states like Jharkhand, Odisha, Chhattisgarh and West Bengal have very little household income from agriculture. When sorted for input-output surplus, it becomes apparent that farming HH in these states receive **very little yield given high investment**, in contrast to states like Kerala, Maharashtra and Madhya Pradesh, where despite low income per HH, yield per input is much higher and more efficient. This shows that there is a decisive role that state governments can play in terms of farmer-sensitive economic policies.

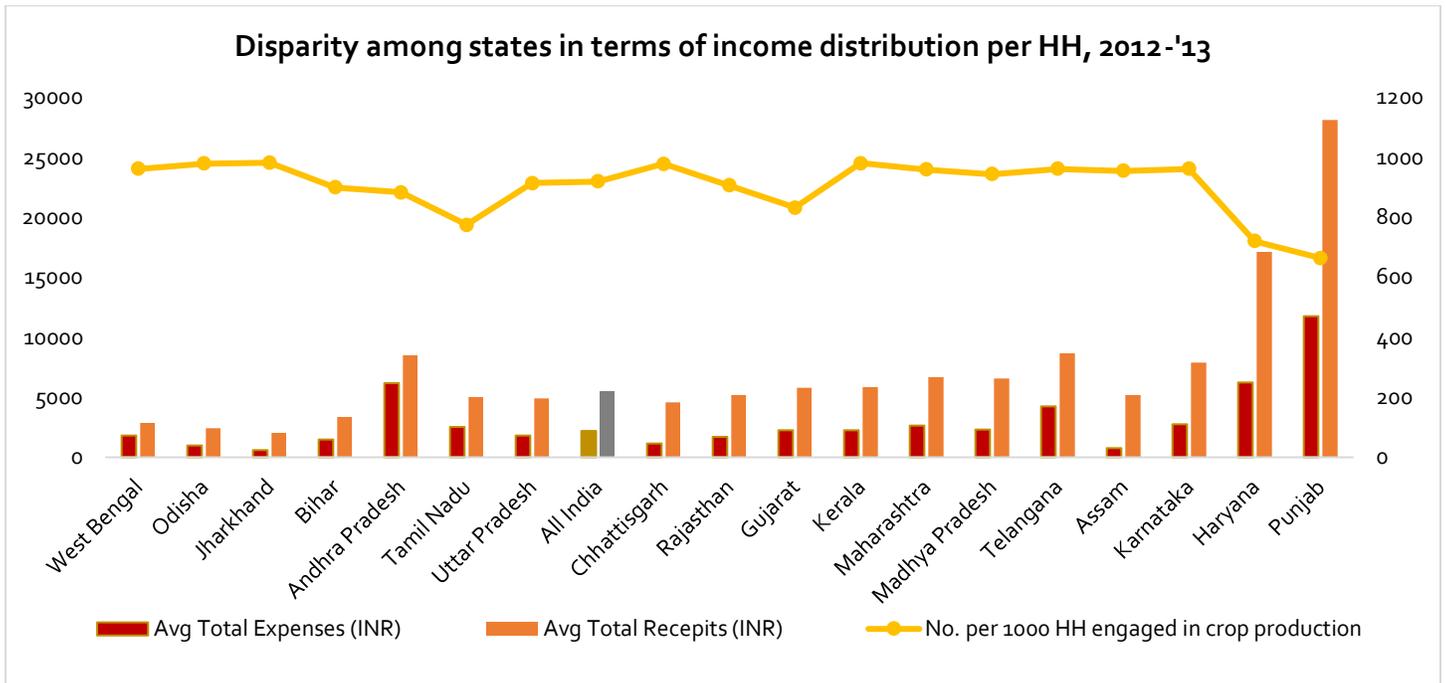


Figure 4 Expenditure and Receipts from Cropping; Source: NSSO 70th Round

Lastly, it is useful to examine the international competition that the farmers in India have to face in terms of the import and export of agricultural produce. Figure 5 below illustrates the **trends in share of agricultural imports and exports** in the total imports and exports. The decreasing gap between the two gives food for thought, in order to examine the kind of produce that is imported, as a higher proportion in imports implies competition for domestic producers, intensifying their distress. While these figures betray a lack of clarity on the value or quality of the products traded, it is important to note that India's exports include vast quantities of cereal such as wheat, cash crops like spices and tea, other exotic produce such as jute, while entire groups of farmers are not benefitted from this comparative advantage.

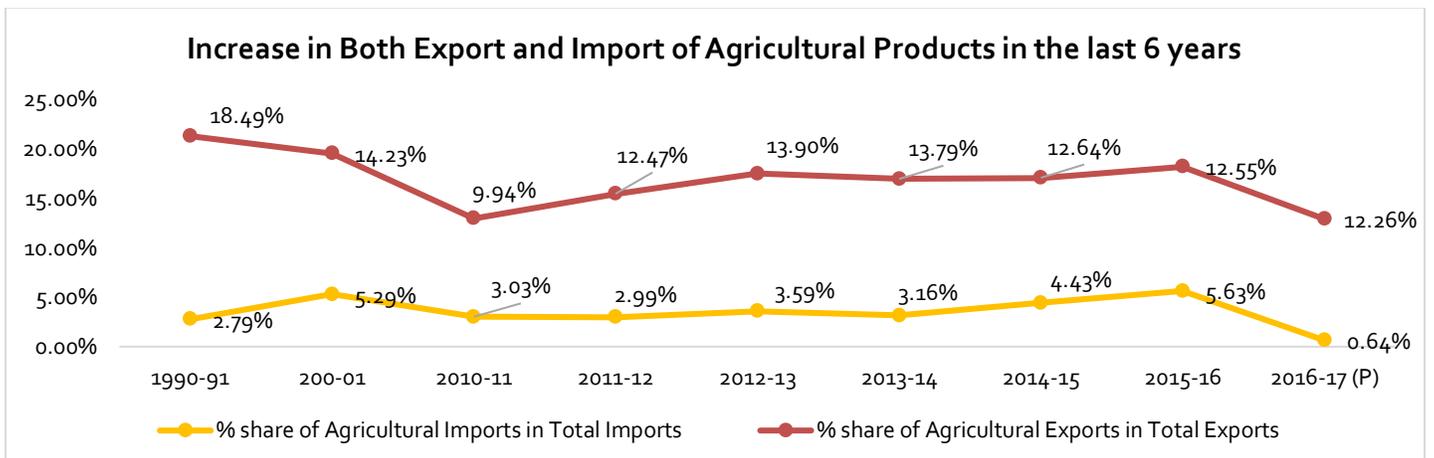


Figure 5 Trends in Imports and Exports of Agricultural Produce in the past 6 years; Source: Directorate General of Commercial Intelligence & Statistics

III. Farmers' Plights: Potential Remedies

Launch of initiatives and schemes by the government have the potential to alleviate at least some of the suffering of farmers and approach solutions at a Pan-India level, creatively. Some such projects are as given below. It is important to bear in mind that these schemes in the current format have been implemented only in the past few years and their outcomes will take many years to reflect, given the magnitude of the problem.

- **Pradhan Mantri Krishi Sinchai Yojana** – During the year 2016-17, INR.1991.2 crores was allocated for Per Drop More Crop under PMKSY, which is 28 per cent, more than INR. 1,556.7 crore allocated in the year 2015-16. In 2015-16, 5.7 lakh hectare area was brought under micro-irrigation, while 8.4 lakh hectare area was brought under micro irrigation during 2016-17, which is the highest so far.
- **Pradhan Mantri Fasal Bima Yojana** – which is a yield index based crop insurance scheme launched in 2016, has made substantial progress with more ground coverage compared to erstwhile schemes. During Kharif 2016 season 23 States implemented PMFBY and during Rabi 2016-17, 25 States/Union Territories implemented PMFBY.

However, an analysis of the data from the Department of Agriculture, Cooperation and Farmers Welfare shows that cumulative coverage of PMFBY till Rabi 2016-17 since its launch has been unsatisfactory in all the major agricultural states. Punjab and Assam have not implemented the scheme at all, while number of farmers benefitted in resource- strapped states like Kerala and Jharkhand is very low. Maharashtra, on the other hand, has achieved 100 percent claims processing, with maximum number of farmers benefitting from the scheme as well. Odisha and Chhattisgarh also have decent claims processing track records, however the number of farmers impacted is low.

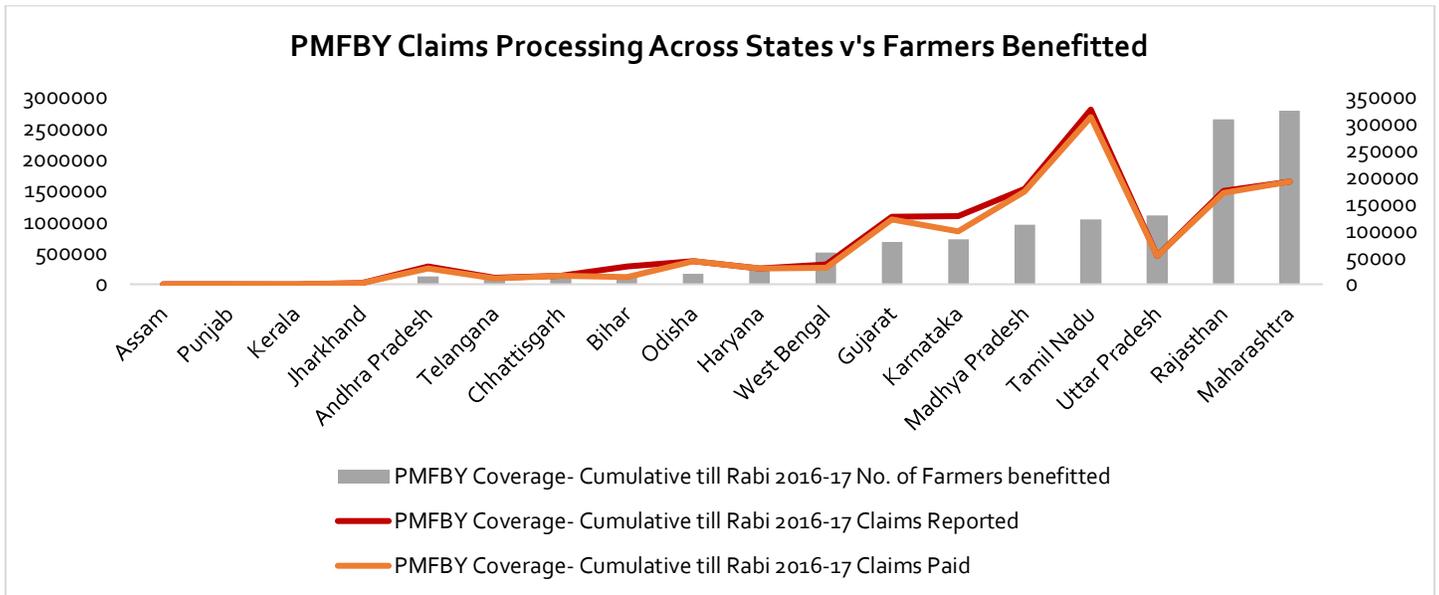


Figure 6 Claims Processing and Benefits under PMFBY; Source: Dept of Agriculture, Cooperation & Farmers Welfare

- Soil Health Card** – SHC informs farmers about nutrients status of the soils along with the recommendation on appropriate dosage of nutrients to improve soil health and fertility. A farm will get the soil card once in every 2 years so that nutrients deficiency can be regularly detected and improved. In the first phase (2015-17) 100 million SHCs have been distributed so far. The aim of is to provide SHC to all farm holdings by December 2017. The second phase began on May 1, 2017, and will continue for the year 2017 to 2019.
- E-National Agriculture Market** – Keeping in view the need of making marketing of commodities easier for farmers, e-NAM was envisioned and launched in 21 Mandis on 14th April 2016 which has now reached 479 Mandis across 14 states and 1 Union Territory. e-NAM website is now available in eight different languages (Hindi, English, Gujarati, Marathi, Tamil, Telugu, Bengali and Odia) while the live trading facility is available in six different languages (Hindi, English, Bengali, Gujarati, Marathi & Telugu).

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