Ending the debt trap & attaining food security

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Finance Minister P. Chidambaram's budget 2008-09 has aroused widespread interest in methods of saving our small and marginal farming families from indebtedness and acute economic distress, which lead to occasional suicides. The steps proposed in the budget will give relief to nearly four crore farmers, at an estimated outlay of Rs.60,000 crore. As stressed by Mr. Chidambaram, this is a major step in recognising the indebtedness of the country to farm families who, th rough their toil in sun and rain, are safeguarding national food security and sovereignty. The question arises whether this step will mark the end of farmers' dependence on moneylenders and traders for their credit needs. Some of the following issues need consideration:

First, the definition of small and marginal farmers has to be different for irrigated and dry farming areas. The present definition classifies marginal farmers as those owning up to 1 hectare and small farmers as those owning 1-2 hectares. Farmers cultivating crops in rainfed, arid, and semi-arid areas may own 4-5 hectares but their income is uncertain and their agricultural destiny is bound closely to the behaviour of the monsoon. A large number of farming families affected by the agrarian crisis in Vidharbha fall under this category. They will not be eligible for debt waiver and debt relief under the present scheme.

A second problem relates to the source from which loans have been taken. The programme announced in the budget covers farmers who have taken loans from scheduled commercial banks, regional rural banks, and cooperative credit institutions. It does not cover farmers indebted to moneylenders and traders. According to the National Sample Survey Organisation (NSSO), 48.6 per cent of the farm households surveyed were indebted; of these 61 per cent had operational holdings below 1 hectare. Of the total outstanding debt, 41.6 per cent was taken for purposes other than farm-related activities, such as healthcare and domestic needs; 57.7 per cent of the outstanding amount was sourced from institutional channels and 42.3 per cent from moneylenders, traders, relatives, and friends.

It has been estimated that in 2003, non-institutional debt accounted for Rs.48,000 crore; and out of this, Rs.18,000 crore was at an interest of 30 per cent per annum or more (NSSO 59th Round cited by the Economic Survey 2007-08). The Expert Group on Agriculture Indebtedness chaired by Professor R. Radhakrishna has recommended, in its report of July 2007, the inclusion of the financially excluded, particularly the small borrower households, and the adoption of risk-mitigating measures for agriculture. The concept of financial inclusion is in its early stages of operationalisation.

Loan waiver is the price we have to pay for the neglect of rural India during the past several decades, as reflected in a gradual decline in investment in key sectors like irrigation, post-harvest technology (even today, farmers dry the harvested paddy on roads), market, and communication. The four crore farmers who are to be relieved of their debt burden before the end of June 2008 will become eligible once again for

institutional credit for their cultivation expenses during kharif 2008. The challenge now is to prevent them from getting into the debt trap again.

For this purpose, both Central and State governments should set up immediately an Indebted Farmers' Support Consortium at the district level. This should comprise farm scientists, panchayati raj leaders, input supply agencies, representatives of relevant government departments and financial institutions, rural and women's universities and home science colleges, private sector and media representatives, and others relevant to assisting the farmers relieved of their past debt in improving the productivity and profitability of their farms in an environmentally sustainable manner. This is essential for enabling them to have a higher marketable surplus and thereby more cash income. The smaller the farm, the greater is the need for marketable surplus to avoid indebtedness.

Such an Indebted Farmers' Support Consortium should get the four crore farmers the benefits of all the government schemes such as the Rashtriya Krishi Vikas Yojana, the National Food Security Mission, the Accelerated Irrigation Benefit Programme, the National Horticulture Mission, Rural Godown and Warehousing Schemes, and the National Rural Health Mission. If this is done, every farm family released from the debt trap should be able to produce at least an additional half tonne per hectare of food grains or other farm produce. This should help increase food production by about 20 million tonnes during 2008-10. At a time when global and national food stocks are dwindling and prices are rising, this will be an extremely timely gain for our national food and nutrition security system and for the control of inflation. We should ensure that the outcome of debt waiver is enhanced farmers' income and production.

The prevailing gap between potential and actual yields in the crops of rainfed areas such as jowar, bajra, millets, pulses, and oilseeds is over 200 per cent even with the technologies on the shelf. The restarting of the agricultural career of four crore resource-poor farmers through loan waiver could mark a new dawn in both agrarian prosperity and national food sovereignty — provided such farmers are supported with synergetic packages of technology, services, marketing infrastructure, and public policies related to input and output pricing. The Commission for Agricultural Costs and Prices recommends Minimum Support Prices (MSP) for 24 crops. Unfortunately, the MSP is generally available only for wheat and rice. State governments in partnership with financial institutions and the private sector should set up effective Market Intervention Funds, to help small and marginal farmers avoid selling their produce at the time of harvest at below-MSP prices.

Ultimately, it is only opportunities for assured and remunerative marketing that can help to end agrarian despair and distress. We are now importing without duty large quantities of pulses and oilseeds. If helped appropriately, the four crore farmers will produce them at lower cost. Attention to small farmer-oriented marketing is essential, if loan waiver is not to become a recurring event leading to the destruction of the credit system. This is why MSP should be implemented for all the 24 crops, particularly the crops of dry farming areas. Remunerative price for farm produce is the single most effective step to make loan waiver history.

As mentioned earlier, there are two other urgent steps needed to consolidate the gains from the loan waiver and Debt Relief Initiative. First, the definition of small and marginal farmers will have to be modified in the case of rainfed and semi-arid and arid zone farming. In my view, a small farmer in areas without assured irrigation facility should be defined as one with 4 hectares of land and a marginal farmer as one with 2 hectares. In the arid zone of Rajasthan, small and marginal farmers can be those owning 8 and 4 hectares respectively. Such distinctions exist in the case of laws relating to the ceiling on the size of land holdings. A uniform definition covering irrigated and unirrigated areas is against the principle of equity.

A second urgent step relates to providing assistance to those who have taken loans from moneylenders and traders. The 2008 budget does not offer a solution to releasing them also from the debt trap and thereby unleashing their farming spirit. Obviously, it will not be possible for the government to scrutinise the veracity of private deals, but steps can be taken by State governments in partnership with the private sector to help them also to restart their agricultural life. This can be done by giving them Smart Cards that will entitle them to essential inputs like seeds and fertilizers. The gram sabha can be entrusted with the task of identifying such farmers, so that there is transparency in the identification process and thereby elimination of chances for falsification and corruption. Fear of occasional misuse should not come in the way of enabling millions of resource-poor farmers, who have borrowed from informal sources, to also contribute to enhancing farm output and achieving the goal of 4 per cent growth in agriculture.

Thus this bold and much-needed initiative can help to launch an evergreen revolution in agriculture if steps are taken immediately to establish at the district level an Indebted Farmers' Support Consortium; redefine the concept of small and marginal farmers in the case of dry farming and desert areas; and develop an administratively feasible approach to assisting farmers who are push-outs of the formal farm credit system to obtain essential inputs. Also, the benefits of the Rural Health Mission and all other entitlements should be extended to the farm households in distress, since borrowing for healthcare is widespread.

Finally, the pathways to our agricultural renaissance and sustainable food and nutrition security are discussed and defined in detail in the five reports of the National Commission on Farmers (2004-06) and in the National Policy for Farmers (2007). The sooner they are acted upon in a holistic manner, the greater will be the possibility of avoiding the recurrence of the era of farmers' suicides and loan waivers. With the extension of the National Rural Employment Guarantee Scheme (NREGS) to all 596 rural districts, the demand for food grains will go up.

There is now widespread malnutrition and under-nutrition in the country, particularly among women and children. Nearly two-thirds of the income of the poor is spent on food and the purchasing power enhancement conferred by NREGS would help to raise food consumption. Loan waiver and NREGS could make the largest contribution to the eradication of under-nutrition, provided linkages are established among all relevant programmes. The present situation of having to interfere with the formal credit system

should be converted into an opportunity for the elimination of endemic hunger through both higher food production and the operation of a Universal Public Distribution System.

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