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India's farming sector in need of real reforms

Experts say government efforts to help struggling farmers are unlikely to be enough to turn the industry around



Ramnath Mahale, a farmer from Nashik in the state of Maharashtra in western Indian, says he struggles to make ends meet.

He is burdened with the equivalent of hundreds of dollars in debts that he cannot afford to repay, taking loans to pay for seeds and fertilisers.

He explains that he has faced challenges over the years, including crop failure, while middlemen leave him with limited scope to make money.

“We don’t get a good price when a farmer sells,” says Mr Mahale. “It’s hard for us as farmers to survive.”

He is not alone. Mr Mahale was among the thousands of farmers who marched into Mumbai last week, walking 180 kilometres in the scorching heat to make demands, including asking for unconditional loan waivers and better prices for crops.

In response, Devendra Fadnavis, the Chief Minister of the state of Maharashtra, of which Mumbai is the capital, said he would meet most of the farmers’ demands, outlining plans to relax conditions on loan waivers and setting up a committee to look at the farmers’ situation.

But analysts and farmers alike are questioning whether such steps will really help solve the issues in the long run, with fundamental challenges likely to persist, including water shortages, being at the mercy of the weather and the difficulties faced when it comes to profitability.

Agriculture accounts for 17.4 per cent of India's GDP, according to the World Bank. But this is relatively low, considering the fact that about half of the workforce in India depend on agriculture for their livelihoods, according to the Indian government.

"Obviously the productivity compared to other sectors is extremely low. So that's at the crux of the problem – agriculture is not profitable," says Sujan Hajra, the chief economist at Anand Rathi, a financial services firm in Mumbai.

He explains that a lack of water, poor irrigation and the costs of farming mean that small farmers in particular find it difficult to make money. India's agriculture sector has "structural problems" to which "there are no easy solutions", and significant structural changes have not been made over the years by governments.

"While a lot of lip service has been given by governments to help the sector, if you look at the productivity growth of Indian agriculture, it is actually decelerating over the past two decades," says Mr Hajra. "Agriculture is highly dependent on public investment, but since the time we initiated economic reforms in the early 1990s, we tried to withdraw public investment with the expectation that private investment will replace that.

"But that hasn't happened."

Various state governments have made efforts to try to address the problems that farmers face by announcing loan waivers.

The Maharashtra state government last year unveiled a \$5 billion loan waiver package for farmers, and the governments of Uttar Pradesh and Punjab have also reacted by launching similar schemes.

There's added pressure given the high rates of suicides of farmers in India, with about 300,000 taking their own lives in the past 20 years, according to figures from the National Crime Records Bureau. This is largely associated with their debt burdens.

The central government meanwhile has a target of doubling farmers' incomes by 2022. In its union budget unveiled in February, it announced it would ensure that farmers get better prices for certain crops, and expand its irrigation fund to allow development of water projects.

"Our emphasis is on generating higher incomes for farmers," said Arun Jaitley, India's Finance Minister, in his budget speech. "We consider agriculture as an enterprise and want to help farmers produce more from the same land parcel at lesser cost and simultaneously realise higher prices for their produce."

He said that more than 86 per cent of India's farmers are small and marginal, most of whom are not able to sell directly at wholesale markets.

With general elections coming up next year, this has put pressure on the government to help farmers.

There are concerns that some of the fundamental problems that the agriculture sector faces cannot be fixed so easily.

Vidya Mahambare, associate professor of economics at Great Lakes Institute of Management in Chennai, says that the sector as it stands is simply unsustainable, with most farmers having small land holdings which "make their absolute incomes meagre.

“The real policy issue here is that the non-farm sector is not able to create the millions of jobs that are required to pull people out of farm work,” she says. “Also, persistent issues such as the lack of reliable irrigation and storage facilities as well as the lack of timely and adequate information about market predictions of crop prices result in a significant lack of efficiency and low productivity in the overall agriculture sector. This hurts smaller farmers the most.” **Ms Mahambare** says that costly loan waivers are not the solution to the issue.

The government has taken several initiatives in the past, such as the Soil Health Card Scheme, which gives farmers soil cards that advise them on nutrients and fertilisers to use to increase productivity following tests on the soil; The National Agriculture Market, an electronic trading platform for agricultural commodities; and the Pradhan Mantri Fasal Bima Yojana crop insurance scheme against the failure of crops.

“The impact and reach of these policies have been uneven and have faced several implementation hurdles,” says **Ms Mahambare**. “In the budget this year, the government has guaranteed 50 per cent risk-free assured returns to farmers for most of the crops.

“However, the details of the policy have not been formulated.

“Assuring a 50 per cent return in any sector is not a viable strategy and may incentivise production in crops where there is already a surplus.”

Loan waivers can in fact have a detrimental effect.

“It is critical for the governments to understand that writing off farm loans would worsen the credit indiscipline amongst farmers while draining the state finances,” says Sanjay Kaul, the managing director and chief executive of National Collateral Management Service, a commodity services firm.

“Apart from breeding the much-talked-about problem of moral hazard amongst farmers, the loan waivers impact the lending patterns of the banks as they become selective in their credit extension.”

Mr Hajra says the challenges that India’s agriculture sector faces are not new, but “maybe it is reaching a tipping point now and so we are seeing so many protests”.

Farmers like Mr Mahale say they will continue trying to make their voices heard until they see concrete action being taken to help their situation.

“We’ll keep fighting,” he says.

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