Agriculture Finance: A Reality Check

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"A farmer is a magician who produces money from the mud", says professional magician Amit Kalantri. But then you need money to produce money. But do we allow it? Where do we stand when it comes to investment and infusion of money into the agriculture sector? And here the term Agriculture includes livestock, dairy, fishery and all other allied activities.

A 2008 World Bank report recognises agriculture as "a fundamental instrument for sustainable development and poverty reduction." This report goes on to admit that "financial constraints in agriculture remain pervasive, and they are costly and inequitably distributed, severely limiting small holders." Nearly two decades later these observations continue to hold as also the recognition that exposure of agriculture to the volatility of global food markets is making it more vulnerable than ever before. Agriculture is not just a food production activity; it has to integrate into a modern competitive system dominated by consumer demand and preferences, such as value added products, consistency in quality, safety of produce etc. Integrating the small agriculturist into this complex chain is a major challenge. We cannot draw solace from the fact that farmers all across the world face this challenge; our farmer is more prone to isolation as 86% of our agriculture is characterised by small and marginal farmers, the average land holding being as low as 1.08 hectare. Until and unless agriculture policy and development addresses smallholder productivity, we may not be able to ward off the threat of further marginalisation of the small farmer.

"Our farms are starved of capital and knowledge on modern methods and practices," writes Prof. Ramesh Chand in the NITI Ayog Policy Paper titled "Doubling Farmers' Income". A confusing paradox considering the substantial financial outlays, both direct and indirect, in the central and state budgets. The predicament perhaps lies in our fixation with treating agriculture as a mere production oriented activity with the sole objective of providing affordable food, and not viewing it as a vibrant enterprise which could lend dynamism to the economy. What prevents us from recognising our farmer as an entrepreneur, innovator, a progressive business owner, and above all a bold risk taker? Why should the farmer be starved of finance?

Theoretically, a plethora of financial incentives and capital investments have been provided to the farm sector: from high tariffs to protect domestic produce from cheap imports to subsidies on a variety of inputs such as seed, fertiliser, pesticides, energy, water etc. In fact, the rate of subsidy on water and electricity has reached the maximum of 100% in certain states. These financial stimuli are further enhanced through loans which carry either no or a concessional rate of interest; low cost or fully subsidised insurance; and price support for major commodities. Populist measures such as periodic loan waivers add on to this seemingly huge financial basket. And finally, the income enjoys exemption from tax. Yet, the growth of the sector has been consistently low, hovering around 3% over the years, and when we discuss the sector, the most commonly used phrases are "farm distress" and "crisis". Within the sector, it is dairy, fish farming and poultry which have been regularly, for several years now, registering an annual growth between 6 to 10% whereas none of the financial incentives listed above are available to these activities. If the growth only of crop husbandry is computed, it would be under 3%. We have narrowly confined our understanding of agriculture to only mean growing crops on the soil and targeted financial inputs accordingly. Logical though it sounds, it would be an erroneous inference that there is no correlation between infusion of finance and growth?

We would serve the sector well by clearly differentiating between public investment in agriculture and subsidies. At present the bulk of public spending in agriculture is biased towards providing cheap inputs to the farmers. The sector is tightly controlled; from inputs to extension to marketing. Cheap subsidised inputs compromise on quality, and also on basic principles of return on investment by artificially keeping the cost low. This reduces the incentive to perform better, as recovery of cost of inputs has been eased. Dairy, poultry and fish farmers need to work harder to recover the cost and then generate surplus to stay afloat. Innovation also gets pushed to the margins as incentive has already gone missing. Agriculture extension system has been in a state of disrepair for quite some time now, and private talent does not venture into this territory as we prefer subsidised services, even if they are of dubious quality. The mandi, controlled by the Market Committees, is a monopsony of a different and ugly kind, though the raison d'etre of this mandi was precisely to free the farmer from monopsony. There is an utter lack of transparency in their functioning, cartels control them, traders pool for price fixing, payments are unreasonably delayed pushing the farmers again to money lenders. Unfortunately, the steps to ease these controls and provide a greater degree of freedom to the farmer over his profession have met with opposition from some quarters. This could also be on account of our traditional suspicion of private sector investment in agriculture. We may affirm our commitment to agriculture and farmers through heavy budgetary

allocations, but the real growth in terms of productivity, value and realisation of the goal of doubling farmers' income would be a reality if private investment in the sector too flows with as much enthusiasm and ease as in the manufacturing and services sectors.

Another stark irony is that while we treat private investment in agriculture with suspicion, the public institutions, despite the pronouncement, view the agriculture sector and the farmer with the same, if not higher, degree of suspicion. No financial institution shows any willingness to finance beyond the subsidised government schemes; agriculture is still considered a high risk financing activity and farmers a high risk category of borrowers. As a result, insurance too remains out of bounds; in fact, no insurance company responds favourably to insuring a fish farming activity. Beyond the comfort of the Kisan Credit Card (KCC), there is hardly any substantial institutional credit available to the farmer. So, the dependence upon the informal channels remains high. In fact, NABARD acknowledges that more than 30% rural households still take credit from non-institutional sources. Distribution of this credit is also uneven and skewed amongst states, and heavily prejudiced against small and marginal farmers; the landless tillers remain outside its purview. Availability of financial resources does not automatically mean an access to those resources; and this access continues to be a challenge even though availability may not be a major issue. An Economic Survey notes, "Given the large proportion of resource constrained small and marginal farmers in India, timely availability of adequate credit is fundamental for the success of farming activities." How, is the question?

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Income support, yes. Subsidies to offset high cost of farming, yes. But let these not be confused with investment. There is no dearth of finance, but there is a dearth of good finance. Invest as much in infrastructure, R&D, Digitalisation; basically, in what generates greater monetary value to the farmer. This would not be in any conflict with the government's welfare and income support to the farmer. Let the investment be evaluated on the threshold of financial return. A rupee spent should return more than a rupee, and efficacy of this conversion should be measured by how much more. Treat agriculture as business and encourage financial returns on business principles. It is definitely encouraging that on the lines of ease of doing business we have started talking about ease of doing agriculture. Let the focus be shifted from production to farmer, not merely in the idiom of welfare, but prosperity. Our policy direction should be to make agriculture a profession of choice and not a compulsion.

Dr. M. S. Swaminathan, the father of Green Revolution sums it up, "Agriculture can trigger job-led economic growth, provided it becomes intellectually satisfying and economically rewarding."