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SUMMARIES OF GROUP DISCUSSION

Subject I

Agricultural Production Relations in the Context of the New Agricultural Technology

Rapporteur: G. K. Chadha*

The session started with the presentation of the keynote paper by A. Vaidyanathan. Vaidyanathan recounted the diverse agrarian changes, especially those connected with land distribution, tenancy relations, input structure by farm size, wage labour, institutional dispensations, etc., since the onset of the green revolution. Happily, many of the fears expressed in the initial years of the green revolution did not come through. The structure and functioning of the rural labour markets have undergone considerable changes. The growing heterogeneity of wage labourers, the steadily diversifying base of rural employment, the changing caste composition of the cultivating households, and the progressive integration of villages into the wider market vortex, are the possible explanations. Moreover, the segmentation of the rural labour market on village-to-village basis has broken down for a variety of reasons, most ostensibly because the spread of modern transport and communication network has broken conventional rural isolation and the political consciousness among the lower strata of the rural masses has increased.

The discussion was focused on four major areas of agrarian changes: (1) ceiling on land holdings and tenancy relations; (2) consolidation of holdings; (3) management of common property resources (CPRs), notably land and water; and (4) wage labour. The group discussion brought out many insights, including those based on regional field studies, partly revealed by papers included in the Conference Number of this Journal and partly through local knowledge and understanding shared by the participants.

Ceiling on Land Holdings and Tenancy Relations

It was pointed out that the picture regarding leasing-in and leasing-out of land across the regions was highly disparate; that leasing-in and leasing-out was discernible all along the farm size continuum; that the phenomenon of reverse tenancy existed even in the pre-green revolution era and that it only got magnified after the arrival of the new farm technology; that, undoubtedly, the incidence of tenancy had considerably declined during the preceding three decades or so, yet contrary to the picture revealed by published reports, including agricultural census and the National Sample Survey data, concealed tenancy operates on a considerable scale whose magnitude and form varied from region to region.

The group overwhelmingly felt that tinkering with the ceiling limits was not advisable at this stage. In particular, an upward revision of the ceiling limit to allow big corporate enterprises including multinational agencies to organise large scale agricultural production (e.g., horticulture, vegetable cultivation, forestry, etc.) was not called for. On the contrary,

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questions relating to tenancy relations and land-lease market may be addressed more seriously, especially in the direction of strengthening the production base of small farm operators. The general opinion was in favour of legalising tenancy so that, depending on resource situation and institutional backup in each case, people may freely move in and out of land. In that case, the tenancy laws may be amended to (i) provide safeguards for genuine resumption for self-cultivation, especially by small landowners, and (ii) fix an upper time limit for tenancy contracts.

Consolidation of Holdings

It was pointed out that conceptual ambiguities prevailed most widely in the area of consolidation of holdings. Often, no clear distinction has been made between a fragment and a plot. Besides, the distinction between social and demographic factors which cause division of a holding into fragments and those responsible for scatteredness of a holding was rarely brought out.

The group made various suggestions for regulating the partitioning of land; while social norms at the household level may work effectively in certain areas, especially among homogeneous social groups or communities at the local level, legislative action may be needed in others. Nevertheless, the idea of advocating a minimum size of a holding (or a plot) was not favoured; perhaps, no legislative action can be clamped in this behalf.

The group strongly endorsed the rather unconventional idea of taking up wasteland development as a part of consolidation of holdings programme. Development of wasteland certainly goes beyond individual effort and investment. Perhaps, a joint effort in the form of a co-operative society may be worth a trial. A private company can also do the job provided the land after reclamation comes back to the village. The exact modalities can vary from area to area.

Management of CPRs

In the matter of access to irrigation, the relative disadvantage of small farm operators after the onset of the green revolution was reported from different regions. The significance of public investment in irrigation for mitigating the inter-farm disparities was underlined in particular. A serious concern was expressed on the stagnating levels of public investment in agriculture in general, and in irrigation in particular, occurring at the national and state levels during the preceding decade or so.

An equally serious concern was expressed about the unbridled and unregulated exploitation of groundwater, especially by large and 'influential' farmers. Already, the number of 'dark zones' has increased steeply in many states and the centrifugal-pump technology under which many a small farmer could venture to invest in a tubewell is going out of use in favour of submersible-pump technology. The latter is far more capital-intensive and decisively beyond the reach of small producers. It was conceded that flouting of existing norms for tubewell installation was fairly common, often in connivance with financial institutions, development agencies and government machinery. That it is highly counter-productive, especially from the sustainability angle, must be recognised by all sections.

The group felt that the scarcity value of groundwater should be seen in the context of competing demands for water from industry, cattle stock, expanding human population, etc. It was believed that there was a strong case for an upward revision of surface water rates as also for devising fresh norms for water rationing/allocation. While fixing the revised rates, due regard must be shown for (i) the quality of water supplied, (ii) maintaining a parity, from a farmer's point of view, between the cost of acquiring groundwater and that charged for surface water. In other words, the farmer should not be penalised for initial 'over-capitalisation' of an irrigation project or for interrupted flow of water during an allotted time-slot, and so on. The group also agreed that 'monopolisation' of groundwater use, say, by producer groups was inadvisable since, in most cases, it perpetuated water-intensive cropping patterns which could hardly be sustained over time. Lastly, it was overwhelmingly pleaded that implementation of laws concerning groundwater utilisation must be tightened.

In the matter of common property resource management at the grassroot level, the significant role of local leadership and people's own initiative was emphasised. As a matter of fact, involvement of local people and strengthening of local institutions are extremely important not only for making a success of local watershed development projects (*a la* Sukhomajri in Haryana, Ralegaon Sidhi in Maharashtra, Nartora in Madhya Pradesh, etc.) but also for an effective use of other irrigation schemes, including groundwater utilisation. It was nevertheless important to realise that (i) regard for environment must be the most binding consideration beneath all such watershed development initiatives; concerns for forest cover, common land in and around the village, sustainable cropping patterns, system approach, etc., were emphasised in particular; (ii) it was the combined role of government, local non-governmental organisations (NGOs) and people's institutions that ensured the success of such schemes; (iii) the cost effectiveness of such development projects must also be a critical consideration; (iv) the role of NGOs should not be over-played; (v) such schemes were not the ultimate or total solution to local resource scarcities, and accordingly 'too-much-of-romanticism-with-them' may better be avoided.

Wage Labour

The discussion on wage labour underlined numerous developments that took place since the onset of the green revolution. In particular, the declining employment elasticities with respect to agricultural output in recent years, the increasing casualisation of farm labour under the extending impact of capitalism, the expanding base of non-farm activities and expanding rural-urban linkages, the growing heterogenisation of rural wage labour and consequently, increasing difficulties for social and class mobilisations at the grassroot level, were pointed out. The group recommended that the progressive integration of village economy into the wider market economies including the expanding farm-non-farm linkages should be studied more carefully, both in agriculturally progressive and less developed regions. The changing nature of rural labour market including the inter-connectedness between farm and non-farm wage structures is an issue of growing significance; so also is the question of minimum wages. Finally, the group felt that an in-depth study of the new and expanding phenomenon of urban-fringe agriculture is in order, especially because of its land use implications.

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Subject II

Prices, Marketing including Agro-Processing, and International Trade

Rapporteur: M. H. Suryanarayana*

The changing economic scenario and its implications during the 'Structural Adjustment Programme' in relation to prices, marketing and international trade were the major foci of the discussion. In this context, emphasis was also laid on the method of analysis and clarity of concepts since the proposed reforms provided for a radically different policy framework for agriculture.

The background for setting the issues for discussion was provided by the keynote papers. M.S. Bhatia highlighted some of the methodological and substantive issues that would arise in any study on the impact of liberalisation and General Agreement on Tariffs and Trade (GATT) reform on prices, market and trade. It was emphasised that computation of price and trade related measures was quite ticklish since markets are dynamic and choice of conversion factors and weights counted a lot: for instance, measurement of Domestic Resource Cost (DRC). Some of the probable implications of GATT on agricultural trade were discussed along with directions for future studies. These are: (i) Identification of exportable commodities and estimation of their exportable surplus and (ii) Cost reduction by choice of appropriate technology and infrastructure so as to promote the international competitiveness of Indian agro-products.

In order to structure the discussion in a thematic fashion, four broad sets of issues were identified and agreed upon by the group:

The first set of issues involves identification of past trends in the export of agricultural commodities, their composition and critical issues for their export promotion.

Secondly, examine commodities requiring protection and alternative ways of protection with least distortion. This was also taken up along with the discussion on international commodity market structures and their implications for export policies.

Thirdly, how far current policies pertaining to agricultural prices, marketing and trade would fit into the ongoing economic reform programmes and be conducive to investment and technological change? What would be the right set of policies?

Fourthly, other issues bearing on the likely growth performance of the economy, particularly agriculture and agro-based exports.

The discussion on the first set of issues focused on the method of identification of commodities and commodity groups for exports. Some of the important measures suggested in this respect are: (i) Export demand elasticities; (ii) Exportable surplus; and (iii) Comparative advantage. It was also suggested that the conventional approach of treating the foreign trade sector with respect to agriculture as a residual sector should be discontinued. Instead, emphasis should be on continuous presence in the market. In this context, the role

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of processing sector in ensuring product storage and tackling fluctuations in demand and supply was discussed. It was pointed out that the domestic production process, quality of exportable goods, their grading and other non-price factors mattered in export promotion. Pointed references were made to the need for strengthening the information system so that the country will not be a laggard in exploiting new market opportunities. It was brought to the attention of the participants that the Government of India would be hosting Agro-Expo 1995. While discussing the export potential of different commodity groups and the appropriate policy measures for their export promotion, the participants emphasised the need for focusing on labour intensive products. Among the products identified in different papers and during discussions, the following would deserve mention: (i) Fruits and vegetables; (ii) Processed food products; (iii) Plantation and forest products; (iv) Marine products particularly fish and fish preparations; (v) Fibre (cotton and jute textiles); and (vi) Dairy products.

The discussion on the second set of issues began with questions on its validity and relevance in the new economic environment. To begin with, the method of computing protection coefficients was challenged. Inferences based on such parameters should be made only after allowing for the following factors: (i) distorted domestic as well as international price structures, (ii) structural constraints like limited shiftability of factors of production among crops due to geographical and climatic factors and frequent international price fluctuations. It was argued that the question of protection did not arise even in the context of GATT reforms as our protection levels were quite low and the country had long time to adjust to the new policies. Many questioned the issue of protection in the Structural Adjustment context. As regards changing market structures and international market situations, it was suggested that the information system about commodities and their market potential should be strengthened. The need for identifying country groups and possible export markets was stressed. A note of caution was also sounded about international price fluctuations and the associated economic cost.

As regards the third set of issues, there were broadly two points of view. The first one emphasised the need for a slow transitional change in policies relating to prices, marketing and trade given the concern about the 'Human Face' aspect of the programme. The second point of view did not see any merit in such an approach and wanted to go the whole hog towards the new set of reform policies.

An important methodological question that was raised related to the need to be wary while interpreting the different macro and micro parameters and their policy implications. This was because many policy suggestions for reform were based on macro parameters measuring protection and comparative advantage or based on simulations of Computable General Equilibrium models; but these macro level analyses did not take cognizance of the distortions caused by government intervention in domestic markets in different forms and pretexts.

Other two policy issues that were debated pertained to revamping the public distribution system and the zonal restrictions on commodity movements. The need for consistency in government policies towards exports of agro-products was highlighted with reference to the recent policies towards coffee and onion exports. Analysis of future markets was an important suggestion that was made.

The discussion on the fourth issue was rather scattered over. Attention was drawn to the inter-related nature of policy implications of the four different sets of issues. Mainly the discussion pointed out the probable implications for small and marginal farmers and agricultural labourers who would have to bear, disproportionately more, the cost of transition during the reform programme. It was suggested that their interests could be protected through small farmer consortiums, co-operatives with government intervention via large scale employment programmes.

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Subject III

Agricultural Finance in the Context of Technology-led Development of Agriculture

Rapporteur: Gurdev Singh*

The session on the above theme started with a brief presentation of the two keynote papers contributed on the subject. The papers raised two important issues, i.e., (i) how to make the institutional credit a more effective instrument of agricultural development and (ii) what type of credit support will be available for agricultural development in the post-financial sector reforms regime? Both these issues in a way were covered under the issues raised for discussion in the Rapporteur's Report on the theme. Six issues were discussed at length during the three sessions.

The first two issues related to the flow of credit to agriculture and to the weaker sections which were taken up together. It was pointed out that institutional credit has made important contributions to the growth in agricultural output. This contribution has been more effective and efficient in post-green revolution phase. This has occurred through facilitating land, labour and intermediate inputs with complementary capital augmenting technological change. However, the contribution of institutional credit in the latter half of the eighties has been less effective. This may be due to indiscriminate lending under the Integrated Rural Development Programme (IRDP) among other factors.

It was argued that the financial sector reforms cannot be a guarantee for adequate flow of credit to agriculture and to the weaker sections. It was doubted if the reforms would be implemented at all in the near future. Further, it was pointed out that only deregulation of interest rates was announced for co-operative banks and for commercial banks (for their loans above Rs. 2 lakh) with minimum lending rate of 12 per cent. The co-operatives were not yet in a position to comprehend the reform for its implementation. At the same time, it was feared that deregulation of interest rates would increase the lending rates which would reduce the loan demand and the consequent private investment and agricultural growth.

One keynote paper observed that the average cost of credit was either constant or decreasing during the eighties and there was scope for expansion in credit use. But the expansion in the last few years has been slow mainly because of loan waiver scheme of the government. It was feared that with the deregulation of interest rate this expansion would be restricted.

In the context of adequacy of flow of credit, viability of investment was considered as an important aspect. It was noted that less than 50 per cent of the farmers availed of the institutional credit for crop production and the amount of credit used was hardly sufficient for the purchase of fertiliser alone. The term loan was availed of only by 2 to 3 per cent of the farmers and they accounted for nearly 70 per cent of the private fixed capital formation in agriculture. The question was posed why the remaining majority did not avail of the institutional credit. Was it due to supply constraints or non-viability of credit use on these farms?

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One remedy suggested to meet the demand for credit for agriculture was the organisation of self-help groups, supported by the National Bank for Agriculture and Rural Development (NABARD). Such groups should mobilise the surpluses generated by members of the group and finance the investments for the needy members. The rate of interest payable to a depositor and charged from a loanee would be determined by the group. Nonetheless, it was easier to say than to do so. The co-operatives are also a type of self-help group which, over time, have turned into parastatals because of excessive state intervention and control.

It was suggested that higher interest rate might not adversely affect the loan demand as the productivity of credit-financed investment was high except under certain directed lending. But this productivity varied considerably in agriculture that is weather dependent. It was suggested that there should be some ceiling on the interest rate charged by the banks.

It was pointed out that it was not merely the quantum of credit which was important, but its timely availability in adequate amount was crucial for the productivity of credit and viability of the investment financed. And timely supply may be ensured through simplification of procedures.

It was argued that the cost of loaning has been high. At the same time, the cost of borrowing from institutional sources was high especially for smaller loans. On the other hand, financing of non-viable loans at subsidised rates under Differential Interest Rate (DIR) scheme may be a burden on the lending institutions. However, elimination of directed lending might create a further fall in credit use in the sector. Thus balancing supply of credit with demand for credit would be a real challenge. At what rate of interest this balancing would be achieved would have to be determined by the lending institutions themselves.

Restructuring credit structure is a complex problem. Creation of new institutions alone would not serve the purpose. The improvement in the functioning of existing institutions has limited scope because of the orientation and expectations of the staff at rural branches of commercial banks. In the expectation that this reform would be implemented sooner or later, the commercial banks have already started shying away from lending to the agricultural sector and their lending to the sector has gone down in the last two years. Since rural credit is supervised credit and commercial banks have limited capability for supervision of rural credit, increased default has been the consequence. This capability may be enhanced.

The simplification of lending procedures was considered very desirable. It was pointed out that the guidelines provided for financing NABARD refinance are quite complicated and cause delay in the sanction and disbursement of credit. The appraisal procedures are lengthy and many a time require unnecessary documentary evidences. The borrowers covered under IRDP and such schemes are identified by a third agency which normally does not examine the credentials of the borrowers from the lenders' point of view. Thus sponsoring of borrowers by third parties may be amended to make it a co-ordinated process with the lending institutions.

Another issue discussed was financing agricultural development in dry areas and hilly regions. These areas normally have poorly developed infrastructures. Non-viability of investments in these areas is a major handicap for the financial institutions. Institutional credit in these areas should be synergised with lot of investment in basic infrastructures by the government. It was argued that only viable investments at individual level should be financed. Examples of Sukhomajri and Kandi watershed development in Haryana and Punjab were mentioned as successful experiments. But these experiments involved huge public investments.

The issues of transaction cost and profitability of lending institutions were taken up for discussion together. As mentioned earlier, the cost of lending has tended to decline, especially towards the late eighties. Under such conditions viability of lending institutions can be improved through increased volume of credit. Such expansion and hence scale economies in costs can be through integrated loans, composite loans, group lending, providing technical services combined with credit, and financing of private input dealers. Computerisation not only will reduce the unit cost at the head office and regional offices, it would improve the quality of lending at the branch level.

It was pointed out that the profitability of lending institutions might be enhanced through variable interest rate charged on different loans under the deregulated interest regime, i.e., higher rate for more productive investments. Helping to develop backward and forward linkages might improve the productivity of credit use and hence the profitability of the institution. Efficient recovery and recycling of funds would definitely improve the profitability of the lending institutions. As such, default on loan repayment has to be controlled which may be achieved through proper identification of borrowers, correct appraisal of loan requirements and effective monitoring of credit use.