Chapter 2: The role of government policies

The agrarian crisis in Andhra Pradesh can be linked to a combination of macro liberalisation and globalisation policies at the central government level, specific policies of the state government and failures at the level of local implementation.

I. Macro Policies

The policies of the central government since the beginning of the 1990s have had direct and indirect effects on farmers' welfare. The economic reforms did not include any specific package specifically designed for agriculture. Rather, the presumption was that freeing agricultural markets and liberalising external trade in agricultural commodities would provide price incentives leading to enhanced investment and output in that sector, while broader trade liberalisation would shift inter-sectoral terms of trade in favour of agriculture. However, there were changes in patterns of government spending and financial measures which also necessarily affected the conditions of cultivation. In particular, fiscal policies of reducing expenditure on certain areas especially rural spending, trade liberalisation, financial liberalisation and privatisation of important areas of economic activity and service provision had adverse impact on cultivation and rural living conditions.

The neo-liberal economic reform strategy involved the following measures which specifically affected the rural areas:

- Actual declines in Central government revenue expenditure on rural development, cuts in particular subsidies such as on fertiliser in real terms, and an the overall decline in per capita government expenditure on rural areas.
- Reduction in public investment in agriculture, including in research and extension.

- Very substantial declines in public infrastructure and energy investments that affect the rural areas, including in irrigation.
- Reduced spread and rising prices of the public distribution system for food. This had a substantial adverse effect on rural household food consumption in most parts of the country.
- Financial liberalisation measures, including redefining priority sector lending by banks, which effectively reduced the availability of rural credit, and thus made farm investment more expensive and more difficult, especially for smaller farmers.
- Liberalisation and removal of restrictions on internal trade in agricultural commodities, across states within India.
- Liberalisation of external trade, first through lifting restrictions on exports of agricultural goods, and then by shifting from quantitative restrictions to tariffs on imports of agricultural commodities. A range of primary imports was decanalised and thrown open to private agents. Import tariffs were very substantially lowered over the decade. Exports of important cultivated items, including wheat and rice, were freed from controls and subsequent measures were directed towards promoting the exports of raw and processed agricultural goods.

In terms of fiscal policies, the reduced spending of central and state governments was the most significant feature. Due to tax reforms, the tax/GDP ratio declined at central level. Central transfers to state governments also declined. State governments were forced to borrow in the market and other (often international) sources at high interest rates. As a result, the levels of debt and debt servicing increased in most of the states. In recent years, most state governments were in fiscal crisis and did not have funds for capital expenditures. This has been especially important since state governments are responsible for areas critical for farmers such as rural infrastructure, power, water supply, health and education. Meanwhile, at the central government level, capital expenditure declined as a share of national income, and all public expenditure directed towards the rural areas fell both as a per cent of GDP and in real per capita terms.

Trade liberalisation in agriculture accelerated from the late 1990s, in tune with WTO agreements, and involved liberalisation of export controls, liberalisation of quantitative controls on imports and decontrol of domestic trade. Quantitative restrictions on imports and export restrictions on groundnut oil, agricultural seeds, wheat and wheat products, butter, rice and pulses, were all removed from April 2000. Almost all agricultural products are now allowed to be freely exported as per current trade policy.

The impact of trade liberalisation on farmers' welfare works through various channels such as volatile prices, problems in imports and exports, impact on livelihood and other employment opportunities, etc. For farmers, perhaps the single most adverse effect has been the combination of low prices and output volatility for cash crops. While output volatility increased especially with new seeds and other inputs, the prices of most non-foodgrain crops weakened, and some prices, such as those of cotton and oilseeds, plummeted for prolonged periods. This reflected not only domestic demand conditions but also the growing role played by international prices consequent upon greater integration with world markets in this sector. These features in turn were associated with growing material distress among cultivators.

In a closed economy, lower output is normally accompanied by some price increase. Therefore, coincidence of lower production with lower terms of trade was very rare until recently. The pattern of lower prices accompanying relatively lower output reflected the effect of the growing integration of Indian agriculture with world markets, resulting from trade liberalisation. As both exports and imports of agricultural products were progressively freed, international price movements were more closely reflected in domestic trends. The stagnation or decline in the international prices of many agricultural commodities from 1996 onwards meant that their prices in India also fell, despite local declines in production. This was not always because of actual imports into the country: the point about openness is that the possibility of imports or exports can be enough to affect domestic prices at the margin.

An additional issue for farmers was that, even as the uncertainties related to international price movements became more directly significant for them, progressive trade liberalisation and tariff reduction in these commodities made their market relations more problematic. Government policy did not adjust in ways that would make the transition easier or less volatile even in price terms. Thus, there was no evidence of any co-ordination between domestic price policy and the policies regarding external trade and tariffs. For example, an automatic and transparent policy of variable tariffs on both agricultural imports and exports linked to the deviation of spot international prices from their long-run desired domestic trends, would have been extremely useful at least in protecting farmers from sudden surges of low-priced imports, and consumers from export price surges. Such a policy would prevent delayed reactions to international price changes which allow unncessarily large private imports. It would therefore allow for some degree of price stability for both producers and consumers, which is important especially in dominantly rural economies like that of India.

In the absence of such minimal protection, Indian farmers had to operate in a highly uncertain and volatile international environment, effectively competing against highly subsidised large producers in the developed countries, whose average level of subsidy amounted to many times the total domestic cost of production for many crops. Also, the volatility of such prices – for example in cotton – has created uncertain and often misleading signals for farmers who respond by changing cropping patterns. In Andhra Pradesh, it has directly affected the groundnut farmers due to palm oil imports. Import of fruits also and other commodities also affected the farmers. With increased trade liberalisation, reduction in cereal consumption became very pronounced. Also exports of items like cotton have increased volatility in supplies of cotton raw material, which have adversely affected handloom and powerloom weavers whenever yarn prices have increased significantly due to export of cotton.

Financial sector liberalisation in developing countries has been associated with measures that are designed to make the Central Bank more independent, relieve financial repression by freeing interest rates and allowing financial innovation, reduce directed and subsidised credit, as well as allow greater freedom in terms of external flows of capital in various forms. India's financial liberalisation strategy involved all of these measures to varying degree.

Financial liberalisation measures, including reduced emphasis on priority sector lending by banks, which effectively reduced the availability of rural credit, and thus made farm investment more expensive and more difficult, especially for small farmers. In addition to declining credit-deposit ratios in rural areas, the shift of banks away from crop lending and term lending for agriculture, the reduction in the number of rural bank branches and less manpower for rural service provision all meant that the formal sector was unable to meet the requirements of cultivators, who were forced to turn to private moneylenders (who were often also input dealers and traders) in more exploitative relationships.

II. State government policies over the past decade

Agriculture is a state subject and therefore state governments have more responsibility in agriculture development. For the past decade, the state government in Andhra Pradesh not only participated in but aggressively pushed liberalisation policies, and also neglected agriculture. In addition, however, it was also crucial in accelerating the deregulation and privatisation which also marked the central government's approach. The primary role of the public sector enterprises was to protect the public from the adverse impacts of market forces and provide them with goods and services at reasonable (and frequently subsidised) prices. The primary beneficiaries of this system were expected to be the poor segments of the population. But the state government in Andhra Pradesh systematically reduced the role of public investment, intervention and regulation, and expected private activity to deliver more favourable outcomes.

Because of the decline in public investment in agriculture, fixed capital formation in agriculture (which had recorded high growth in the 1980s) declined in absolute terms in the 1990s and thereafter. The area under public sources of irrigation, e.g., canals declined in the nineties due to deceleration in public investment and public neglect of traditional water sources. No new major irrigation project was taken up in the last nine years and several pending projects were not completed.

More than 10,000 Water Users' Associations (WUAs) have been formed, of which about 80 per cent are in the minor irrigation sector. However, the bulk of the area covered is under canal irrigation. Irrigation charges were increased by more than three times from 1997. Even so, the surface water rates at best cover maintenance charges, whereas in the case of lift irrigation the farmer also bears the full capital cost of the well or bore. The effective rate of collection remains low at around 64 per cent, possibly because WUAs have not yet been made fully responsible for collection of water charges, making the process fully democratic and accountable. Another notable development was that the works were executed by WUAs themselves at lesser cost instead of getting them done by contractors. But the vested interests lost no time in adjusting to the new situation by presidents of the WUAs acting as contractors. This and other malpractices invited the wrath of farmers who in several cases used the provision in the Act for recall of the presidents. WUAs are not found to be effective in respect of tank irrigation due to insufficient allocations.

In the case of watersheds, the state government followed the extensive approach of thinly covering many watersheds instead of the intensive approach of covering few watersheds, which made many watersheds ineffective. The state government also spent lot of funds on the ‘neeru-meeru’ programme which had some successes but generally did not yield the desired results, again because of the reliance on private contractors and corrpution. Because of decline in surface and tank irrigation, ground water use has increased significantly increasing costs for farmers and bringing down the water table in most parts of the state. Power reforms increased the cost of power in the state. Although farmers paid only a flat rate (which increased from Rs. 50 to Rs. 300), they had to incur heavy losses in terms of erratic power, low voltage and burning of motors.

There was also a neglect of research and extension. The intensity of government investment in agricultural research and education in the state (at 0.26 per cent of its agriculture GDP during 1992-94) was lower than for the other three southern states and was just around half of that for All India (0.49 per cent for centre and states together). Public expenditure on extension, which is borne by the state government, declined in absolute terms in the nineties. It was only 0.02 per cent of the state’s GDP during 1992-94, as against the All-India average of 0.15 per cent. There was an attempt to privatize extension services. As a result of these policies, extension services are currently in bad shape in the state. With the virtual breakdown of the extension machinery and lack of access to institutional credit, small and marginal farmers became increasingly dependent upon the private trade for credit and extension services. At the same time such agents were subject to less regulation than before, leading to circumstances in which resource-poor farmers became victims of exploitation by such agents.

By the late 1990s, the looming agricultural crisis was recognised to be substantially the consequence of inadequate agricultural services, including extension, reliable seed supply, quality pesticides, machinery, proper soil survey-testing, soil conservation, market information and market intelligence. However, despite this, the state government of that time refused to recognise this or take palliative measures. A 'Working Paper' of the Department of Agriculture (1999) stated that government could act only as a facilitator and no public investment would be made in providing these services. Referring to the vast gap in agricultural extension, because of unfilled vacancies which at that time accounted for more than one-fourth of the sanctioned posts, it was declared that the state "doesn't have resources to employ any more extension workers", and so it was proposed that the entire cadre of agricultural extension officers be wound up. "Without any additional financial burden to the state", the extension services would be promoted through the private sector through a system of registration of unemployed grantees or retired employees, who would offer these services for a fee. Qualified graduates would be encouraged to become licensed dealers of fertilizers, pesticides and seeds. The burden on the AP Seed Corporation would be reduced by making the private sector more accountable through appropriate MOUs. The hiring of agricultural machinery would be encouraged through the corporate sector, NGOs and others. Soil survey, soil conservation, collection of market information were to be “encouraged to be developed in private sector with appropriate policy incentives".

With this approach of the state government, it is not surprising to find that many public institutions affecting agriculture were systematically eroded or destroyed. Some important government corporations and cooperative institutions in the state were closed, allowed to run down, or simply handed over to the private sector. These institutions, such as A.P. Irrigation Development Corporation, A.P. Agro-Industries Corporation, A.P. Seeds Development Corporation, Cooperative Sugar Factories, Cooperative Spinning Mills played an important role in helping the farmers. The running down of these institutions also affected the farmers adversely.

Similarly, privatisation of extension and the health sector have had adverse consequences for farmers. In the delivery of health and education, the reductions in spending and reduced quality of public services has led to the increase of private sector activity which has created segmented markets for rich and the poor. Higher income groups have moved to private sector while the state has been offering services at usually much lower standards of efficiency and quality to the lower income groups. This impact has been felt strongly in the health and education services and has translated into an equity issue. The poor have also been affected by higher drug prices.

Keeping in view the main objectives of the 73rd Constitutional Amendment Act, the Government of Andhra Pradesh passed the A.P. Panchayat Raj Act in 1994. But the actual performance so far in terms of genuine decentralisation / devolution to the local bodies has been far from satisfactory. In the functional domain, the present status in AP shows that it transferred functions in respect of 16 subjects of which 5 subjects with funds and only 2 subjects with functionaries have been transferred to the local bodies. This performance is much worse than in Karnataka, Kerala and West Bengal. Moreover, a majority of the line departments in AP have not been brought under the control of the Panchayati Raj bodies. Only the relatively less important functions have been transferred to the local bodies. Some observers have argued that the proliferation of different local organisations led to confusion regarding responsibilities and resource control, and effectively weakened the panchayats.

III. Recent policy measures of the state government since May 2004

The new state government in Andhra Pradesh has recognised the magnitude of the agrarian crisis and has already made clear its intention to redirect state policy bearing in mind the need and interests of farmers. The Cabinet Sub-Committee Report on the causes of farmers suicides indicates that the government is already aware of the main forces behind the crisis and the policies required. There are a number of positive measures which the state government has already instituted, which deserve to be noted.

1. Relief package to families of farmers who have committed suicide: The state government has announced the provision of an ex-gratia amount of Rs. 1 lakh to the family of a deceased farmer and Rs. 50,000 towards liquidation of farm debt. This is not only an important welfare measure in its own right, but is necessary to indicate the degree of concern of the state and to bring some confidence to the rural community. Field visits by the Commission confirmed that in most areas visited, the package was being implemented carefully and sensitively. However, two problems need to be noted: (a) There is currently no budgetary provision for this package, which means that the amount has be taken by the District Collector from other resources available to her/him. This is clearly not a desirable outcome and needs to be rectified. (b) The process of identifying the genuine cases has meant that many suicide cases are effectively excluded. Also, the focus on farm-related causes only has excluded others who have suffered economically because of the generalised rural distress, such as weavers, carpenters and others.

2. Help Lines: In order to reduce the despair and feelings of helplessness which have associated with the suicides, Help Lines have been established in each district, where grievances of farmers are recorded and help is extended as far as possible.

3. Free power: The first important policy measure of the state government when it came to power was the sanction of free power to all agricultural connections and the waiver of power dues worth Rs. 1300 crores. This was important in immediately alleviating some of the extreme distress of cultivators especially in borewell-dependent lands, whose problems had been aggravated by the hike in power rates.

4. Moratorium on loans: Keeping in view the extreme nature of the crisis, a bill was passed in the state assembly providing for a moratorium for 6 months on

private money lenders. In addition, the two-year moratorium on institutional credit recovery by commercial banks as declared by Government of India was sought to be implemented.

5. Focus on institutional credit: There was a conscious drive to ensure increased credit from the banking institutions to farmers. In consequence, Rs. 7010 crores was disbursed during kharif 2004, nearly Rs. 2000 crore more than the previous year. There was rescheduling of the bank loans of 7.93 lakh account holders, amounting to Rs. 1608.21 crores, which was converted to terms loans. The State Level Banking Committee constituted a sub committee to consider strategies for timely and adequate credit and the formulation of village credit plans from Kharif 2005. It need hardly be added that, while these are all very positive measures, institutional credit remains very inadequate.

6. Stamp duty exemption: In order to reduce the costs of borrowing for small farmers, registration fees and stamp duty have been exempted for loans sanctioned up to an amount of Rs. 1 lakh for small and marginal farmers. Following an earlier request of the Commission, this move has now been widely publicised.

7. Crop insurance: The state government has written to the Government of India proposing reforms in the existing National Agricultural Insurance Scheme, including restoration of 50 per cent of premium subsidy to small and marginal farmers, enhancement of indemnity levels to 80 per cent, reduction of premium rates to 2 per cent for cereal crops and 3 per cent for commercial crops and payment compensation in two spells for kharif and rabi crops.

8. Control of seed supply: The State Cabinet has approved a new State Seed Regulation Bill 2004 to regulate production and sale of seeds. It is hoped that this will reduce or eliminate the supply of spurious seeds and reduce other problems. Even before this, a special drive was taken up in October 2004 to regulate the

quality of inputs, which also involved seizure of supplies of spurious seeds and other inputs. This is also immediately necessary to restore confidence among farmers.

9. Rs. 31 crores has been sanctioned for establishment of seed and fertiliser testing labs in all districts, seed villages and revival of public sector seed farms.

10. A comprehensive Bio-fertiliser bill to induce eco-friendly fertiliser usage mechanism is being actively considered by the state government.

11. The Chief Minister has written to the central government, Government of India, requesting that the import duties on cotton and palm oil should be increased in order to protect cotton and groundnut farmers in the state. While no action has been taken thus far, it is to be hoped that the central government will take note of the seriousness of the matter and respond favourably.

12. The Chief Minister has also requested the central government to direct the Cotton Corporation of India not to collect transport charges from cotton farmers in Andhra Pradesh. This recommendation has been accepted.

13. The state government has lifted the ban on new recruitment of Agricultural Officers imposed by the previous state government. Orders have been issued for recruitment of 270 Agricultural Officers and 491 Agricultural Extension Officers to fill up the vacant posts.

14. The state government has launched a drive to redistribute government lands of 1 lakh acres by 26 January 2005, and promised to continue the drive subsequently.

15. The state government has given priority to irrigation development. In the first phase, works worth approximately Rs. 8,000 crores are being taken up.

16. A separate Ministry has been created for rain-shadow areas, to focus on the problems of drought-prone regions.

These have all been necessary and important measures, and have certainly alleviated the worst effects of the crisis for the farmers in the state. However, the crisis in agriculture is so deep and widespread, that in spite these positive measures, the conditions of farmers remain precarious, as evidenced by the continuing suicides despite various relief measures. Much more will be required to make material improvements in the conditions of farmers. In particular, the destruction of various rural institutions has been so complete that it will take time and effort to rebuild them and generate new ones that can serve the farmers and rural workers. Since the state government has already indicated its commitment to work for the betterment of the rural community and already taken several positive steps, the Commission is confident that it will also undertake all the necessary measures in the short term and medium term.