

Impact of Demonetisation in Agriculture Sector

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Abstract: Agriculture is the backbone of our Indian country. In our country 75% of people are either directly or indirectly depend on agriculture. The farmers struggled a lot at the time of demonetisation because the saving habits as well the payment mode of farmers were only on cash. Farmers used to handle liquid cash as it is essential for their day to day transactions. 70% of the farmers market their products through Farmers Market (uzhavar santhai) or they may be street vendors where cashless transaction is impossible. Daily wage earners in agriculture were earning small amount per day. When the withdrawals from banks were limited the farmers were unable to draw cash to pay their labors which result on postponing their works and get the labors jobless for days or months. Cash is the primary mode of transaction in agriculture sector. The farmers who own limited acres will not have bank accounts, which had a large impact on the farmers at the time of demonetisation. Not only agriculture sector but also other industries which depend on agriculture were also affected. These impacts make the farmers to depend on illegal money lenders and black marketers to cater their transaction needs. Demonetisation has affected every Indian, but it has hit the agricultural sector to the core. The government should try to reach out to the farmers of rural areas also to come out from the above issues.

Keywords: Demonetisation, Currency, Agriculture, Farmers, agricultural Industries.

I. Introduction

The Indian government decided to demonetize the 500 and 1000 rupee notes, the two biggest denomination notes. These notes accounted for 86% of the country's cash supply. The government's goal was to eradicate counterfeit currency, fight tax evasion, eliminate black money gotten from money laundering and terrorist financing activities, and promote a cashless economy. Demonetization has affected every Indian, but it has hit the agricultural sector the hardest. Agriculture in India accounts for 50% of the workforce. Farmers, who are the backbone of our national economy, were severely affected by the note demonetization of which invalidated 86% of India's currency. Most of them will get loans from cooperative banks which now don't have cash to supply them. So farmers cannot buy seeds, fertilizers and other things required for farming. It would take few weeks to solve this issue. Till that time, farmers will find it difficult. Farmers generally deal in cash and India is also largely a cash economy. The cash transactions in this economy are far more than the total number of electronic transactions done on a daily basis.

II. Demonetisation

The process of demonetization involves either introducing new notes or coins of the same currency or completely replacing the old currency with new currency.

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit.

- The demonetization of 500 and 1000 rupee notes to crush back economy has come at a wrong time for farmers.
- Millions of farmers are unable to get enough cash to buy seeds and fertilizers for their winter crops.
- Production of essential commodities is under threat hurting farmers who are just recovering from the two-year drought.
- India's 263 million farmers live mostly in the cash economy.
- Agriculture is truly dependent upon cash transactions via cash is direct burden to the farmers markets because they should purchase all their agriculture inputs even bigger landholders may face problems such as paying daily wages to the farmers and purchasing agricultural needs for growing crops...on other hand harvested produce while selling may face the problem.
- Problems in purchasing seeds at the right time for sowing at upcoming season
- Many farmers live in the under economy Delayed sowing may affect the crops Already wheat outcome was decreased in northern India

Short Term Impact And Long Term Impact

Short term impact

The farmers are classified on the aspect of demonitization:

- Farmers with KCC/Agri Loan account
- Farmers with no KCC/Agri Loan account

Farmers with KCC/Agricultural Loan Account

- The government allowed farmers to withdraw up to Rs.25,000 per week against their crop loans to ensure sowing of winter crops is done properly. These farmers have at least a basic knowledge on how banking works and they could be able to sustain the impact of demonetization.
- Unless they have huge amount of money hoarded, they shall feel relaxed about the current situation. Since it is a winter crop harvesting period, they shall feel relaxed.
- The problem would be with the cash realized from previous sales which were not deposited into KCC account and not with buying the new seeds. If they do have large hectares of land, they can pay easily making a simple bank transfer. Further as of now, farmers can use old Rs.500 notes to buy seeds.

Farmers with no KCC/Agricultural Loan account

- They will be largely affected as they do not have the facilities of withdrawing 25000 in cash. As it is generally seen that such farmers do not keep lump sum in bank accounts largely due to fact of low income or sometimes, lack of awareness.
- They will have to stand in line and suffer. So, is the case with people in general. Credit transactions may increase in agricultural sector due to these farmers. Further as of now, farmers can use old Rs.500 notes to buy seeds.

Now coming to the different perspective, the farmers based in rural areas with no banks would be largely affected. They will face too much difficulty because of the demonetization. The cash crunch will hit them hard. Unless they have good connection with the suppliers, they are bound to suffer most.

Long term Impact

Agricultural sector is still lacking behind in terms of innovation and irrigation. It is often seen that innocent farmers are exploited by the intermediaries. It is to be seen in future what Modi's government has in place for farmers in the future. Some of the impacts on presumptions would be:

- With recovery of black money likely to be in billions, the government can invest in the agricultural infrastructure.
- The rates of interest on loans are likely to fall. It will depend on how much the government does make recovery.
- Out of the money, the irrigation project can be financed.

The government should try to reach out to the farmers of rural areas also. Otherwise, we might see rise in prices of the commodities. So, in a nutshell, the farmers in rural areas being distantly linked with banking channels will be hit hard.

The Hardest Burnt Of Demonetisation For Farmers

1. Farmers were unable to purchase inputs like certified HYV seeds from market. They were using old seeds from the last year harvest and not purchasing quality seeds from market. This will adversely affect crop yields despite good monsoon this year.
2. Farmers suffered a setback due to nationwide cash crunch and a collapse in the demand for vegetables in wholesale markets
3. Fruit and vegetable farmers were badly hit. They need cash on daily basis to purchase inputs like pesticides, fertilizers and hired labour for harvest and also to transport and sell at urban centres. Lack of cash with farmers leading to less-than optimal use of inputs resulted in lower yields, reduced sales, higher wastage and lower price realization.
4. The small growers and retail vegetable sellers are bearing the brunt, as they are with inventories of perishable commodities.
5. Farm laborer are not paid with their wages to currency shortage and postponing of work is happening as farmers don't are not able to pay for the laborers.
6. Worst off are the farmers who take loans to buy raw material for growing crops.
7. Failure to get a reasonable price on their produce, will push many farmers under massive debts, burdened by interests.
8. Small farmers are also suffering a cash-crunch due to demonetisation, as many have crops lying around, but with no buyers whatsoever.

9. Formal financing in many parts, especially Punjab, Uttar Pradesh, Odisha, Maharashtra, Gujarat and Kerala is significantly from cooperative banks, which are barred from exchange-deposit of demonetized currency.
10. Agriculture was impacted through the input-output channels as well as price and output feedback effects. Sale, transport, marketing and distribution of ready produce to wholesale centres or mandis, is dominantly cash-dependent. Disruptions, breaks in the supply chains feedback to farmers as sales fall, increased wastage of perishables, lower revenues that show up as trade dues instead of cash in hand and when credited into bank accounts with limited access affect the sector.
11. A significant portion of the farmers depend on bank credit for their cash needs. Banks only grant new loans, if farmer repay their existing ones. Farmers are unable to withdraw the required cash from their accounts, not to talk about getting crop loans. Of the targeted Rs 18,000 crore crop loan for Rabi, banks have disbursed over Rs 1,500 crore in October. No significant amount was released as crop loans after November 8, when Rs 500 and Rs 1,000 notes became obsolete.

Lack of PAN card

Only 20% of the population had PAN cards, which is necessary for bank transactions above Rs.50,000. The penetration of PAN cards in rural India is much lower than this, hence all the transactions above Rs.50,000 were badly affected as farmers are unable to transact through cash, which they used to do earlier for example in purchase of a power-tiller or to rig the bore well.

Lack Of Banks And Atms In Apmc Markets

Most of the APMC markets (more than 50%) in the rural areas don't have banks and also ATMs. Even though, some markets had ATMs, they are not working, if they are working cash was unavailable. Farmers were ultimately depending on illegal money lenders and black marketers to cater to their transaction needs. There have been protests from farmers.

1. Farmers in Chhattisgarh's Raigarh district spread their tomato produce at the spot that was their regular marketplace, but only so they could crush it with trucks.
2. Farmers of the Pragatisheel Kisan Sangh (Farmers' Union); Chhattisgarh distributed vegetables for free in state capital Raipur as they were not finding any buyers for their produce.

But, despite the price crash, consumers are unlikely to get any benefit as rates have not come down drastically in the retail market. Hence many of us don't get to know the reality about the plight of farmers.

Undue Advantage Taken By Middlemen

In the scenario of lack of cash, most of the transaction going on credit basis. The input dealers (seed, fertilizer and pesticide dealers) are increasing prices by 20-30% of the normal price as the transactions are on credit basis. In product market also big traders and commission agents are offering credit to farmers at much higher interest (reaching 36% for just a month) than in normal conditions. The cash crunch caused by demonetisation affected farmers badly who are not acquainted with cashless transactions. Prices in consumer markets (Delhi and Mumbai) are higher, but in villages there were no buyers for farmers harvested crop. Inventories of commodities are piling up at farmers' fields due to lack of buyers in village markets to transport and sell them in urban market. For example, Apple prices in Delhi are hovering around Rs.80 per kg, which is about 25% higher than the same period last year. At the same time, traders are buying from farmers in Himachal Pradesh at 20-25% discount to normal price and paying in cheques which can be realized only after 15 to 20 days. However, farmers have to pay in cash to their input dealers and labourers. Similar is the situation for other crops like Onion, Potato and Chana.

Fruits And Vegetables Farmers Affected Hard

Fruit and vegetable farmers were badly hit. They need cash on daily basis to purchase inputs like pesticides, fertilizers and hired labour for harvest and also to transport and sell at urban centres. Lack of cash with farmers leading to less-than optimal use of inputs resulted in lower yields, reduced sales, higher wastage and lower price realization. There is a standstill and breakdown of most of the sales. Arrivals reduced by 25 to 50%, but it has not resulted in increase in farm-gate prices due to lack of buyers. Most of the produce is not reaching consumers. Cotton farmers are in chaos: daily arrivals have reduced to about 35,000 bales as against the usual 1.5-2 lakh bales at this time (harvest) as per reports and prices have soared 10% in terminal markets after demonetization, ironically without benefiting farmers.

Less Bank Credit To Farmers

A significant portion of the farmers depend on bank credit for their cash needs. However, banks only grant new loans, if farmer repay their existing ones. Because of lack of cash, many farmers are unable to repay existing loans, hence, they were unable to avail the agri-credit required for sowing of rabi crop and deprived of

the interest waiver scheme without their fault. Farmers are unable to withdraw the required cash from their accounts, not to talk about getting crop loans. Of the targeted Rs 18,000 crore crop loan for Rabi, banks have disbursed over Rs 1,500 crore in October. No significant amount was released as crop loans after November 8, when Rs 500 and Rs 1,000 notes became obsolete.

General Impacts

A farmer can take a day out and manage to go to a bank and get the cash back, however the limit on the amount forces him to do that again and again; and if your bank is some 20 or 25 kms from your home, the roads in rural areas can make it look like 50. However, the limit has been exceeded than before and government is taking other necessary steps which would ensure that the farmer doesn't have to commit suicide. It's a really tough time for farmers, who are unable to sell their crop after harvest, in MANDI/APMC who is unable to make payment to farmers due to cash crunch.

- No Harvest
- No sale
- No cash
- No purchase of seeds/ fertilizers as they dont use neft/netbanking, debit/credit card.
- No swip machines in rural areas.
- Fields are ready for sowing but farmers are unable to purchase seeds/ fertilizers/diesel for sowing.
- No further sowing..
- Fruits and vegetables which are perishable in nature are getting unused/un-sell due to no trade in mandis,
- Farmers are unable to pay to labours,

Many farmers use to take credit from commission agents for their needs due to their long term relations with them, are unable to take credit from them due to unavailability of cash 500/1000 notes with them. For farmer's commission agents are the banks, as current banking procedure has huge documentation and takes unnecessary long time for disbursement of payment.

III. Conclusion

Demonetization has affected every Indian, but it has hit the agricultural sector to the core. The government should try to reach out to the farmers of rural areas also to come out from the above issues. It is more likely that the government would come up with solutions.