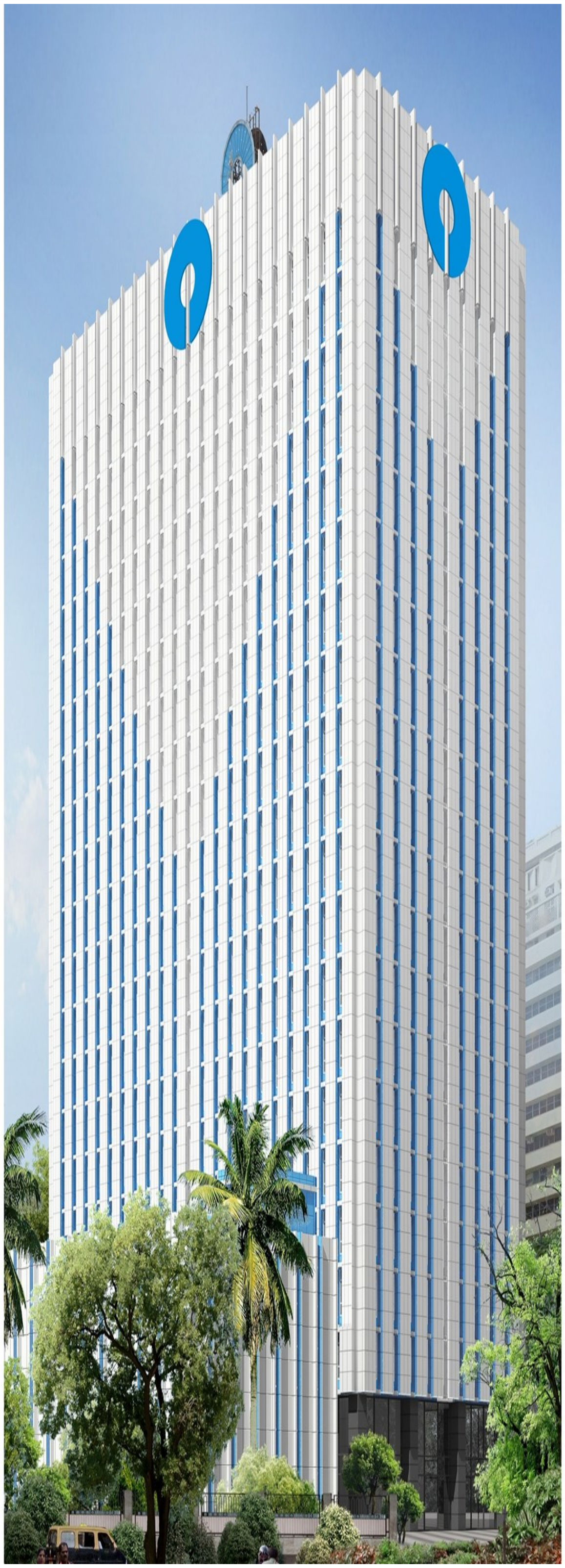
SBI ECOWRAP

भारतीय स्टेट बैंक
STATE BANK OF INDIA

'Be the Bank of Choice for a Transforming India'

DECEMBER 10, 2018
ISSUE NO:71, FY19



DE-STRESSING RURAL DISTRESS

There are many ways of interpreting Agri sector growth at 3.8% in Q2FY19. First, this is higher than the nominal growth, indicating a negative Agri deflator. Second, this growth has mostly been driven by "livestock products, forestry and fisheries" components, whereas the crop segment including fruits and vegetables has merely expanded. Apart from this, Agri NPA for select banks reveals it is increasing and growth in food credit growth continues to remain weak.

What does all this mean and are there any effective quick remedies?

First, the fact that livestock etc. is gaining traction in Agri activities has both an upside and downside. On the upside, a large percentage of livestock belongs to small and marginal farmers in India and this opens up income opportunities. However, on the downside merely being in possession of such livestock does not guarantee an assured income and hence the small and marginal farmers often find themselves in distress and this is exactly what is happening now. To help boost the livestock income of the farming community we suggest it is now imperative that due importance is given to rearing of native cow breeds (A2 Milk). To boost the demand for A2 milk, it can also be provided in Mid-day meals for children at pan India level. This will provide additional income of Rs 7000 per annum for 15.83 million farmers and make livestock rearing an attractive proposition, particularly for small and marginal farmers.

Second, better marketing for the produce and efficient supply chain management can minimize the stress in this sector. To aid the farmers, the Government has started promoting ***Farmer Producer Organisations (FPOs)*** that work as a hybrid between a cooperative and a private limited company. This must be promoted in a big way as is being done in Maharashtra.

Third, a selective income support scheme for the farmers like Telengana has to be implemented in the interregnum. Our analysis reveals that an income support scheme like the one rolled out in Telangana may be rolled out in states like Bihar, Assam, Chhattisgarh, Haryana, Punjab, Jharkhand and Uttarakhand where the cost is not prohibitive.

Fourth, we are not sure what has happened to the suggestion of providing a tenancy certificate to tenant farmers as was promised in the budget. This should be addressed on a war footing.

Fifth, we believe some tweaking of the Prime Minister Fasal Bima Yojana is imperative in areas like coverage of crops, timely notification and timely payments.

We believe that the AASHA procurement scheme as envisaged by Niti Aayog has not seen interest across states. Coupled with this, loan waivers in states are now becoming fashionable to address farmer distress which has delirious consequences on bank NPA, agri credit growth and public investment in agriculture. We must endeavor to create domestic and export markets for farmers. Otherwise we will land up in a vicious cycle year after year!

DE-STRESSING RURAL DISTRESS

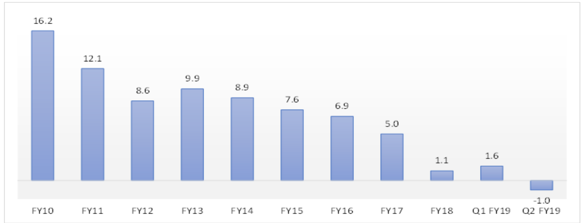
- The Q2 FY19 data says that Agriculture and Allied Activities grew by 3.8% as compared to last year's growth of 2.6% and Q1 growth of 5.3%.
- A closer look at the data reveals that that even this growth of 3.8% is mostly driven by "livestock products, forestry and fisheries" components (6.7% growth). On the other hand, the crop segment, which also includes fruits and vegetables, having weightage of 45% in overall agriculture, has grown by a mere 0.5%, indicating agriculture as a profession has been losing its importance because its incentive structure. The fact that livestock etc is gaining traction in Agri activities has both an upside and downside. On the upside, a large percentage of livestock belong to small and marginal farmers in India. However, on the downside, merely possession of such livestock does not guarantee an assured income and hence the small and marginal farmers often find themselves in distress. What should worry us the most is the fact that agriculture prices were in negative territory in Q2 (-1.0%).
- The declining trend of Agri deflator also supports the contention that currently most agricultural products are still ruling below the MSP. This is despite various efforts (Soil Health card, Crop Insurance Scheme, Irrigation programme, fixing MSP 1.5 times of cost of production etc.) taken by the Government during the last four years.
- Simultaneously, a lower growth in the Agri credit indicates a clear slowdown in the farming activity. Interestingly, a deeper analysis of the gross Agri NPA (as % of gross agriculture advances) of the Sep'18, Jun'18 and Mar'18 quarters for select banks reveals that the NPA problem continues to plague this sector. This is further aggravated by the likelihood of new loan waiver schemes in the election bound states which, in turn, might encourage the default by the farming community in these states.
- Our analysis of the agri NPA (as % of agriculture advances) for the Sep'18, Jun'18 and Mar'18 quarters for select banks revealed that barring SBI and Indian bank, almost all the other major banks have registered increase in agri NPA in Sep'18 or are at the same level as Jun'18 quarter.
- Further, though growth in non-food credit has improved in the past year, the food credit growth continues to remain weak. The incremental growth this fiscal in non-food credit is Rs 3.9 lakh crore, while that in food credit is Rs 14,900 crore between Apr-Sep'18. While, within non-food credit, growth in credit to agriculture decelerated during 2018-19, it has shown a modest pick-up with credit growth of 5.8% yoy as on Sep'18 compared to 3.8% yoy as on Mar'18.

Trends in Agriculture GVA (YoY%)

YoY%	FY14	FY15	FY16	FY17	FY18	Q2FY19
Total Agriculture	5.6	-0.2	0.6	6.3	3.4	3.8
Crops	5.4	-3.7	-3.2	6.9	1.4	0.5
Livestock,Forestry and Logging, Fishing and Aquaculture	5.9	6.1	6.8	5.4	6.4	6.7

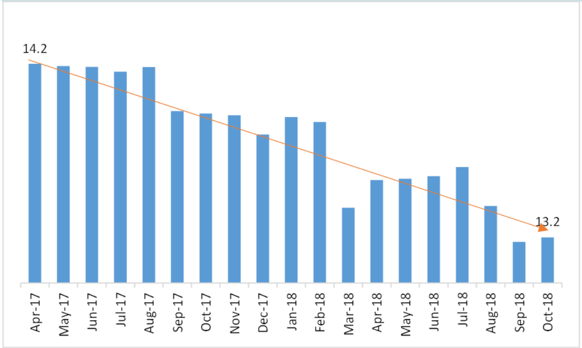
Source: SBI Research

Sectoral Deflator (Agriculture)



Source: SBI Research, CSO

MOM change in Share of Agri Credit (%)



Source: SBI Research, RBI

Agriculture NPA (% of Agri advances)

Banks	Mar-18	Jun-18	Sep-18
Bank of India	11.2	13.5	15.0
BoB	13.6	11.7	11.5
Canara Bank	4.6	4.9	4.8
Corporation Bank	7.1	7.3	8.3
IDBI	19.0	12.4	13.6
Indian Bank	2.0	2.5	1.9
OBC	13.2	16.1	15.7
SBI	11.3	11.6	9.9
Syndicate Bank	11.0	14.5	16.5
Union Bank	6.1	6.9	7.6
Vijaya Bank	3.6	4.1	5.4

Source: SBI Research, analyst presentations of individual banks

POSSIBLE WAYS OF EASING DISTRESS OF FARMERS

Diversifying the income stream

- NABARD's recently published NAFIS survey shows that the income pattern of the rural segment reveals income from cultivation and from wages is the highest, while income from livestock, which registered a good growth in Q2FY19, rules at a low of 8%. This substantiates why the farm income is showing signs of strain in the current fiscal.
- India is endowed with the largest livestock population in the world. It accounts for about 57% of the world's buffalo population and 15% of the cattle population. Thus, if the livestock rearing is taken up professionally, this would not only result in increase in income but would also work as a risk diversification for the farming community. Further, livestock are the best insurance for farmers against vagaries of nature like drought and other natural calamities.
- To help boost the livestock income of the farming community it is now imperative that due importance is given to rearing of native cow breeds (A2 Milk). A2 is a beta-casein protein in the milk – that makes milk healthy and nutritious. In India, most 'desi' cows and buffalo breeds contain A2 allele gene.
- Internationally, Brazil has become the biggest exporters of Indian breeds of cows. Milk yield from Gir breed (Indian) in Brazil has now crossed 70 litres per day. The growing demand for the A2 milk across globe means an opportunity for India to give more thrust to research in A2 gene breed and export A2 milk across world.

Contribution of various Sources to Total Income (in %)			
Occupation	Agricultural Households	Non-Agricultural Households	All Households
Cultivation	35%	NA	19%
Livestock Rearing	8%	NA	4%
Wage labour	34%	54%	43%
Other Sources	23%	46%	34%
All Sources Combined	100%	100%	100%

Source: NAFIS, SBI Research

Estimates on providing milk in mid-day meal Scheme		
Indicator	Unit	
Total Students	million	98.3
School Days (Avg)		225
Per Child Milk Consumption per day	ml	125
Total Milk Consumption per year	million litres	2765
Price of milk per litre	Rs	40
Total Milk Expenditure per year	Rs million	110588
Burdern on Central Government	million	66353
Number of Farmers under dairy corporative societies	million	15.83
Per Farmer Extra Income	Rs	6986

Souce: Department of School Education & Literacy, Ministry of Agriculture

Note: Funding pattern between Central and States is taken as 60:40

- We suggest, to boost the demand for A2 milk, it can also be provided in Mid-day meals for children at pan India level. This will provide additional income of Rs 7000 per annum for 15.83 million farmers and make livestock rearing an attractive proposition, particularly small and marginal farmers.

Creating a Value Chain based Marketing System like Farmer Producer Organisations (FPOs)

- Better marketing for the produce and efficient supply chain management can also help minimize the stress in this sector. To aid the farmers, the Government has started promoting ***Farmer Producer Organisations (FPOs)*** that enable farmers to enhance productivity through efficient, cost-effective and sustainable resource use.This also helps them realize higher returns for their produce, through collective action supported by the Government, and fruitful collaboration with academia, research agencies, civil society and the private sector.

Farmer Producer Organisation as on Mar'18 in India	
No of FPOs	4004
No of FPOs registered	2044
No of FPOs registered (under companies act)	1465
Coverage (no. of Villages)	2500
Members	6,00,000
State covered	29

Source: SBI Research

- FPOs work as a hybrid between a cooperative and a private limited company. They act as sub agents for government agencies in procuring agri commodities of their members under various government schemes. Such companies buy inputs in bulk and make them available to members. They also pool, procure or purchase the output from members and undertake organised marketing on their behalf. They may link up with bankers to channelise credit to the members. Finally, they may undertake the task of organising technology dissemination or extension to members. It can be an NGO, a private company or a government agency.
- A 100% tax deduction for Farmer Producer Companies (FPCs) for the next five years has been announced in the Union Budget 2018. Till now, the companies were being taxed 30% of their profits.
- An initiative in this direction has also been taken up in the form of Rs 2,115 Crore SMART (State of Maharashtra Agri-business and Rural Transformation) Project, which seeks to develop agriculture value chains focusing on new farmers and creation of new markets.

Agriculture Investment/Income Support Scheme

- The Telangana Government has already implemented a scheme (named: Rythu Bandhu Scheme) to support farmers' investment for two crops a year. It is providing Rs 4k per acre per season to 58.33 lakh farmers to support the farm investment.. The state Government has made an allocation of Rs 12,000 crores for this scheme in its 2018-19 budget.
- This scheme is first of its kind, wherein the cash is paid directly to the farmer with no leakages. As per our estimates, this scheme, if implemented at pan India level, the total financial burden could be around Rs 2.7 lakh crore (for all states based on net sown area).
- Our analysis reveals that an income support scheme like the one rolled out in Telangana may be rolled out in states like Bihar, Assam, Chhattisgarh, Haryana, Punjab, Jharkhand and Uttarakhand where the cost is not prohibitive.

WAY FORWARD

- Rural sector continues to be plagued by declining prices and effective lack of marketing agricultural produce. To this end, a properly designed milk scheme for farmers, an FPO scheme for farmers to assure that the entire value chain is taken care of and wherever possible, an agri income support scheme need to be launched. It is our belief that the above measures could provide a beginning in the right direction at least in the interregnum.

Cost on Rythu Bandhu Scheme (In Rs Crore)

States	Net Shown Area	Agri. Land	Cultivated Land
Andhra Pradesh	12328	17884	15098
Assam	5589	6650	5762
Bihar	10435	13005	12191
Chhattisgarh	9253	10987	9781
Gujarat	20365	25028	21114
Haryana	6962	7227	7132
Jharkhand	2737	8586	5476
Karnataka	19855	25357	22962
Kerala	4039	4480	4168
Madhya Pradesh	30348	34106	31115
Maharashtra	34288	41711	37054
Odisha	8845	13411	10659
Punjab	8142	8470	8306
Rajasthan	34638	50432	38307
Tamil Nadu	9527	16036	11500
Telangana	8652	13595	11421
Uttarakhand	1384	3061	1497
Uttar Pradesh	32812	37440	35030
West Bengal	10356	11179	11025
All India	277020	359567	306853

Note: **Agri. Land**=Total Fallow Lands+Net Sown Area+ Culturable waste land; **Cultivated Land**= current year Fallow Lands+Net Sown Area

Source: Land use Statistics of India 2014-15, SBI Research

*****

ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of "tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis".

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

DISCLAIMER

The *Ecowrap* is not a priced publication of the Bank. The opinion expressed is of Research Team and not necessarily reflect those of the Bank or its subsidiaries. The contents can be reproduced with proper acknowledgement. The write-up on Economic & Financial Developments is based on information & data procured from various sources and no responsibility is accepted for the accuracy of facts and figures. The Bank or the Research Team assumes no liability if any person or entity relies on views, opinion or facts & figures finding in Ecowrap.

CONTACT DETAILS

Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India
Corporate Centre
Madam Cama Road
Nariman Point
Mumbai - 400021

Email: soumya.ghosh@sbi.co.in
gcea.erd@sbi.co.in
Phone: 022-22742440

: @kantisoumya