Demonetisation: How the cash crisis can be used to tame rural commercial capital

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In her insightful study of the working of agricultural markets in West Bengal, British development studies scholar Barbara Harris-White has documented in detail how trade in farm produce is controlled through a web of rural and semi-urban agro commercial enterprises.

These enterprises — whom she broadly categorises as ‘rural commercial capital’ — enjoy privileged access to formal credit networks. The monies borrowed from banks and other financial institutions they use for on-lending to farmers against future deliveries of produce. They also control the functioning of agriculture produce market committees — which oversee the operations of regulated mandis — through cornering of trading licenses and restricting new entrants. Further, they ensure all official procurement of wheat and rice undertaken by the Food Corporation of India and state government agencies is channelised through them, thereby guaranteeing both assured business and almost complete elimination of market risk. Through these economic means, apart from ability to court political patronage, rural commercial capital has managed to squeeze out all potential competition in agricultural produce markets, including from petty traders who can never achieve the same size and volume.

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While Harris-White’s work, based on field studies stretching over a decade, has focused on West Bengal, its findings characterise the behaviour of rural commercial capital in other parts of the country as well. Moreover, they continue to hold good even a decade after being published in the form of a book (Rural Commercial Capital: Agricultural Markets in West Bengal, Oxford University Press 2008). Only around 60 per cent of farm households in India today have access to institutional finance. Even among this 60 per cent, a majority has to supplement bank loans with borrowings from moneylenders and other informal sources. The numbers are worse for small and marginal farmers, where barely 15 per cent can even obtain loans from banks, leaving them almost entirely at the mercy of rural commercial capital.

Moreover — and this is important — practically 100 per cent of transactions between farmers and rural commercial capital are conducted in cash. The surpluses, which the latter generates in the form of interest on advances and profits on trading of produce, are also retained in cash for further recycling. Needless to add, most of this income is outside the tax net. The resultant liquidity also provides the basis for the enormous reach and power that rural commercial capital enjoys.

The above source of power is what has also today become the cause of its nightmare, following the Narendra Modi government’s decision to de-monetise high-denomination currency notes. In one fell swoop, the move has left rural commercial capital exposed and vulnerable. While this entrenched lobby has endured many policy shocks in the past, whether it would survive this blow, however, remains to be seen.

As of now, the de-monetisation decision has had three broad impacts in agricultural markets across the country. The first is a drastic fall in mandi arrivals. Farmers, having just finished harvesting their first decent crop in over two years, are facing traders who are asking them to postpone deliveries. Even when they are willing to supply on credit and settling payments later — following an old tradition of trust and faith — traders are unwilling to hold inventories in an atmosphere of uncertainty. There is genuine fear today that the Modi government will follow up on its agenda of unearthing black money through a further tightening of the noose. Old timers say that such fear wasn't experienced by the trading community even during the Emergency — which says a lot.

Secondly, cash lending has suddenly dried up, which is proving to be more troublesome for farmers than even postponed sales of produce. The reason for it is that the rabi season sowing operations have just commenced. This is the time when all sorts of expenses on seed, fertiliser, labour, etc. have to be incurred. Replacement of the de-monetised currency with new notes would be much slower in the hinterlands than in urban centres. As a result, banks cannot disburse cash loans for seasonal agricultural operations under the Kisan Credit Card window. And with the enormous cash hoards with rural commercial capital ceasing to be legal tender, there is no finance available to farmers even from this 'informal ATM' (any time money) source.

Thirdly, even if farmers are in a position to deliver produce in some mandis, further transportation of it has all but come to a halt. The fragmented nature of India's transport networks means that most trucks, especially medium and small loaders ferrying fresh produce, are individually owned. They again deal exclusively in cash and are simply unwilling now to transport produce in the absence of access to working capital, whether from institutions or the trade. The result is a severe disruption of daily fruits and vegetables produce flows to major markets like Azadpur in Delhi and Vashi in Mumbai.

Even as rural commercial capital copes with perhaps its worst existential crisis in recent memory, the current situation offers a unique opportunity for at least cleaning up the country's agricultural credit market and linking millions of its farm households to institutional finance. The groundwork for it has already been laid with the campaign to open Jan Dhan bank accounts. All that is now required is for the states to link land records to these accounts. By enabling assessment of the credit requirements of each holding, it will allow the eligible loan amounts to be transferred directly to the account holders. The National Bank for Agricultural and Rural Development could probably lead the way here. It should launch a mission to universalise access to farm loans, by focusing particularly on smallholders who are the most deprived of this facility.

While all this may not be possible immediately and requires careful planning for proper execution, the target should be to go for a full roll-out during the next kharif season. This step can go a long away in breaking the stranglehold of rural commercial capital, which has thrived by tethering farmers to a vicious cycle of tied credit and captive marketing of their produce. It would also put India's agriculture economy on the path of sustainable growth and prosperity.

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