

5th

**Prof. Ranjit Gupta
Memorial Lecture-2014**



Towards An Equitable Agrarian Structure

Prof. V. S. Vyas

Padma Bhushan Awardee

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New Delhi*

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About Late Professor Ranjit Gupta

Born in 1934, Prof. Ranjit Gupta is one of the very distinguished and eminent social Development thinkers that India produced. He did his Masters in Arts with specialization in Economics from Lucknow University in 1954. He joined as a Research Scholar in the same University and rose to Research Director's position. He was an academician par excellence, scholar in many domains with lasting imprints in the minds of people and transcended gradually into an activist in development sector. He worked with Jay Prakash Narayan in the Association for Voluntary Agencies in Rural Development (AVARD). He was a revered faculty member at the Indian Institute of Management, Ahmedabad (IIM-A). Along with Prof. Ravi Matthai, he conceived and ran the Rural University project in Jawaja, southern Rajasthan, which inspired dozens of IIM-A graduates to work in rural development. He was the Founder Secretary & Research Director of Institute of Social Studies Trust (ISST), New Delhi. Later, in the mid 70s, he worked as a Consultant, Ford Foundation, New Delhi. He was also the Faculty & Chairman of Centre for Management (CMA), IIM-A and was instrumental in the establishment of IIM-A's Prof Ravi J. Matthai Centre for Educational Innovation. He was Hon. Adviser and founder of the TATA DHAN Academy in Madurai that has evolved as a centre of excellence in development education.

He served as a member on many Task Forces/Working Groups appointed by the Government of India and Planning Commission in 70's like Whole Village Development, National Commission on Agriculture, Command Area Development, Drought Prone Areas Development etc. He had rich and varied experience in Institution Building. He was a member of Governing Body, Indian Institute of Forest Management, Bhopal (1982-94); IGNOU, New Delhi (1986-87-1988-89); Chairman of Governing Body, Pradan, New Delhi (1988-95) and Board of Trustees, Institute of Social Studies Trust, New Delhi (1994-2000). He was the President of Sampark, Bangalore (1996-2002) and Trustee, CDL, Bangalore.

He authored, co-authored and edited several books and monographs, and research papers. He had a keen interest in Development Management / Education Sectors and special corner for NGOs in Development sector. He believed in working with a focus on the disadvantaged groups by enabling development professionals to build people. Though he passed away in October 2008, he leaves behind a worthy legacy through his rich work and the contribution made to the sector.



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Towards an Equitable Agrarian Structure

By
Prof. V. S. Vyas



I am grateful to Shri Vijay Mahajan for giving me an opportunity to pay tribute to my dear departed friend Ranjit Gupta, whom I had the privilege of working with for nearly a decade. Ranjit was a remarkable person. He was urbane and highly sophisticated and yet could easily establish a rapport with the poorest of the poor. He had a wide range of academic interests, which included sociology, history, literature and political science, but the welfare of the common man always remained at the center of his action and thought. We worked closely on the project, Rural Development for Rural Poor, in two of India's least developed areas, Dharampur (in Gujarat) and Devagarh (in Rajasthan). While working on this and several other assignments, I hugely enjoyed his company and benefited from his keen observations and fine articulation. I cherish his scholarship, and more so his camaraderie.

One of the subjects we frequently discussed was the relationship between access to land and incidence of poverty. Ranjit was wedded to cooperative ideology and favoured collective action, while I was more for macro policies, particularly land reforms for changing the agrarian structure. In retrospect, it seems that both are necessary to give the rural poor status and dignity on the one hand and a source of sustainable livelihood on the other. I thought it fit and proper to share my views on Land Relations on this occasion.

In a country where nearly 60 per cent of the workforce depends on agriculture, relationship to land must be considered of primary importance. Access to land determines income and welfare of a large section of the population in the rural areas. More so because access to credit and other inputs is also closely linked to the size of land holding. A time has come to bring back to the centre stage the issues of ownership and access to land in our discussion of rural economy.

In this Lecture, I will highlight the pattern of land holdings as it prevails in our country, legislations enacted in our country to change the agrarian structure and the limited success they have achieved. I will outline a more equitable and efficient land holding structure and the place of land reforms and land markets in achieving it. My main focus is on the lower end of the holding structure, i.e., the marginal holdings (less than 1 ha).¹ While soil fertility and the location of holdings, hence the income-earning capacity of land, will differ from one region to another, one can safely assume that a holding of less than a hectare will not be an economically viable holding under most circumstances. As a large number of households fall under this category, it is important to look into the alternatives that can be provided to them.



Agrarian Structure

Dependence on Agriculture: An abiding feature of India's rural scene is an overwhelming dependence on agriculture for livelihood. In rural areas, nearly 80 per cent of the employed males and 87 per cent of the employed females were working in agriculture in the year 1977-78; the proportion of the employed males and females in agriculture in the year 2009-10, the latest year for which we have comparable data, was 63 and 79 respectively. This suggests a shift of less than one per cent to non-farm occupations in a year. The situation has not changed in any remarkable way even if we take more recent years, from 1999-2000 to 2009-10.²

Composition of Agricultural Workforce: However, the composition of agricultural workforce – between cultivators and agricultural workers – is changing, as is the size distribution of agricultural holdings. Till 1991, the

¹ In our country, land holdings are generally categorised in the following groups: Marginal holdings with less than 1 ha; small holdings of 1-2 ha; semi-medium holdings, 2-4 ha; medium, 4-10 ha; and large, more than 10 ha. I am following this classification in this text.

² Figures quoted in this paper, unless otherwise mentioned, are from *NSS Round 66* (pertaining to July 2009 – June 2010) published by Ministry of Statistics and Programme Implementation, Government of India, November 2011.

proportion of agricultural workers in the total agricultural workforce (cultivators + agricultural workers) was increasing only at a slow pace. The picture has changed since then as the proportion of agricultural workers has increased significantly, together with the increase in the marginal farmers. It seems that more and more marginal farmers with small plots of land are opting for agricultural labour as their main occupation. This is reflected in the fact that more than half (56 per cent) of the agricultural labour households possess some land (i.e. between 0.4 and 1 ha).

Distribution of Land Holdings: As I have mentioned earlier, the increase in agricultural workforce is mainly due to the fast growth of marginal holdings, which could not provide adequate income to their operators. This process has accelerated in recent years. I have discussed elsewhere major changes that have taken place in the agrarian structure.³ These can be summarised as follows:

- Proportion of agricultural workers in the agricultural workforce has increased. However, proportion of *landless* labourers in the total agricultural workers has not increased in any remarkable way; it is the marginal and sub-marginal farmers who are swelling the rank of agricultural labourers.
- Land holding structure in India is sliding downwards, with progressively greater concentration in the marginal holding group.
- Not only is the number of marginal holdings increasing, the area cultivated in marginal holdings is also going up.
- The proportion of area under medium and semi-medium holdings accounts for nearly half of the agricultural area, and has remained more or less constant.
- There has been a significant decline in the number of large holdings as well as area cultivated by them.
- Reported area under tenancy is relatively small – around eight per cent – although there is large area under concealed tenancy.
- All size groups of holdings participate as lessor as well as lessee but small and marginal farmers dominate as tenants.

³ V. S. Vyas, *Land Reforms: The Next Phase*, in *Agrarian Reforms, Land Markets and Rural Poor*, ed. D. Narasimha Reddy, Concept Publishing Company, New Delhi, 2009).

Increase in Marginal Holdings: Among the salient features of agrarian structure described above, the most noteworthy is the increase in the number of and area under marginal holdings. In 2010-11, the latest year for which agricultural census data is available for the country as a whole and for individual states in required details, 92.4 million of the cultivated holdings were in the size group of 1 ha or less. About 35.1 million hectares of land was cultivated by this size group of farmers.⁴ Over a period of time, the number of as well as area under cultivation in this size group of holdings is increasing. In 1970-71, these holdings accounted for 51 per cent of the total cultivated holdings. A decade later, the proportion rose to 56 per cent. The latest census (2010-11) suggests that their share in the total holdings has reached 67 per cent.

It is generally appreciated that a large majority of cultivators in our country are marginal farmers. However, what is noteworthy is the fact that progressively larger share of cultivated land is farmed by this group. In 1970-71, nearly nine per cent of the land was cultivated in holdings of 1 ha or less. A decade later, the proportion of land cultivated in marginal holdings was 12 per cent of the cultivated area. By 2010-11, their share in the total cultivated land rose to 25 per cent, after excluding holdings of less than 0.4 ha. i.e. 1 acre). Already, by 1995-96, in five states, one-third or more of the cultivated area was in marginal holdings – Kerala (53 per cent), West Bengal (43 per cent), Jammu and Kashmir (40 per cent), Bihar (36 per cent) and Uttar Pradesh (34 Per cent). By 2010-11, the area cultivated by marginal farmers increased in all these states – and one more state, Tamil Nadu, joined the ranks. Thus, marginal farmers not only constitute an overwhelming majority of the cultivators, they are becoming increasingly important as agricultural producers. There are few states, most notably Punjab, where the area cultivated in marginal holdings has declined.

As against that, the number of and the area under semi-medium holding (2-4 ha) has not changed much. There has been some – less than two per cent – decline in the proportion of medium size of holdings (4-10 ha), and slightly

⁴ Agricultural Statistics at a Glance, 2012, Government of India, Ministry of Agriculture, New Delhi, 2012.

greater decline (nearly three per cent) in the proportion of area cultivated by them. Most significant decline has been in the number of and area cultivated by large farmers, i.e., those owning 10 ha and above.

Two factors have significantly influenced the changes in the holding pattern, most important being the demographic factor. In the absence of opportunities for non-farm employment, with increase in population, subdivision of agricultural holdings took place to provide some means of sustenance to new entrants. The other contributing factor, more prominent in the past, is surrendering part of their holdings by small and medium farmers to money lenders to repay their debt. In recent years, commercialisation leading to more active land market has also emerged as an important factor, as the small farmers are compelled to sell part of their holdings to make both ends meet, to repay debts, or to meet social obligations. There are few states, most notable among these being Punjab, where the area cultivated in marginal holdings has declined. If gross value of agriculture per hectare of cultivated land is taken as an indicator of commercialisation, generally, the states where there had been a proportionate decline in the share of marginal holdings had high value of agricultural produce per hectare compared to average value in the country as a whole.

Another factor, though a weak one, was the distribution of ceiling-surplus land in small lots of 1 or 2 acres (0.4-0.8 ha). Another factor could be the purchase of small plots of land by landless workers to join the rank of small farmers. However, there is no evidence of this happening in a noticeable way in any part of the country.



Economy of the Marginal Farmers

By all indications, income from agriculture has improved during the last decade. The production per hectare of major crops has increased, agricultural prices have improved, and the terms of trade have gone in favour of

agriculture. However, we cannot assume that all cultivators have gained equitably. Economic gains availed by various sections of the farming population are predicted by extent and quality of land, cropping pattern, and supplementary sources of income, mainly animal husbandry and farm and non-farm labour. Some sections, i.e., those who have large and better quality of land, easier access to inputs, especially credit, and are growing high-value crops, have fared better in this process. Others, especially the marginal farmers, are left behind, more so in dry, rain-fed areas. This group sustains itself mainly on what they can produce from their land, together with two other important activities, viz., agricultural labour and animal husbandry.

Clearly, the quality of land resources in terms of yield potential can compensate the small size of holding. If we take irrigated area as an indicator of more productive land, small and marginal farmers seem to be in an advantageous position. At the aggregate level, small farmers have larger proportion of area under irrigation, and as a result, they have a higher cropping intensity. They have, however, to rely more on flow irrigation, largely on the public irrigation system. With the deceleration in the expansion of flow irrigation and deteriorating quality of irrigation infrastructure, the advantage which this group had in regard to assured water supply is fast disappearing. On the other hand, irrigation from groundwater sources is continuously increasing, presumably on the medium and large farms.

Whatever evidence is available suggests that low-value cereals and other food crops dominate the cropping pattern on these holdings.⁵ Basic logic for growing low-value food crops rests on the need for self-provisioning, low-input requirements and low family labour employment, (latter as the alternative, wage-paid employment, is needed to earn cash). With low and inefficient penetration of the public distribution system and lack of access to credit and institutional support in extension and marketing, this approach to crop planning has full justification. A shift to high-value crops, e.g. fruits and vegetables, can relax the limitation imposed by small size of holdings.

⁵ Abhijit Sen and M.S. Bhatia, *Cost of Cultivation and Farm Income*, State of Indian farmers – A Millennium Study Vol.14, Academic Foundation, 2004.

However, these high-value crops need efficient marketing, higher share of purchased inputs and entail higher risk. Only a small section among the marginal farmers, such as vegetable growers at the fringe of urban areas, can satisfy these conditions.

By all indications, marginal farmers are faced with the prospects of raising low-value crops. Even if the yields of these crops on their holdings could be raised to a realistic level, with the limitations imposed by meagre land resources, it is doubtful whether their economic status can improve substantially.⁶ Two other options, i.e. wage labour and dairy, seem to be more promising for this section of cultivators.

Agriculture labour is an important, and for many households in this category, the main source of income. Earnings from agricultural labour depend on the days of employment and the wages. Available studies suggest that the period of employment in cultivation is shrinking, because of curtailment of net cultivated area, swift pace of mechanisation (e.g. in Punjab and Haryana) or change over to less labour-intensive cropping patterns (as in Kerala). Rising number of agricultural labourers, coupled with fuller employment of the family labour, especially of women labour in the family, have increased the pool of labour. In sum, elasticity of employment with respect to output growth in agriculture is approaching near zero level.

Trends in agricultural wages suggest that there has been an increase in the real wages of agricultural labour during the last decade. The increase in real wages has been uneven, with more progressive regions registering higher wages. (It may be one reason why the growth of marginal holdings in the prosperous regions is slower). Female labour did not benefit to the extent that male labour did. With increase in the proportion of casual labour, uncertainty with regard to wage earnings increased. In any event, marginal farmers 'tied' to their small piece of land cannot avail the benefits of peak season rise in wages.

⁶ See Ali Ifzal, B.M. Desai, R. Radhakrishana, V.S. Vyas, *India 2000—Agricultural Production Strategies and Rural Income Distribution*, Indian Institute of Management, Ahmedabad, 1980. (memeo)

Another important source of income, particularly for the small and marginal farmers, is MGNAREGA. In 2009-10, about one-third (35 per cent) of rural households had MGNAREGA job cards and nearly one-fourth (24 per cent) of rural households got work. A large section of labour working under this scheme is landless labourers and marginal farmers. To the latter, while this provides extra income, it is at the cost of work on their own holdings. Neglect of agriculture on these holdings will adversely impact the income of the marginal farmers. Besides, with more than 25 per cent of cultivated land in these holdings, impact on the agricultural economy of our country will not be insubstantial. This is not to deny the advantages MGNAREGA has brought to the agricultural workers by breaking the monopsony power of the larger landowners resulting in higher farm wages.

A major source of income for this group is animal husbandry and poultry. Option of livestock raising (and poultry) is warranted to ensure higher income and employment as also a strategy for risk mitigation. As in the case of land holding structure, important changes are taking place in the animal husbandry sector also. More important among these are: a) increase in the number of cattle, buffaloes and poultry has slowed down in the 1990s compared to the previous decade; b) among bovines, number of buffaloes is increasing rapidly; number of in-milk cattle is declining; c) there is a positive relationship between in-milk bovine stock and operational holding; larger-sized holdings could maintain larger bovine stock; d) there is a marked decrease in the number of working cattle, i.e. bullocks, because of falling importance of bullock power in crop cultivation and allied activities; e) a positive feature is the spread of organised marketing in dairy products, especially in cooperative sector.⁷

The marginal holdings also experienced the impact of these changes in the livestock economy. They could retain their share of in-milk bovine stock, rather increased to some extent, but their share in buffaloes, which are emerging as the main dairy animals in the country, has declined. Their share in

⁷ See NSS 59th Round, Land and Livestock Holdings and Debt & Investment, January - December 2003.

the ovine stock, in sheep and goats (more so in the latter) has slightly increased; so also their share in poultry stock. Overall, in the livestock and poultry sectors, marginal farmers are holding their own, except in the more dominant dairy sector, as their capacity to own and maintain the more profitable milch animal, buffalo, puts them in a disadvantageous position.

Other important source of income for workers in the marginal holding group could be wage labour in non-farm occupations. In general, wages in the non-farm sector are higher compared to the farm wages for the country as a whole as well as in most of the states. The real problem is the slow growth in employment opportunities in the non-farm sector.

As was mentioned earlier, there was only a slow process of diversification of the rural economy during the last quarter century or more. The causes as well as consequences of slow growth in rural non-farm sector have been carefully analysed by several scholars. General conclusions emerging from these studies are: sluggish growth in employment in the non-farm sector, which seems to have further slowed down in recent years; among the non-farm activities, relatively higher growth in the tertiary sector, e.g., construction, trade, transport and communication; fast casualisation of work force in these sectors in the rural areas. It is reasonable to assume that employment opportunities for marginal farmers in non-farm sector have not increased, except maybe in the construction sector, and the nature of employment is becoming progressively ad-hoc and intermittent. The conclusion is inescapable: the plight of a large, rather the largest, section of the rural population, the marginal farmers, has worsened over a period of time.

An aspect of the small farm-dominated structure, which has not received as much attention as warranted, is its impact on inter-sectoral relationship. It appears that impact of agricultural growth on poverty reduction is weakening over a period of time. Changing agrarian pattern with the ever-increasing weight of small and marginal farmers provides some explanation of this phenomenon. With increase in self-provisioning by this category of farmers, more of the marketable surplus is coming from larger holdings who could take advantage of favourable prices. In the consumption pattern of those (surplus-

generating), households goods and services from organised urban sector dominate. The result is that the impact of agricultural growth on rural poverty is muted.



Towards an Equitable Agrarian Structure

As discussed above, the agrarian structure in our country is gradually sliding towards marginal holdings (i.e., holdings with less than 1 ha of cultivated land). If the present trend persists, attenuation of cultivated holdings will continue in the coming years and the number of marginal holdings as well as area operated by them will increase. As I have shown earlier, a large proportion of these marginal farmers is subsisting on wage-paid labour, though they continue to hold their tiny piece of land, more for security reasons rather than as a source of income.

Although with declining importance of land and growing importance of the non-land inputs in agriculture, the size of the holding is not the decisive criterion for remunerative farming, but it can be safely assumed that barring some exceptional circumstances, the 'handkerchief holdings', say of less than a hectare, will not be economically viable. Our objective should be to create as many *viable* farms as possible.

It is erroneous to conclude from above that large-scale, estate farming is the better alternative. There is enough evidence to suggest that large holdings, apart from their socially disruptive role, do not have any intrinsic advantage in crop production.⁸ In present circumstances, semi-medium (holdings of 2-4 ha) and medium holdings (4-10 ha) are viable in most of the regions. Therefore, we should aim at an agrarian structure characterised by semi-medium and medium-sized holdings.

⁸ Sen and Bhatia, 2004, op.cit.

To achieve objectives of such an equitable and efficient agriculture structure, a three-pronged strategy suggests itself:

- increase the land base of the marginal and small farmers,
- improve productivity and value addition on these farms,
- increase the scope for off-farm employment for marginal farmers.

It needs to be emphasised that these elements of the proposed strategy are not distinct alternatives; in most of the situations, they can be made complementary to each other. Also, this strategy will succeed to the extent supportive institutions for research, extension, marketing and credit assist the emerging structure, and small farmers are organised to obtain better bargaining position. On this occasion, I will mainly discuss the first of the three elements of the proposed strategy, i.e., scope for expanding the land base of the small farmers.

Expanding the land base: An asset of the small and marginal farmers, which distinguishes them from other marginalised sections of rural population, is their land. It can be postulated that in most of the regions of the country, holdings below 2 ha, especially those below 1 ha, are non-viable. There is a 'floor' below which agriculture will not be profitable even in the most favourable conditions. (This is indicated by the fact that in the lowest categories of land holdings, there is larger area owned than operated). We should explore possibilities of expanding land base of the marginal farmers, in other words, to provide them a 'ladder' to reach higher land holding category, or provide them alternative employment opportunities.

An important strategy to enhance holding size of the marginal farmers and provide land to the landless rural labourer is land reforms, especially the ceiling on land holdings and distribution of surplus land. Let me briefly review the nature and content of land reforms legislated and implemented in our country.

Earlier Phase of Land Reforms: In the years preceding and immediately following Independence, significant measures of land reforms were undertaken. This was mainly because functionless intermediaries controlled

a large part of land; skewness in land holding pattern was worsening. Even in *ryotwari* areas, layers of intermediaries enjoying various rights, but hardly any obligation, were rampant. Because of the plethora of tenures and several rungs of the intermediaries, relationship to the land had become very complex and litigation was thriving. The first set of land reform legislations was aimed at correcting this situation. Although land reform is a state subject, because there was a national consensus on the direction of land reforms, actual legislation followed more or less the same content and sequence throughout the country. Practically in all states of the country, the reforms proceeded in following stages:

- Abolition of functionless intermediaries (such as *zamindars* and *jagirdars*);
- Protection of tenants' rights, and regulation of rent;
- Legislation aimed at "land to the tiller";
- Ceiling on land holdings and distribution of surplus land among small farmers and landless labourers;

Some states, such as Haryana, Punjab, Maharashtra and Uttar Pradesh, took the programme of consolidation of fragmented holdings quite seriously. A few states, with the blessing of the Central government, also encouraged experiments in cooperative farming. The guiding force in all land-related legislation during this period was equity and social justice.

Of these various reforms, measures to remove functionless intermediaries were quite successful. Results of tenancy reforms present a mixed picture. The landowners taking advantage of the provisions for 'self-cultivation' ejected a large number of small tenants. At the same time, a sizeable group of tenants, particularly the medium and large tenants tilling the land of absentee landowners, could secure tenancy rights and avail of lower rents. The same groups could acquire the land they were cultivating once the legislation on 'land to the tiller' came into force. The worst sufferers were sharecroppers and tenants-at-will. In most parts of the country, open tenancy was replaced by concealed tenancy; long-term lease contract to short-term leases; annual to seasonal lease; written to oral arrangements; and formal to informal contracts. Ceiling legislation was effective in hardly one or two

states. Cooperative farming was a total failure.⁹

There were two basic reasons for this less than expected success. With few exceptions, there was no mobilisation of beneficiaries to enable them to claim the rights provided in the legislation. In a system which was dominated by powerful vested interests, this was a major failing. Second, with the pre-occupation with equity, the aspect of productivity was not addressed in any meaningful way.

Measures described above were not without some favourable outcome. For example, we now have in the country a more or less uniform land tenure system, approximating to *ryotwari* system, replacing a plethora of tenures. The reforms have, at least indirectly, contributed to the reduction in inequality in land holdings, as some evidence of the lower value of gini coefficient suggest. Land reforms might have also helped in the emergence of a medium-size holding group at the expense of the large landholders. With all these favourable features, reforms have not helped in removing poverty and destitution among the small and marginal farmers. Nor do they seem to have contributed to the growth of non-farm employment.

Land Reforms, the Next Phase: A new phase of market friendly land reforms as against the confiscatory type of land reforms – days for which are gone – is necessary. This, of course, does not preclude effective implementation of the existing ceiling laws. Even now, if the existing ceiling legislation is properly implemented, it would be possible to obtain at least one million acres of land.¹⁰ However, one should not place high hopes to get additional land for redistribution in any substantial measure through this route. The next phase of land reforms should be based on the following major initiatives:

- Small and marginal farmers should be encouraged, and enabled, to expand their holdings by purchase or by leasing-in land.
- Supportive institutions of research, extension, credit and marketing should be geared to assist small farmers.

⁹ (Vyas, 2009).

¹⁰ Report of the Committee on State Agrarian Relations and the Unfinished Task in Land Reforms, Department of Land Resources, Ministry of Rural Development, Government of India, New Delhi. (2009).

- The large farmers should be encouraged to sell or lease out land.
- They (large farmers) should be facilitated to start non-farm rural enterprises.

The legislation on ceiling on land could have helped in ensuring viable agricultural holdings by distributing surplus land to the marginal farmers. But this did not happen. Ceiling legislations were enacted in different states with the objective of sequestering land from large holdings and distributing the same to landless labourers or the marginal farmers. By all accounts, with the exception of one or two states, the effort was a failure. Area declared surplus was barely 6.6 million acres (about 2.8 million hectares), of which six million acres was taken possession, and 4.9 million acres was distributed among 5.5 million households, on an average each receiving less than an acre of land. There were loopholes in the declaration of ceiling land, in sequestering the surplus land and, in distribution of the surplus land, and these are well known. But what is generally not appreciated is that ceiling legislation was intrinsically flawed, as surplus land was distributed in fragments of 1 or 2 acres to the landless workers. With such miniscule holdings, the sections who benefited from the reforms in terms of access to land did not have wherewithal to make productive use of land.

Land Markets to Help Small Farmers: In the present socio-economic milieu, land market could be used in favour of the small farmers to enable them to enlarge their holdings. Skepticism to use land markets as an instrument to help the small and marginal farmers is based on the fact that the small farmers lost their lands to the bigger landlords, who controlled the credit and commodity markets as well. The situation has changed now. The “Trinity” role of the large landholders is much weakened. But even today, the small farmers, on their own, will find it difficult to negotiate land purchase deals. Some agency of the state may purchase land at market price from large farmers and sell it to small farmers on reasonable terms. The state is already playing this role when it comes to land for industry and infrastructure. In fact, many state agencies are creating 'land banks' to attract industries in their respective states. Why can the same not be done to provide land to the small farmers to make their holdings viable?

For purchasing land from the market place or through some state agency, small farmers will need financial support. In the past, (i.e., in the initial phase of land reforms in our country), cooperative credit societies, especially the Land Development Banks, assisted small farmers to buy land, and enabled tenant farmers to secure proprietorship rights. Such schemes exist even today, but they hardly figure in the portfolio of rural financial institutions. Provisions for financing land purchases by the Land Development Banks and refinancing of these advances by NABARD should be made more effective.

Unfreezing the lease market: In theory as well as in practice, lease transactions are helpful in more efficient use of land and labour resources. Yet, at present, leasing out of land by marginal as well as large farmers is illegal in many states, restricted in several others. As a result, the bulk of leasing arrangements are concealed. This leads to sub-optimal results, as the premium for the risk entailed in such arrangements has to be added. Objective of enabling small farmers to increase their operational area can be met to a large extent if there is a free market for leasing land.

A major step forward in that direction will be if farmers with very small holdings are permitted to lease out their land to other marginal and small farmers on long-term basis, without losing their ownership right. Holdings with less than a hectare of land account for nearly 35 million hectares of land. Owners of these tiny parcels are not able to earn sufficient income to make both ends meet. Presumably, a part of this land is already leased out, overtly or in concealed manner, yet substantial part remains with the owners who are not in a position to earn enough income from the land and have to depend on farm and non-farm labour.

The large farmers can also release more land to lease out than what, with the prohibitive and restrictive laws, they are doing today. In order to ensure that unfreezing of the lease market is not used to defeat the purpose of ceiling on agricultural holdings, it may be stipulated that the operational holdings with leased-in land should be within the ceiling limits.

Three conditions have to be fulfilled if we have to reach the objective of assisting the small farmers in a 'free lease market': a) proper record of rights; b) clear annunciation of rights and obligations of the landowner and tenant; c) effective machinery for monitoring and adjudication, at the ground level. Lease market will be effective only if those who are leasing out their land can retain their ownership rights, and enough opportunities for non-farm employment are available to them.

For the latter to happen, large farmers should be encouraged to vacate (sell or lease out) the land in favour of small farmers and engage in post-harvest operations, in trade, agro-processing and other rural industries. This group has resources, access to institutional support and capacity to bear risk, all of which are important to start an enterprise.

These initiatives will be in accordance with what is actually happening at the ground level. At the two ends of the spectrum, i.e., among the farmers with miniscule holdings and the farmers with large holdings, agriculture is not the main source of income. Of course, the sources of non-agricultural income differ in the two cases. It is wage income and income from livestock in one case, and interest, profits and rent in the other.

Encouragement of Non-Farm Employment: Even with all these measures, a large number of the marginal farmers will not be able to subsist on land. It is important that in any strategy addressed to improve the lot of the small and the marginal farmers, non-farm employment should receive highest importance.

One obvious avenue to increase non-farm employment is to strengthen the natural resource base of Indian farming. There is enough scope to use labour-intensive methods for strengthening land and water resources. Ingenuity lies in designing ways to make people who benefit from these improvements to pay for the benefits. The National Employment Guarantee Programme provides excellent opportunity to offer gainful employment to marginal farmers along with landless workers while strengthening the land and water resources in the rural areas. At the same time, scope for massive programmes

of rural industrialisation should be recognised. With the participation of large farmers and technical and institutional support by relevant agencies at the *taluk* and district level, a demand-driven programme of rural industrialisation should be mounted in all earnestness.

We can learn valuable lessons in this regard from the Chinese experience in the earlier phase of the New Economic Policy. During that phase, the break-up of the Communes in small peasant holdings (the average size of these holdings was less than one-third of the average size of holdings in India), led to a spurt in non-farm activities. The main reason for the growth of non-farm activities in China was that along with the introduction of the Household Responsibility System, severe price distortions in agricultural produce were also removed to a considerable extent. Both these developments provided the necessary incentive to boost agricultural productivity, which was already very high, especially in comparison to India. With increase in production and better prices, the cash income of the farmers increased significantly, leading to an upsurge in their demand for non-farm goods and services.

There were other factors responsible for the phenomenal growth of the non-farm sector in China, the most important among these being a much higher investment in human resources, in education and health, which preceded the institution of Household Responsibility System, in programmes such as Spark Programme. Also, much more effective technological support was ensured to the small peasant holdings by linking technical institutions with farming. However, the main reason was the strong demand-induced linkages forged between agricultural and non-agricultural sectors.

In India, nothing of that sort happened. Income, particularly the cash income, of the majority of the cultivators remained abysmally low. Naturally, they could not provide markets for non-agricultural goods and services. Only the rural rich could provide markets for non-farm sectors, and goods with high capital and high import components dominate their consumption pattern, as that of the richer sections of urban population. It is not surprising that such goods find an expanding market in the rural areas, while the rural arts and crafts languish. For the survival of the latter, several other preconditions have

to be fulfilled, e.g., skill development, better quality, reduced cost, institutional support, infrastructure development, etc., but the most important component in reviving rural non-farm activities would be an increase in the income of the large mass of the small and marginal farmers. The change in agrarian structure is a pre-condition for this to happen.

A three-pronged strategy of stricter implementation of ceiling legislation, unfreezing lease market and operating land market in favour of the small farmers is consistent with the present liberal regime. This will also enable efficient agriculture and demand-induced rural industrialisation.

About Late Professor Ranjit Gupta

Born in 1934, Prof. Ranjit Gupta is one of the very distinguished and eminent social Development thinkers that India produced. He did his Masters in Arts with specialization in Economics from Lucknow University in 1954. He joined as a Research Scholar in the same University and rose to Research Director's position. He was an academician par excellence, scholar in many domains with lasting imprints in the minds of people and transcended gradually into an activist in development sector. He worked with Jay Prakash Narayan in the Association for Voluntary Agencies in Rural Development (AVARD). He was a revered faculty member at the Indian Institute of Management, Ahmedabad (IIM-A). Along with Prof. Ravi Matthai, he conceived and ran the Rural University project in Jawaja, southern Rajasthan, which inspired dozens of IIM-A graduates to work in rural development. He was the Founder Secretary & Research Director of Institute of Social Studies Trust (ISST), New Delhi. Later, in the mid 70s, he worked as a Consultant, Ford Foundation, New Delhi. He was also the Faculty & Chairman of Centre for Management (CMA), IIM-A and was instrumental in the establishment of IIM-A's Prof Ravi J. Matthai Centre for Educational Innovation. He was Hon. Adviser and founder of the TATA DHAN Academy in Madurai that has evolved as a centre of excellence in development education.

He served as a member on many Task Forces/Working Groups appointed by the Government of India and Planning Commission in 70's like Whole Village Development, National Commission on Agriculture, Command Area Development, Drought Prone Areas Development etc. He had rich and varied experience in Institution Building. He was a member of Governing Body, Indian Institute of Forest Management, Bhopal (1982-94); IGNOU, New Delhi (1986-87-1988-89); Chairman of Governing Body, Pradan, New Delhi (1988-95) and Board of Trustees, Institute of Social Studies Trust, New Delhi (1994-2000). He was the President of Sampark, Bangalore (1996-2002) and Trustee, CDL, Bangalore.

He authored, co-authored and edited several books and monographs, and research papers. He had a keen interest in Development Management / Education Sectors and special corner for NGOs in Development sector. He believed in working with a focus on the disadvantaged groups by enabling development professionals to build people. Though he passed away in October 2008, he leaves behind a worthy legacy through his rich work and the contribution made to the sector.

About B-A-LAMP

BASIX Academy for Livelihoods and MicroBanking Practice (B-A-LAMP), established in 2007, has rich resource pool from diverse backgrounds. It draws the experiences and expertise available across BASIX Social Enterprise Group and specializes in three major areas viz., (a) *Certificate and Integrated Courses* for fresh Graduates who are eventually absorbed by the financial and development sectors; (b) *Domestic Short-term Programs* to support other BASIX Group Companies, Banks and other Financial Institutions in the specialized functional areas and Capacity Building; and (c) *International Study Programs/Exposure Visits/Knowledge Exchanges* that cater to the needs of external organizations to learn from the Indian experiences.

Professor Ranjit Gupta Memorial Lecture Series

- 2009 - Revisiting Rural Finance in India, **Dr. Y S P Thorat**, Former Chairman, NABARD, Mumbai;
- 2010 - India Shining VS India inclusive - A Balance required through Institutional Innovation, **Aloysius P Fernandez, Padma Shri Awardee**, Member Secretary, MYRADA, Bangalore;
- 2011 - Grassroots Governance: An abiding Challenge before India, **Deep Joshi, Padma Shri Awardee**, Co-Founder, PRADAN;
- 2012 - Social Development and Inclusive Growth, **Dr. C Rangarajan, Padma Vibhushan Awardee**, Chairman, Economic Advisory Council to Prime Minister, New Delhi.



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