

# Impact of Demonetization on Indian Farmer

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## Abstract

As we all know that people engaged in the Farming activities are 70% of total population of India, rural households depend on agriculture as their principal means of livelihood agriculture along with fisheries and forestry, accounts for one third of the nation's and many of them are not literate also they cannot afford major change in the market due to the traditional working and business practices farmers already suffering and facing problem from the natural calamities and market fluctuations and exploitation from the middleman and now a days new elected government declared that 500 and 1000 rupees notes are not a legal tender, it like removal of blood from the human body. How it is getting circulated? How bodies get the functioning? Human body get anemic and like that economy also get anemic due to insufficient flow of materialistic currency.

**Keywords:** *Demonetization, Government, Farmer*

## 1. Introduction

**Demonetization:** It is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The present form or forms of money is pulled from circulation and retired often to be replaced with new country entirely replace the old currency with a new currency.

The government of every country focuses on long term prosperity and this can be attained only by wiping out the major evils of the society like corruption, black money and terrorism. And, Demonetization, 2016 rightly addresses this. The scheme has dealt a lethal blow to the parallel economy that casted its ugly shadow on the nation's economy for long. In the wake of demonetization, there have been multiple debates on whether the radical and bold step taken by the central government was a judicious, well thought out and well

implemented step. The nation of course stands divided in its opinion on whether the drastic measure taken by the government- which has plummeted the country into a financial paralysis, was an informed step.

On November 8th, 2016, Mr Narendra Modi, PM of India, announced demonetization of Rs 500 and Rs 1000 notes. After a couple of days of freezed monetary transactions, the government introduced the initiative by permitting restricted withdrawals on a rationed basis. Overhauling of all the invalid notes were called to be done within a prescribed period.

## Effect of the Demonetization:

The demonetization affected on many sectors of nation country already facing the problems of unemployment and government process the demonetization involves either introducing new notes or coins of the same currency or completely replacing the old currency with a new currency.

Demonetization is the act of stripping a currency unit of status as legal tender. For us it means that RBI has withdrawn all the Old Rs. 500, currency notes as legal tender i.e. official mode of payment. De-monetization is used, whenever there is a change of national currency. The Old unit Of Currency must be retired and replaced with a new currency unit. It is also used to tackle black money into the economy.

- 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.
  - In actual fact , Agriculture is dependent upon cash transactions through cash is direct burden to the farmers markets because they should purchase all their agriculture inputs even leading landholders may face issues like paying daily wages to the farmers and purchasing agricultural requirements for growing crops, on the other hand harvested produce while selling may face the problem
  - Problems in purchasing seeds at the right time for sowing at the upcoming season
  - Many farmers live in the under economy Delayed sowing may affect the crops Already wheat outcome was decreased in northern India
  - 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 the 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 a daily basis to purchase inputs like pesticides, fertilizers and hired labour for the harvest and also to transport and sell at urban centres.
  - Insufficient cash with farmers leading to less than optimal use of inputs which resulted in reduced sales, higher wastage, lower yields, and lower price realization.
  - The small growers and retail vegetable sellers are bearing the brunt, as they are with inventories of perishable commodities.
  - Farm laborers 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.
  - However, farmers who take loans to buy raw material for growing crops faces a big problem
- Failure to get a reasonable price on their produce, will push many f8. Small farmers are also suffering a cash-crunch due to demonetisation, as many have crops lying around, but with no buyers whatsoever.

## Impact Of Demonetisation In Agriculture Sector Demonetization: A Game Changer from Black Economy to Digital Economy

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 affected through the input-output channels, moreover price and output feedback effects. Marketing, Sale, transport, and distribution of ready produce to wholesale centres is dominantly cash-dependent. Interruptions in the supply chains feedback to farmers as sales fall, rising wastage of perishables, decrease in revenues that exhibits trade dues instead of cash in hand and when credited into bank accounts with restricted access affect the sector.

11. A significant part of the farmers depend on bank credit for their cash needs. Only Banks grant them new loans, if farmer repay their existing ones. Farmers are not able to withdraw the needed 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 the 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 depended on illegal money lenders and black marketers to serve to their transaction requirements. There have been protests from farmers.

1. Farmers in Chhattisgarh's Raigarh district scatter their tomato produce at the spot that was their regular marketplace, but just because of this they crushed it with trucks.
2. Pragatisheel Kisan Sangh (Farmers' Union) formers; Chhattisgarh distributed vegetables for free in state capital Raipur as they were not getting any buyers for their produce.

But, in spite of the price crash, buyers are unlikely to get any advantage 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 resulting into less than optimal use of inputs leaded in lower yields, reduced sales, lower price realization and higher wastage. 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 Impact Of Demonetisation In Agriculture Sector Demonetization: A Game Changer from Black Economy to Digital Economy

the interest waiver scheme without their fault. Farmers are not able to withdraw the needed cash from their accounts, as well not 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 don't use neft /net banking, debit/credit card.
- No swipe 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.

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.

| Rural & Urban Banking at Glance |                           |              |  |                             |                      |
|---------------------------------|---------------------------|--------------|--|-----------------------------|----------------------|
| GROUP                           | POPULAT<br>ION<br>(CRORE) | BRAN<br>CHES | PER<br>BRANCH<br>POPULAT<br>ION<br>(thousands<br>) | SHARE<br>OF<br>DEPOSIT<br>S | SHARE OF<br>ADVANCES |
| RURAL                           | 83(68)                    | 34(37)       | 24   | 9%                          | 8%                   |
| URBAN                           | 38(32)                    | 59(63)       | 6  | 91%                         | 92%                  |
| TOTAL                           | 121                       | 93           | 13   | 100                         | 100%                 |

Source: Census 2011 & RBI Banking Statistics – Handout Dec'11 () denotes percent I

According to above table full-fledged facilities is available only in 34,000 villages, still 5 lakhs villages are to be covered.

As the demonetization caused cash crunch due to short notice of declaration of Rs. 500 and rs. 1000 as invalid. It relentlessly affected rural populations of India.

One case reported from Karnataka stating that earlier this year water disappeared and then cash vanished. A farmer of Hassan district persecuted by the demonetization; stated that cash crunch caused their yet to be harvested maize to be shrouded in insecurity as there are no purchaser for their crops for lack of cash. Earlier maize was sold at Rs.1700 per quintal but due to demonetization it crashed by one fifth at Rs.1350 per quintal as lack of concrete warehouses persists.

## Conclusion:-

We see the impact of demonetization on the various sectors and it affected on National economy we see that it majorly affected on the agricultural sector and directly on the farmers of the Nation but government or any financial institution not ready to reimburse Farmers financial and social losses and it only the farmers who can overcome and face the situation, but the question is that will government or any financial institutions able to give answers of people that what they achieve from it? But Indian farmers have answered what they lose.

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| Table No. 1 countries which implemented demonetization earlier Serial No. | Country      | Year     | Effect on Economy<br>Successful/unsuccessful | Reason for failure   |
|---|--------------|----------|--|--|
| 1.  | Ghana        | 1982     | Made economy weak unsuccessful               | People support for black market and investment in physical assets. |
| 2.  | Nigeria      | 1984     | Economy collapsed unsuccessful               | Debt-ridden and inflation did not take change well.                |
| 3.  | Myanmar      | 1987     | Unsuccessful                                 | Led to mass protest resulting in killing of many people.           |
| 4.  | Soviet Union | 1991     | unsuccessful                                 | People did not take change positively due to poor harvest.         |
| 5.  | Australia    | 1996     | No side effects                              | As the purpose was only to replace paper with plastic.             |
| 6.  | North Korea  | 2010     | Weak unsuccessful                            | People left with no food and shelter                               |
| 7.  | Zimbabwe     | 2015     | Weak unsuccessful                            | Face value one hundred trillion dollars dropped to \$0.5 dollar.   |
| 8.  | Pakistan     | Dec 2016 | Cannot be predicted                          | As the people have ample time to                                   |

Source: International Journal of Research in Economics and Social Sciences (IJRESS) Vol. 6 Issue 11, November - 2016 ISSN (o): 2249-7382 | Impact Factor: 6.225

Here we see 8 nations are used demonetisation as a weapon for the economic development of the nation but 7 of it having adverse effect of it and in one no side effect done means demonetisation no successful in these countries.

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