



**PEASANT ENTREPRENEURS - ROLE IN FINANCING THE APPLE INDUSTRY OF KASHMIR**

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**ABSTRACT**

The economy of Jammu and Kashmir is largely dependent on the horticulture sector as it contributes nearly rupees 5500 crores to the state economy and provides employment to 33 lakh people. The present industry's main fruit is Apple and is cultivated on large scale in the state. The fruit cultivation process is capital intensive and in order to meet the expenses on production such as fertilizers, pesticides, grading and packing overheads, peasants opt for different ways of raising credit. The primary and traditional sources are mostly non-institutional. The small peasants of the state borrow money against the expected produce from local money lenders known as peasant entrepreneurs. The paper shall study the role and the impact of these entrepreneurs on the said industry with special focus on the apple industry to raise the entrepreneurship skills among the unemployed youth of Jammu & Kashmir.

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**INTRODUCTION**

The horticulture in Jammu and Kashmir State is one of the oldest industries and constitutes yearly Rs.5500 crores (i.e. 7-8 % of the GSDP) to the state economy. The horticulture sector in J & K accounts only for 13 % of the net-sown area but contributes 45% of the state's agricultural GDP. It provides employment to around 7 lakh families comprising of about 33 lakh people who are directly or indirectly associated with this sector. Each hectare of Orchard generates employment of 400 man-days per year i.e. 13.80 crore man-days per annum. Area under fruits in J&K State has increased from 3.25 lakh hectares in 2010-11 to 3.55 lakh hectares in 2013-14. The production has increased from 17.13 lakh MTs in 2009-10 to 21.17 lakh MTs in 2013-14, recording an increase of 23.58%<sup>1</sup> Moreover, the forward and backward linkages in the sector which include inputs, packing, processing and transportation have significant untapped employment potential in the state<sup>2</sup>. Developing horticultural sector can contribute to poverty alleviation by creating employment opportunities<sup>3</sup> through commercialization effects and increase in labor days etc. Horticultural system's development mostly depends on a series of external factors, such as the availability of market, infrastructure and roads, financing sources, strong R&D etc. The availability of financing mechanisms involves the availability of credit for the production of horticultural

products. Capital and risk constraints are the key factors that limit the adoption of high-value crops by small farmers because these crops generally are much more costly to produce per hectare than traditional crops and most growers require credit to finance their production.

Horticultural crops often require intensive input requirement and necessitate large labor inputs for harvest, and planning that cannot be met with family labour alone. This process puts the challenges for the government and financing agencies to come near the door steps of the horticultural peasants and help them to avail the credit for the overall horticultural development and to meet working capital requirements during the production season and overhead costs associated with the marketing of final produce, which in return lead to increased employment opportunities and rising wage levels.

Apple growers financing schemes have become an important input due to the advent of capital intensive cropping technologies. Farmers require capital in order to enhance the productivities of various farm resources and marketing of produce. Indian agriculture/horticulture, in general, is characterized by low and uncertain returns. In order to break the vicious cycle of low returns, low savings, low investment, low returns, provision of external finance to farmers becomes inevitable. The fruit (Apple<sup>4</sup>) cultivation process is capital intensive. In order to meet various expenses as shown in figure 1, require large investments which cannot be fulfilled from the one year production profits. Thus in order to meet their requirements, peasants go for different ways of raising credit.

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<sup>1</sup> E. Survey, 2013-14

<sup>2</sup> Rangarajan 2011

<sup>3</sup> Weinberger & Lumpkin (2007)

<sup>4</sup> In the state of J & K 70% horticultural produce is constituted by apple and is regarded as most revenue generating and capital intensive fruit of the state.

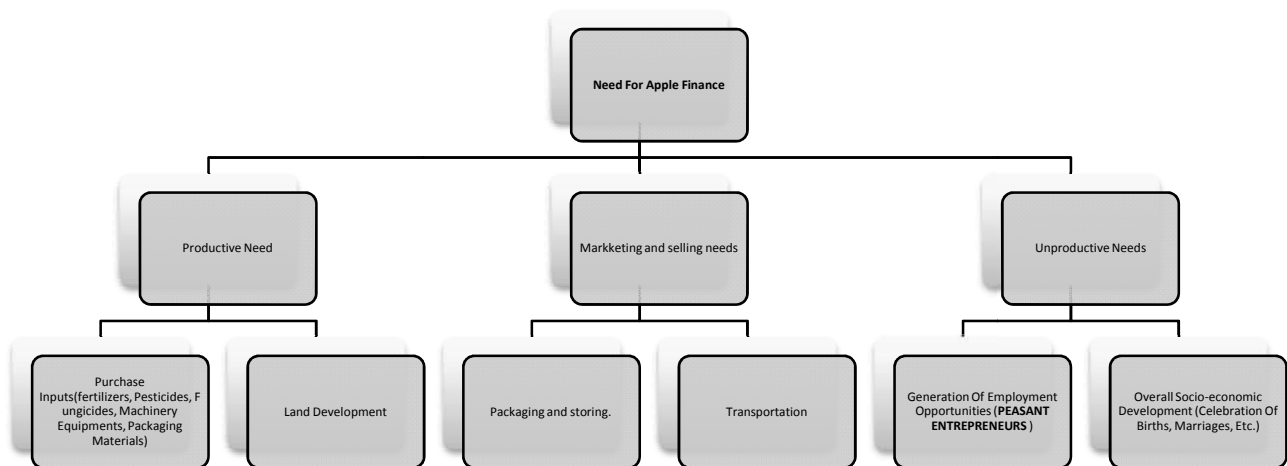


Figure 1

The primary and traditional sources are mostly non-institutional. The small and marginal peasants of the state borrow money against the expected produce from local money lenders (peasant entrepreneurs)<sup>5</sup>. Among the non-institutional financing sources, the local peasant entrepreneurs and outside state fruit merchants play the major role. These sources provide credit facilities to peasants annually at higher rates of interests. The underlying credit raising processes are easy but impose higher financial risk. Institutional financing sources comprise mainly the commercial banks and cooperative banks operating in the state.

The present study shall explore all the available sources of financing the horticulture both qualitatively and quantitatively levels with special emphasis on the areas of state where production of apple is the main source of income. Further it will try to evaluate the perception of borrowers relating to the accessibility, costs associated with repayment of loans and problems associated with horticultural lending are also taken into consideration.

## REVIEW OF LITERATURE

The agriculture sector has shown a lower performance due to a number of factors such as illiteracy, insufficient finance, insufficient irrigation facilities, power unavailability, lack of research and development, inadequate marketing facilities and under-pricing of agricultural products and also decline in plan allocations, investment and investment credit are contributing factors.

Sahaf (1984) has highlighted the importance of finance in apple industry of Jammu and Kashmir. He has emphasized on the need of finance to help producers to meet their working capital requirements and marketing related expenses.

Kumar (1987) in his book, Institutional Financing of Indian Agriculture, reported that the co-operatives had an upper hand in contrast to commercial banks.

<sup>5</sup> Peasant entrepreneur are known as Aaret or Bapeer in Kashmiri language. They have usually large holding size and they borrow money from outside state markets and from banks and lend that money to small peasants at higher rates of interests.

He observed that the process of getting loans was a difficult task and that frequent visits to banks and expenditure associated with it had compelled some of the farmers not to apply.

Srivastava (1987) made an analytical study on Institutional Financing of Agriculture in India. He concluded that more than half of the loans and advances provided to farmers had come from co-operative credit institutions and the share of commercial banks in the total loans and advances had declined during the period of study. The study also showed that the commercial banks had enormous amounts of overdue, because of the diversion of loans from productive purposes to unproductive purposes, lack of supervision by the lending authorities and political interferences.

Ramakrishna (1989) in his book, Agricultural Households and Institutional Finance, cited that the institutional finance had not fully relieved the farmers of the abusive holds of the moneylenders. He concluded that more credit should be pumped into the rural sector for both productive and consumption purposes to meet all the financial needs of the farmers.

Reddy (1991) examined the Role of Institutional Finance in Indian Agriculture and concluded that the farm business income was more or less equal between borrowers and non-borrowers, which means institutional credit had no significant effect on farm income.

Mohideen (1991) made an attempt in his study Institutional Credit and Agriculture Development to assess the supply of credit, the extent of overdue and its causes, impact of institutional credit on repayment capacity and productivity gains. He reported that institutional credit was essential for farm production and that it had helped the farmers to use the credit more effectively. As the existing credit supply was insufficient to meet the agricultural needs of farmers, the credit should be given for all purposes including consumption purpose for loans. He also argued for better coordination among the different institution to get better results and suggested the mobilization of deposits from rural areas, improvement in the overall efficiency of co-operatives and

effective linking of credit with marketing and better supervision of the end use of loans.

Okello Julius and English Philip (2004), Apple is one of the most important horticultural produce and is renowned world widely for its taste and health benefits. The Food and Agriculture Organization of the United Nations data show that world production of apple rose by 43.9% between 1983-85 and 1998-2000, and by 20.3% a further between 1998-2000 and 2008-10 and world population grew by 23.2% and 13.0% respectively.

Rubin *et al.* 2005, EIARD 2004, the increasing consumption of horticultural products is driven by rising incomes, urbanization, health awareness and changing labor practices. Urbanization and changes in the labor market, including the expanded presence of women in the workforce, amplify the demand for convenience foods (prepared salads, fresh-cut fruits, restaurant food, etc.) as well as novel and exotic horticultural products that will play a significant role in future demands of high-value products.

Baht (2005) studied the working performance of cooperative Land Development Bank of J& K state and have revealed various purposes wise loans for horticultural development such as loans for fruit garden raising, purchase of machinery equipment, redemption of prior debts, orchid development, establishment of processing houses and transportation of horticultural produce.

Sidhu and Gill (2006) carried out a study on Agricultural Credit and Indebtedness in India and they pointed out three major challenges of the financial institutions for agriculture financing- 1) the flow of agricultural credit has to be increased 2) the accessibility of formal credit to rural poor and disadvantaged and agriculturally less developed regions has to be improved and 3) the economic viability of rural banking operations has to be ensured over time. They suggested that the agricultural credit should be improved further by covering a large number of farmers, who were unable to access the formal credit due to rigidity in lending procedures and requirements, rigidity in loan products and by increasing the quantum of credit flow. Cost of borrowing to the farmers was another important issue affecting the flow of credit to the agriculture sector.

Weinberger & Lumpkin (2007) have highlighted the need of market institutions that provide farmers with timely price information and access to credit. Sharma (2007) has highlighted the declining trends of financing in agriculture through public sector. At national level a large number of formal and informal institutional agencies such as Co-operatives, Regional Rural Banks (RRBs), Scheduled Commercial Banks (SCBs), Self-help Groups (SHGs) are involved in meeting the short- and long-term needs of the farmers (Kumar *et al.*, 2010).

Das *et al.* (2009) Studied that the credit facilities act as the driving forces for the growth in agriculture production and observed the shortcomings in the present credit delivery system. Usually the small and marginal holders face the problems in the prevailing credit delivery system and the final produce is directly linked with the availability of finance in the priority sector.

Surayawanshi (2011) has studied the presence of traders, commission agents and money lenders in non-institutional

financing sources, while in institution financing sources, he has highlighted the role of banks, government and cooperatives as well as self-help groups. Dev (2012) studied the only 27% of farmers in India have access to institutional credit.

Baba *et al.* (2012) studied that loans are provided to resource strived farmers by non-institutional traders either in cash or kind (fertilizers and pesticides) against the expected annual produce. The commodities thus provided to poor farmers are more suitable of being inferior quality and are sold at relatively higher prices. Which intern helps these traders to gain unethical profits and there are high chances that horticulture produce will be of inferior quality).

BCAI (2012), Current trends in acreage and yields suggest that world apple production could increase by over 24% between 2010 and 2020. During the past few years, demand for high value and low volume horticulture crops has been showing much faster growth than demand for food grains (Ahmad *et. al.* 2013).

Sheikh and Tripathi (2013) revealed that the process of apple financing in the state is full of faults as the money for the working capital requirements flows through the commission agents who act as the middle man and thus by cheating charge high rates of interests to the poor farmers. Thus they have highlighted the role of financial institutions to curb on the false financing practices in Apple fruit cultivations in Kashmir.

Lad (2013) has investigated the reasons regarding requirements of finance during the cultivation process. He has highlighted three categories of financing. Such as short-term (to meet domestic expenses and inputs on process of production) medium-term (land improvement) long-term financing (for purchasing agricultural machinery as well as pay off debts).

Ahngaret *al.*, (2013) has highlighted the role of institutional financing in the agricultural development of the country. In the country the farmers are not so liquid to meet the working capital requirements during production period. So to meet expenses of inputs they have to opt for various financing options.

Bhat (2014) has found that only 26% of the peasants avail loan facilities from the institutional sources while as 74% of the lending is from the non-institutional sources such as commission agents and money lenders. This argument is further supported by Sheikh (2013) by his studies in which he revealed that 30% of the apple produce is financed by banks (institutional source) while as 70% is financed by non-institutional sources.

Maurya and Baht (2013) have highlighted the initiatives taken by the Jammu and Kashmir bank for the improvement of poor horticultural peasants by introducing micro-finance schemes such as Kissan Credit Card<sup>6</sup> and self Help Groups.

## METHODOLOGY AND AREA OF STUDY

The present investigation was carried out in the state of Jammu and Kashmir with reference to valley of Kashmir, for data collection both qualitative and quantitative techniques were used. At qualitative level 100 respondents were randomly

<sup>6</sup>4% interest is payable by peasant and remaining 3% is being subsidized by GOI.

selected for collection of data and data was collected with the help of interview schedule and at the quantitative level, various peasant entrepreneurs were interviewed and the marginal holders were given the special consideration while conducting the study.

**Findings and Interpretation**

The fruit cultivation process is capital intensive. In order to meet the expenses on production such as fertilizers, pesticides, grading and packing overheads, directly leads to financial burdens on peasants. In order to fulfill their requirements peasants go for different ways of raising credit. The primary and traditional sources are mostly non-institutional. The small peasants of the state borrow money against the expected produce from local money lenders (Peasant Entrepreneurs)<sup>7</sup>.

The peasant entrepreneurs of the state use to lend money at an basic interest of ₹20 per box of apple and a general agreement is made between peasant and entrepreneur to purchase all viable inputs from the entrepreneur and for marketing of produce peasant remains dependent on entrepreneur. The process in turn enhances entrepreneur to earn commission from viable inputs and commission returns from fruit market which leads to the cumulative interest near about ₹100 per box of apple (20% Interest rate)<sup>8</sup>.

Entrepreneurs mostly play the risk free businesses because the agreement between the peasant and entrepreneurs gives him the provision to carry forward the contract for the next cropping season if the peasant is insolvent to pay his dues.

The auxiliary source of non-institutional finance is from different fruit markets established throughout the country. The fruit commission agents use to lend money to peasants in the months of March-April<sup>9</sup> at an interest rate of 12%<sup>10</sup>. The prevailing sources are risk prone, at the time of harvesting if the production decreases the same contract continues for the next cropping season.

**Table No 1** Showing Holding Size against Credit

| S No  | Holding Size In Hectares | Frequency | Source of Finance      | Percentage |
|-------|--------------------------|-----------|------------------------|------------|
| 1     | Below 0.50               | 44        | Non institutional      | 44%        |
| 2     | 0.51-1                   | 25        | Institutional          | 25%        |
| 3     | Above 1                  | 31        | Self and institutional | 31%        |
| Total |                          |           |                        | 100%       |

The data revealed that 44% of the respondents whose holding size were below 0.50 hectares were availing credit either through peasant entrepreneurs of local level or from commission agents of outside markets like Delhi, Kanpur, Ahmedabad, Jalandhar etc. at the interest rate of 12% annually. The second category i.e. 25% of the respondents with holding size from 0.51 to 1 hectare were availing credit through institutional sources like banks such as J & K bank, HDFC, SBI, Cooperative Banks under the schemes KCC or Apple Growers Advance Scheme. Under KCC, peasants have to pay interest rate of 4% annually and in the second category they have to pay interest rate of 14%. The last category of

respondents i.e. 31%<sup>11</sup> constituted by peasants having holding size above one hectare revealed that they are themselves able to meet the expenses on production in certain case when the cost of inputs increase they opt for credit through commercial banks.

The study revealed that the system of lending money on credit is still witnessing traditional ways, which provides scope for the entrepreneurs to formulate regional level self help groups and micro financing schemes to attract the marginal peasants to sell their final produce through them, which intern could help in minimizing the role of middlemen and thus help a large chunk of unemployed youth to earn from this in industry.

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<sup>7</sup> Peasant entrepreneur are known as *Aaret* or *Bapeerin* Kashmiri language

<sup>8</sup> On an average one box of apple costs around ₹500.

<sup>9</sup> Flowering season of fruits.

<sup>10</sup> Commission charged of gross sale of per box of apple,

<sup>11</sup> Among the peasants 6% app. Having holding size more than one hectare use to work as peasant entrepreneurs (Money Lenders) they use to take credit from banks at low interest rates and also from outside fruit merchants.

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