

Indian Agriculture- Crisis, Policy Initiatives and Corporatisation

I shall be brief and selective in my comments on the nature of the crisis that India's agriculture sector faces and some recent policy initiatives of the present government. I must admit that my reading of the evidence on agriculture is quite different from the broad brush treatment of Wayne in some respects.

- The first important point is that with 70 per cent of India's population living in rural areas and 60 per cent of its workforce in agriculture, India remains a predominantly agrarian economy.
- The second important point is that while overall growth surpassed 6 per cent in the last decade, agricultural growth declined to less than 2 per cent. During 1999-2004, agriculture grew at 1.8 per cent per annum as against a growth rate of 2.9 per cent during 1983-93.
- Decreasing levels of public investment are a major contributory factor. It is well documented that this is a direct consequence of agricultural subsidies- especially through unsustainable hikes in the minimum support prices for government procurement of rice and wheat. Another key factor is a progressive deterioration of the public institutions that provide credit, inputs, and research and extension services to the farmers.
- The present government's agricultural and rural development strategy is not just a response to the looming crisis in agriculture but also governed by agriculture's pivotal role in the overall growth strategy for the 11th Five Year Plan.
- The agricultural and rural development strategy has two distinct components. (i) The first is higher public investment in agriculture and rural infrastructure (the 2006-07 Union budget has earmarked Rs 187 billion (or \$4 billion) for public investment in irrigation, rural roads, and rural electrification). (ii) The component involves reforms and incentives to facilitate agricultural diversification to high-value crops.
- While the first component is largely a response to the current agrarian crisis, and involves a much-needed correction to the declining public investment in agriculture, the second is central to the overall growth strategy. In fact, some calculations for the 11th Plan confirm that an overall growth rate of 8 [per cent or more is not sustainable without agriculture growing at 4 per cent annually.
- Let me say a little more about the second component of the so called "new deal" for agriculture, as it signifies a major policy shift.
- One key element is the emphasis on public-private partnerships, whereby the state will provide incentives for private corporations to enter agriculture and agriculture-related industries, as well as coordinate their relationships with farmers. These partnerships have a critical role in facilitating the shift of agricultural production from cereals to fruits, vegetables, dairy, meat and processed food products. There is vast potential for high-value agricultural exports, given the diversity of agro-climatic conditions and abundance of low-cost labour.
- Let me now draw attention to some specific forms of synergistic partnerships in this context. Higher-value agricultural production would require large investment in processing units, cold supply chains, efficient transportation, and more developed end markets. No less important are high quality seeds and

extension services. With financial constraints becoming more stringent, the government plans to promote diversification by replacing many of the services provided so far by the public sector with private alternatives.

- It follows therefore that some fundamental changes are necessary to create a much larger space for the corporate sector. A case in point is contract farming. Research, extension, credit, procurement and marketing are provided by private corporations. In addition to giving a legal basis for contract farming, the “model” Agricultural Produce Marketing Acts (APMAs) allow corporations to directly procure from farmers, bypassing the earlier requirements of buying through licensed traders.
- While there are no reliable estimates of the extent of contract farming, it is a fair guess that it is a relatively small phenomenon, even in Punjab where it is the most developed.
- Now let me turn to the risks of high-value agriculture and mitigation measures. While foodgrains can be stored and directly consumed, the successful cultivation of high-value, perishable crops relies on good quality seeds, proper training in new cultivation techniques, access to formal credit, and an assured and remunerative market.
- What does it all imply in the Indian context?
- A recent sample survey (the 59th round of the NSS in 2003) reports that barely 4 per cent of the farmers had ever insured their crops, and among those who had not, 57 per cent had never heard of crop insurance. And equally glaring is the fact that 40 per cent of the crop insurance coverage was confined to one Indian state (i.e. Gujarat). The private sector is experimenting with weather insurance but this covers only one source of risk and faces many obstacles.
- Another new initiative is commodity futures market, resumed in 2000. By March 2006, the value of commodity derivatives was \$458 billion, and 85 per cent of this was in agricultural commodities. Although there is a vigorous debate on its potential merits, let me just state a few: these include price discovery, and enabling both producers and corporations to hedge against market volatility. It must, however, be noted that most farmers-especially 87 per cent of marginal and small farmers-lack access to futures markets as they cannot finance margin requirements. So many continue to (or will continue to) sell at harvest, even if futures markets indicate rising prices. It follows therefore that the absence of viable mechanisms for risk mitigation is a major impediment to diversification.
- Finally, a short comment on the integration of small farmers in emerging high-value food chains. Following Lipton (2006) and others, I take a more optimistic view of the prospects of their integration. Briefly, the demise of small farmers is neither likely nor unavoidable. I shall make two observations.
- There is of course a “natural selection” of “preferred suppliers” who are better equipped to meet food safety, quality and reliability requirements of supermarket chains but under certain conditions extension to a wider and mixed supply base is efficient.
- This does not obviate the need for capacity-building of small farmers and commitment among suppliers, through monitoring, compliance and extension.

In conclusion, the threats to the expansion of livelihoods of small farmers and other poor segments in rural areas are real; but, more importantly, these could be turned into opportunities through mutually beneficial partnerships between private corporations

and small farmers, on the one hand, and a macro policy environment that protects their interests, on the other.