

Agriculture

ENHANCING AGRICULTURAL PRODUCTIVITY AND FOOD SECURITY

- ▶ Agricultural production has grown more rapidly than demand in recent years, turning India into one of the world's largest agricultural exporters, notably for rice and bovine meat.
- ▶ Rural areas remain the locus of the country's high but declining levels of food insecurity.
- ▶ Through the world's largest food security programme, India provides subsidised grain to 800 million people. Questions remain over the cost-effectiveness of these programmes and their potential impacts on international markets.
- ▶ A sizable share of public resources is devoted to helping India's farmers, in particular through input subsidies.
- ▶ Expenditure on subsidies to producers and consumers may crowd out investment in other determinants of food security, such as health, education and rural infrastructure.

What's the issue?

Agriculture accounts for 14% of India's GDP and about half of total employment (2012). Two-thirds of India's population depends on agriculture and related activities for livelihoods. In the last two decades, agriculture-related growth has been much slower than growth in non-agricultural sectors, contributing to widening income inequality between rural and urban areas. This stems mainly from modest growth in total factor productivity (see Figure). Population pressure, inheritance laws and a lack of employment opportunities in rural areas have contributed to both an increase in the number of farmers as well as a decrease in average farm size.

Agriculture-related growth has also been uneven across regions. Significant differences in regional productivity reflect structural differences in land availability, population growth, and off-farm labour opportunities, as well as uneven access to modern technology. A key challenge for India is to make its agricultural sector more productive and more sustainable. The need to improve agricultural productivity and sustainability is well-recognised in India's Twelfth Five Year Plan 2012-2017, which aims to increase agricultural GDP growth to 4% per annum.

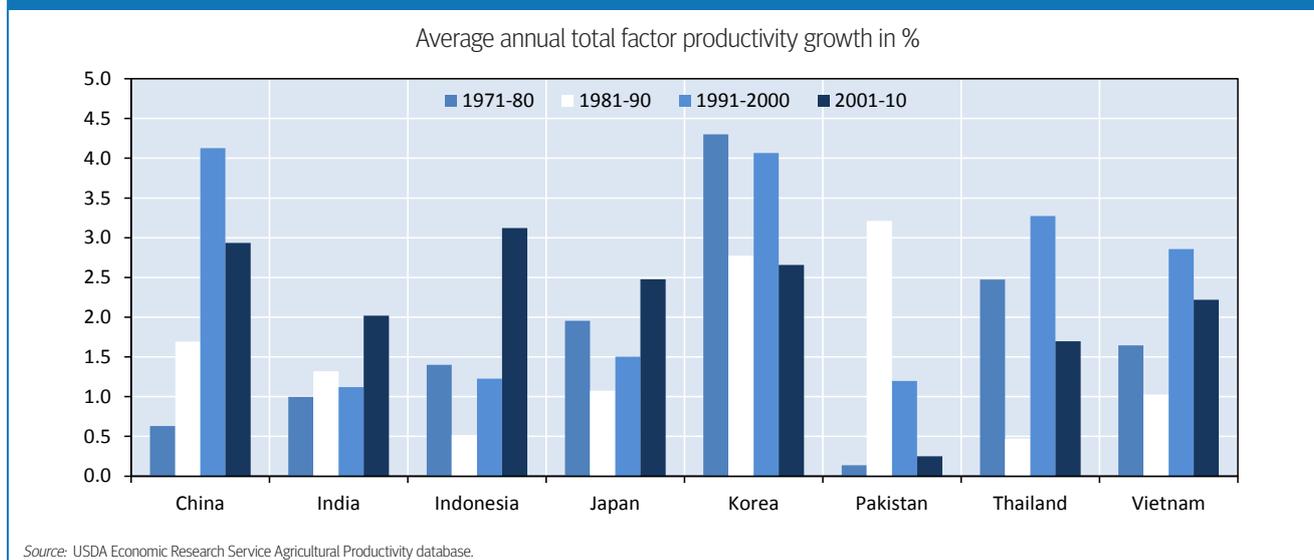
Increasing the productivity of the agricultural sector implies both raising the productivity of staple crops, which is essential to feed a growing population, and diversifying agricultural production to higher value products (e.g. dairy and poultry products, fruits and vegetables). Indian farmers have started to diversify production and have adopted new technologies, such as improved seed varieties. Nevertheless, staple crops still account for a large share of output as they benefit from guaranteed prices.

India's efforts to support farmers and promote rural development while addressing food insecurity have been, and remain, significant. A number of supply-side programmes such as input subsidies for fertilisers, irrigation, electricity and farm credit, coupled with investments in irrigation, are designed to encourage higher yields and production. A range of market support prices are set to cover costs and improve farmers' returns.

Moving away from price support would reduce distortions among commodities, improve the performance of the agricultural sector, and make staple foods more affordable. Many OECD countries have been reducing the share of such support in total support to producers because it interferes with farmers' production decisions and is an inefficient way to transfer income to farmers. While subsidies to farm inputs have clear short-term benefits, over time, they are costly and hamper the development of competitive input markets. Subsidies to specific inputs, such as fertilisers and water, can also lead to over-use, with negative impacts on the environment. Fertiliser subsidies delivered through manufacturers leak to the fertiliser industry, which is regulated and remains uncompetitive, and support to irrigation infrastructure development puts pressure on water resources.

In September 2013, India enacted a new National Food Security Act, the largest food security programme in the world, covering over 800 million people and providing 60 kg of food grain per person each year at prices that are about 10% of current retail prices for food grains. A corollary to the question of how India's food security situation will evolve is the efficacy of government programmes.

» Agricultural total factor productivity growth is lower than in many other countries



Why is this important for India?

A major question for India concerns the agriculture sector's contribution to national food security. India is the world's second most populous country, and it has the largest number of farmers and rural population. About one-quarter of the world's total food insecure people live in India. Subsidies and food distribution programmes may increase production and consumption, but they absorb a large share of national finances that could alternatively be spent on essential public goods and services, such as health, education and the development of rural infrastructure.

Another issue is whether increases in production will serve higher domestic consumption or larger exports. India is among the leading exporters of agricultural products, with a trade surplus that has grown from USD 3.6 billion in 2000 to an estimated USD 22 billion in 2013. The projections of the OECD-FAO Agricultural Outlook 2014-2023 suggest that India's agriculture production growth will likely slow from the rapid pace of the previous decade, but it will still advance at more than double the rate of population growth. Meanwhile, consumption will advance at a similar pace, implying no dramatic changes in net trade.

What should policymakers do?

- ▶ Begin to shift public expenditures away from price support and input subsidies and toward investments that support the productivity and long-term competitiveness of the agriculture sector and, over time, contribute to make staple food more affordable.
- ▶ Invest in agriculture innovation systems, including technology transfer and farm extension services, and in strategic rural infrastructure, including water use, in order to boost agricultural productivity and resource sustainability.
- ▶ Invest in education, health, sanitation, and other public services that would contribute to improved food and nutrition security.



Further reading

OECD (2014), "Feeding India: Prospects and challenges in the next decade", in *OECD-FAO Agricultural Outlook 2014*, OECD Publishing. <http://www.agri-outlook.org/>