

# India's agricultural sector: an analysis



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## Agriculture Sector

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### **Introduction to Agriculture sector**

Agriculture sector from an Indian Economic perspective constitute majorly the following four such as: Food-crops and oilseeds, Fiber, plantation crops, fruits and vegetables. As per the 2013 RBI statistics Indian agriculture sector contributed 11.36% of real GDP. This sector is also the highest employer in the country employing approximately 60% of the population.

In H1 2013-2014 Agriculture sector of India recorded growth rate of 3.4% [1] and this is higher by a margin of 0.8% during H1 2012-13. The primary reasoning was attributed to a good and a normal monsoon during the year. This spike in the growth of the agricultural sector contributed to a better growth rate for the GDP of 4.6 considering it was a sluggish period for all other sectors including services and manufacturing. Eventhough being one <https://assignbuster.com/indias-agricultural-sector-an-analysis/>

of the oldest sector, Agricultural sector is still contributing phenomenally to the GDP growth of the country. So, in this report an attempt is made to analyse salient aspects of the Agriculture sector from economic perspective, government policy perspective and other items that constitute the growth of the sector. Also, the report studies the major issues that's being faced by the facing and potential way to resolve them is being brought out.

Key factors affecting the performance of Agriculture sector:

1. Climatic factors: Monsoons, soil degradation, water availability, floods and droughts.
2. Policy factors: Government policies related to credit availability, support prices, crop specific programmes, ensuring availability of markets for the produce.
3. Market factors: Pricing, integration with downstream consumers, transparency.
4. Macro-economic factors: Supply and demand, change in consumption patterns.
5. Technology factors: Availability of farming technology, awareness of the available technology among the farmers, incentives to adopt modern technology, educating farmers about the benefits of using technology.
6. Global factors: Export and import policies, trade restrictions.

Section IV Agriculatural Policies, Ramesh V V

Issues faced by Indian Agriculture sector

1. Unequal growth of Agriculture sector at different areas of India

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2. Dependence on seasonal rainfall : The performance of the sector is highly dependent on the seasonal rainfall India receives during the monsoon season.
3. Decrease in land availability due to population growth and industrial sector growth
4. Non availability of farm labourers
5. Low level of mechanisation of the sector yielding lower productivity
6. Unavailability of logistics affecting the returns from the sector
7. Traditional cultivation methods:
8. Restrained access to finance:
9. Lack of facilities for storage of the food grains:
10. Fragmentation of land
11. Low quality seeds: Using better quality seeds can improve the yield by 40%, adoption of Bt seeds can also increase the yield, however higher cost of seeds and activism are hindrances to adopt Bt seeds widely.
12. Unbalanced fertilizer utilization: It is one of the main reason for the stagnation of the yield, depletion of soil fertility and pollution of water bodies. Lacklustre government policies on fertilizer subsidies are one of the reasons for unbalanced use of Nitrogen based fertilizers
13. Cropping Patterns: Sub-optimal crop pattern leads to low rates of profits. Geographical conditions vary and accordingly suitable crop patterns should be adopted, however farmers follow traditional practices which leads to lower profits.

Policies and Schemes towards Agriculture:

The Department of Agriculture & Cooperation, Government of India, has been implementing various schemes and programmes for the benefit of farmers through State Governments. The Guidelines and other details of various programmes and schemes have been made available in their departmental scheme guidelines. Relevant details on the type and extent of benefits for different components promoted under various schemes are mentioned here. For simple understanding of subsidies and eligibility criteria of the same a handbook has also been constructed by the department. It has been prepared by categorizing various activities in 11 different themes such as, Soil Health, Soil Conservation & Fertilizers, Seeds, Irrigation, Training & Extension for Farmers, Mechanization & Technology, Agricultural Credit, Agricultural Insurance, Plant Protection, Horticulture, Agricultural Marketing and Integrated Farming. Besides this, broad suggestions on practical aspects of each of these themes have also been included.

Schemes such as Rashtriya Krishi Vikas Yojana (subject to qualifying criteria for the States), National e-Governance Plan-Agriculture, National Mission on Agricultural Extension & Technology Etc have nation-wide coverage. A few other schemes such as National Food Security Mission, Mission for Integrated Development of Horticulture (MIDH), National Mission on Oilseeds and Oil Palm (NMOOP), Cotton Technology Mission, Jute and Mesta Technology and Bringing Green Revolution to Eastern India (BGREI) have Crop/ Area / District wise applicability.

The expert committee has come up an estimate of around 11172 crores in the next ten years for infrastructure development for agriculture marketing

as of 2008 and has come up with some reforms in the Agriculture Produce Marketing Committee Act, (APMC)act, details from NABARD website

Subsidies are helpful to farmers in India as nearly 11% of farmers have land but not have sufficient funding to irrigate the land. Three main types of financing are required for agriculture sector. i. e., Short term, Medium term & Long term finance. Subsidies in an agriculturally oriented developing economy like India helps increase the productivity of the farmers.

Institutionalized credit provisioning: Credit raised by farmers from Non-institutional lenders, from 95% in 1951 to 40% in 2002, India has come a long way in providing sustainable credit access to the farmers. Non-institutional lenders levy a high rate of interest and historically have manipulated the farmers, which led to poverty and its side effects like illiteracy.

## **Analysis on the Agricultural Sector**

Demand vs Supply:

The agricultural sector in India is doing pretty good job to meet the domestic demand and also exporting food grains in certain categories. The total demand for Y2010 was 228Mt and the total supply was 270Mt. Not only in 2010, if you see the trend for the past 5 years before 2010, the supply more than demand. This clearly tells us India is a food surplus country and there is no real pressure on the demand-supply process.

The supply is mainly increasing because of better and modern farming technique and high productivity per hectare. Storage facilities have

improved over the last 2 decades and at affordable prices are helping the farmers to preserve the crop thru the year.

There is still a lot of scope for improvement for our agro output storage facilities. Our storage facilities are not on par with other developed countries and our farmers end up with a lot of spoiled food grains.

Table: Agro Production –Demand in INDIA between 2005 and 2011

(All Figures in Metric Tons)

	2005- 06	2006- 07	2007- 08	2008- 09	2009- 10	2010- 11
Carry in Stock	14	14	17	20	35	34
Production	210	211	229	234	217	236
Imports	0.10	6.75	1.99	0.04	0.33	0.32
Total Supply	225	233	248	254	252	270
Exports	6	7	9	5	4	5
Domestic Use	204	208	219	214	215	228
Total Demand	201	215	228	219	219	233
Carry Out	14	17	20	35	34	37

## Stock

Source: <http://agcensus.nic.in/>

Focus on Agriculture- Union Budget 2014.

Government has proposed a technology driven green revolution and in this specifically protein revolution had more focus this year. Below par expectation of monsoon and its obvious impact on Agriculture was certainly considered this year. Keeping this in mind

1. Government has proposed aRs. 1, 000 crore outlay for a new scheme named, Pradhan Mantri Krishi Sinchayee Yojana, which will address sufficient irrigation facilities and mitigate some risk.
2. To address the problem of price volatility, fund called Price Stabilization fund amounting to 500 crores was allocated.
3. Agriculture credit target was set to 8lakh crores. Interest subvention for timely repayment of loans at 3% subvention has also been included against the current 7% rate. Rural infrastructure fund of 25000 crores was also institutionalized.
4. Soil health is one major factor which is linked to productivity. In this regard, 100 crore project scheme was included which delivers every farmer a soil health card. In this mission, an additional 56 crores towards mobile soil testing laboratories was proposed.
5. Agriculture research institutions to come up in Assam and Jharkand with an initial investment of 100 crores and an additional allocation of 200 crores for Andhra Pradesh and Rajasthan and telangana and



Haryana for Agriculture and horticulture institutions respectively was also proposed.

6. Kisan TV, a dedicated channel on various aspects of agriculture.
7. Bhoomi Heen Kisan scheme, institutionalized through NABARD for landless farmers towards guarantee for finance was proposed. Funds will cater to around 5 lac farming groups who will practice joint farming.
8. Warehouse infrastructure fund of 5000 crores was allocated to address wastage loss in supply chain.
9. Existing APMC, will be re-oriented in close association with state governments which in potential must take care of markets and introduce reforms for farmers.

One thing that was criticized was the denial of a policy of minimum price Scheme, MPS which figured in the previous government's budget.

#### Impact of Fiscal Policies on Agricultural Sector

Most Gov.'s that came to power in India have implemented pro-agricultural policies and have given a lot of sops and benefits to this sector. Though the outlook might seem healthy, the short term inconsistent policies have made the agricultural sector unproductive and unsustainable. If the situation continues like this, experts believe that India would become a net food grain importer in the next 20-30 years of time.

#### Subsidy

Input subsidies are a major part of the policy in Agricultural sector in India.

The major subsidies are

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- subsidies on electricity used in farming
- subsidy in fertilizer prices
- subsidy in seed purchase

Indian agricultural sector is more dependent on input subsidies than any other major emerging countries. The recent Gov. order passed by the Chief Min of the newly formed Andhra state to waive off all the agro loans taken by its farmers is an example of this Input subsidy and illustrates how heavily this is impacting the Agro sector. The subsidy on fertilisers has been increased to 67% in 2010 from 41% in 2004. This steep subsidy was possible because Gov. kept the nominal fertilizer prices unchanged in spite of high inflation and allowed real subsidized fertilizer prices to fall. The total Gov. input subsidy stood at 9.6% of the total Agro sector output.

Among all the subsidies fertilizer subsidy amounts to 11 Billion dollars out of the total 60 Billion subsidy provided by GOI. This also plays a key role in the increase in non plan expenditure and which in turn increases the fiscal deficit.

The input subsidies have also produced some unintended side effects like over utilization of land, soil degradation, nutrient imbalance of soil and reduction in ground water level.

#### Minimum Support Price

The Govt had setup the Commission of Agricultural Costs and Prices (CACP) to define the minimum support price for almost all the major crops. The intention is to help the farmers but it interferes with the demand and supply.

## Tax Subsidies

Indirect taxes for farm output is almost nil.

## Inflation

The GOI expansionary policies and fiscal stimulus in 2009-10 has resulted in increase in inflation. This has resulted in the increase in cost of the farm labour and non subsidized farm equipment procurement. This has put pressure on the margins of the farmers.

## Restriction on Exports/Imports

Whenever the supply was lower than demand for a particular crop happens i. e in supply shock scenario Govt generally tends to look to restrict exports. This has been an usual pattern with recent incident when the prices of onion and sugar increased as a result of lower production and the govt was quick to restrict the exports of these commodities

## Impact of Monetary Policies on Agricultural Sector

Agricultural loans are available for various farming related activities. Farmers may apply for loans to purchase inputs for the cultivation of food grain crops as well as for horticulture, aquaculture, animal husbandry, floriculture and sericulture businesses. There are also certain special loans made available by many public sector banks and co-operative agriculture banks to finance the purchase of agricultural machinery such as tractors, harvesters and trucks. Construction of biogas plants and irrigation systems as well as the

purchase of agricultural land can also be financed through different types of agricultural finance.

NABARD offers a Kisan Credit Card Scheme and crop loans under the Rashtriya Krishi Bima Yojana. Kisan Credit Card Scheme helps farmers raise short-term funds for agriculture and other farm-based activities, on an on-going basis, with very flexible and friendly repayment terms. It also offers an agricultural loan for development of agriculture related industries, purchase of machinery and other agricultural purposes.

Interest Rates

## **Conclusion**

The agriculture community must be weaned off the subsidies gradually once sufficient development is made so as to increase the sustainability of Indian agriculture by providing them the right price for the cultivated produce, introducing highly effective storage facilities, providing necessary training to the farmers regarding use of technology and equipment thereby reducing wastage considerably and enhancing the sector as a whole. Agricultural subsidies can be a blunt instrument that can impede progress and slow down economic growth if they're implemented without heed to the situation and specific date of expiry.

Agriculture and industry has shown remarkable vigour and dynamism in contributing to a healthy growth in exports in the recent past. India's food security depends on producing cereal crops, as well as increasing its production of fruits, vegetables and milk to meet the demands of a growing population with rising incomes.

Policy makers will thus need to initiate and/or conclude policy actions and public programs to shift the sector away from the existing policy and institutional regime that appears to be no longer viable and build a solid foundation for a much more productive, internationally competitive, and diversified agricultural sector.

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