

## A Shot in the Arm for Agriculture

C S C Sekhar



*Many new initiatives, particularly related to irrigation, have been introduced to address the long-run issue of agricultural growth. This budget comes in the backdrop of a sluggish performance of the agricultural sector in the last two years because of the two consecutive drought years*

**T**he Union Budget 2016-17 is highly encouraging as regards agriculture and rural development. Many new initiatives, particularly related to irrigation, have been introduced to address the long-run issue of agricultural growth. This budget comes in the backdrop of a sluggish performance of the agricultural sector in the last two years because of the two consecutive drought years.

After an encouraging performance during the XI Five Year Plan period, agricultural growth has stuttered somewhat, with a growth rate of 1.5 per cent in 2012-13, followed by growth rates of 4.2 per cent and -0.2 per cent in the subsequent two years. The latest estimates from the CSO indicate that 2015-16 will be only marginally better with a projected growth rate of 1.1 per cent. Notwithstanding two consecutive droughts, structural problems ranging from irrigation to input provision to marketing are responsible for this deceleration. The present budget attempted to address some of these long-standing issues faced by agriculture. The positive initiatives proposed broadly relate to irrigation, rural infrastructure and marketing.

The positive implications of

the budgetary allocations become clear when placed in the context of overall agricultural growth, food production and food inflation. The country faced problems of stagnating agricultural growth and decelerating food production in the mid-1990s. The growth rate of the agricultural GDP during 1997-98 to 2004-05 averaged just 2.2 per cent per annum. This is almost the same as the pre-green revolution growth rate. The food production also decelerated at a rapid rate. This adverse situation was largely due to continuous decline in capital investment in agriculture, aggravated further by reduced input usage due to decline in farm profitability. The first signs of turnaround came in 2005-06, with improvement in input usage, aided by some positive state action. Some of the subsequent programs launched in 2007-08 helped maintain and further accelerate this growth momentum. Programs to increase investment in agriculture by states (RKVY) and targeted increase in food production (NFSM) helped this process<sup>1</sup>. These programs helped agriculture in improving its growth performance over the last few years. However, production uncertainty and marketing bottlenecks still continue to plague the sector. The present budget attempted to address some of these long-standing issues.

The author is currently Associate Professor at the Institute of Economic Growth (IEG), Delhi University. His research interests include agriculture, international trade and applied econometrics. He has published in journals of national and international repute. He received the Fulbright-Nehru Senior Research Fellowship in 2012-13 and the D.K. Desai Award in 2003 for the best research paper in Agricultural Economics. He was also a medal finalist for outstanding research on development at the fifth and ninth Global Development Network (GDN) conferences in 2004 and 2008.

**Irrigation:** One of the major problems facing Indian agriculture is its excessive dependence on monsoon. Only about 45 per cent of the cropped area in the country is irrigated, which results in wide-spread production uncertainty. This budget attempted to address this issue in a major way through the Pradhan Mantri Krishi Sinchai Yojana (PMKSY). This major irrigation program, with an outlay of ₹17000 crores, aims to bring new area of about 28 lakh hectares under irrigation. There are also proposals to reinvigorate 89 defunct irrigation schemes under the Accelerated Irrigation Benefit Program (AIBP), which is expected to benefit about 81 lakh hectares. Harnessing groundwater resources is proposed to be undertaken at a cost of Rs 6000 crores. There are also complementary programs to improve farm ponds, desilting and dug wells under MGNREGS (Mahatma Gandhi National Rural Employment Guarantee Scheme). All these initiatives, together with the proposed long-term irrigation fund of 25,000 crores, are certain to be highly beneficial to agricultural growth.

**Credit and Insurance:** Credit constraint is an important bottleneck in agriculture. Although, the ratio of agricultural credit to agricultural GDP has increased from 10 per cent in 1999-2000 to 38 per cent in 2012-13, the share of long-term credit has declined sharply in recent years, falling from 55 per cent in 2006-07 to 39 per cent 2011-12. This needs to be arrested in the long-run interest of the sector. Perhaps with this objective, the target for agricultural credit in the current budget has been increased to 9 lakh crores from 8.5 lakh crores in the previous year. In addition, a provision of about Rs 15,000 crores has been made to provide relief to the farmers in the form of interest subvention. However, much will depend on the access to credit of the actual cultivators, which depends on the legal right to land or formal tenancy. Crop losses due to vagaries of climate is debilitating to the farmers. A revamped insurance program has been announced recently to address this (PMFBY or *Prime Minister's Fasal Bima Yojana*). An

allocation of Rs. 5,500 crores has been made to this new crop insurance scheme. This scheme aims to provide insurance in case of crop failures at a reduced premium of about 2 per cent for foodgrains and oilseeds and 5 per cent for horticultural crops and cotton. The attractive feature of the scheme is that there is no cap on premium and therefore, there is no reduction of the sum assured. A pilot project of Direct Benefit Transfer of fertilizer subsidy has also been proposed, wherein the fertilizer subsidy is transferred directly into the bank account of the beneficiary. All these are positive steps but the actual implementation depends upon the formal right to land or nature of tenancy. We will return to this issue in more detail a little later.

**Procurement, Distribution and Marketing:** One of the interesting proposals is to encourage more states to take up decentralized procurement through online procurement and a transparent mechanism. A buffer stock of pulses is also proposed to be built through procurement. There is also a proposal to automate 3 lakh fair price shops (out of a total of about 5.35 lakh FPS in the country). A scheme for setting up a National Agriculture Market (NAM) through Agri-Tech Infrastructure Fund (AITF) was approved by the cabinet in July 2015 with a budget of Rs 200 crores. The current budget proposes to connect about 585 regulated markets under this scheme. However, there are significant barriers to this. To implement this, all the states need to amend their respective Agricultural Produce Marketing Committee Acts (APMC). This also involves evolving system with a single license valid across the state, single point levy of market fee and provision of electronic auctioning system for price discovery. At present, only 12 states have amended the APMC Acts and speedy action is needed from other states to fully operationalize this.

A major problem that the horticulture sector in India faces is that of post-harvest wastages. It is estimated that more than 20-22 per cent of the total production of fruits in

India is lost due to spoilage at various post harvest stages (APEDA, 2007). Even the latest estimates show that the wastage in fruits and vegetables is about 15 per cent (*Economic Survey 2015-16*, Vol 2, pp 115). The extent of wastage is clearly high and needs to be brought down. The decision to allow 100 per cent FDI in marketing of food products produced and manufactured in India should give a boost to the food processing industry, which can help in reducing these post-harvest wastages to some extent.

**Rural Development:** The total allocation to the rural development has been increased to about 87,765 crores, out of which about Rs 38,500 crores is allocated to MGNREGS. By far, the biggest allocation for the rural sector comes from the increased grants-in-aid to Gram Panchayats and Municipalities to the tune of about 2.87 lakh crores. This is likely to translate into Rs 80 lakhs per gram panchayat, which is substantial. The increased allocation for rural roads under PMGSY (*Prime Minister's Grameen Sadak Yojana*) is also a step in the right direction. The rural non-farm sector in general and rural construction, transportation and services in particular, have been the main sources of rural non-farm employment in the recent past. These increases in allocations should have a positive effect on spending in the rural non-farm sector, which in turn, should have positive effect on rural employment.

### Shortcomings in the Budget

The Budget falls short of expectations mainly on the following aspects.

The first relates to the incentives for states to invest in agriculture. After all, agriculture is a state subject and the states need to step up investment to achieve growth in the sector. There is a distinct slowdown in investment in agriculture in recent years. Gross capital formation in agriculture (as a percentage of the gross value added in agriculture) has declined from 18.3 per cent in 2011-12 to 15.8 per cent in 2014-15. This sharp fall in investment during the last few years is in sharp

contrast to the rapid increase since 2004-05. Some of the deceleration in growth in the last few years could be attributed to this slowdown in investment. The Budget is lacking in effective proposals / incentives to encourage states to invest more in agriculture.

The second issue relates to the top-down approach. India is a heterogenous country with large differences in agro-climatic conditions. The massive irrigation program, crop insurance program or any other programs proposed in the current Budget will need to be tailored to local conditions to be successful. The predominantly top-down approach underlying these major programs may not be conducive to the growth of the sector. The region-specific inputs contained in the District Agricultural Plans (DAPs), prepared by the various states under RKVY, may be utilized for this (Sen, 2016).

Another important issue that has a bearing on the success of many of the proposed initiatives such as credit, DBT or insurance is the tenancy reforms and modernization of land records. Success of many of these proposed initiatives hinges crucially

on the correct identification of the beneficiaries. Modernization of land records, establishment of secure property rights and undertaking tenancy reforms is *sine qua non* to the success of many of the proposed initiatives. Reforming tenancy laws is urgently needed to make tenancy agreements formal. This will make the access to credit easier for the actual cultivator. Easier identification of intended beneficiaries of programs such as crop insurance and direct benefit transfers are other benefits of tenancy reforms. At present, these benefits accrue to the *de jure* owner rather the *de facto* cultivator. A related, but important reform is modernization of land records for proper establishment of land rights. Digitization and synchronization of land revenue, land registration and land litigation records by the states is urgently needed (NITI Aayog, 2015).

The last issue is related to the modernization of extension services. There is little focus in most of the recent Budgets, including the current one, on this important aspect of agriculture. A large part of the non-adoption of technology, non-utilization of government schemes etc can be traced

to lack of awareness on the part of farmers because of poor extension. It is imperative that extension services need to be vastly improved to put agriculture firmly on a higher growth path.

#### Readings

APEDA (2007), *Taking Indian Frozen Products Across the Globe*, Frozen Fruits and Vegetables Report, Technopak Advisors Pvt. Ltd., Agricultural and Processed Food Products Exports Development Authority, Jan, 2007

Niti Aayog (2015), "Raising Agricultural Productivity and Making Farming Remunerative for Farmers", *Occasional Paper*, Niti Aayog, 16 December 2015

Sen, Abhijit (2016), "Some Reflections on Agrarian Prospects", *Economic & Political Weekly*, February 20, vol LI no 8

#### Endnotes

1) Rashtriya Krishi Vikas Yojana (RKVY) focussed on the issue of public investment in agriculture by states (since agriculture is a state subject). *National Food Security Mission* (NFSM) laid emphasis on increasing food production substantially in a short span of five years. □

(E-mail: csekhar@iegindia.org)

## Subscribe Online NOW

Log on to  
<http://publicationsdivision.nic.in/>  
 in collaboration with [bharatkosh.gov.in](http://bharatkosh.gov.in)