



LETZ DREAM FOUNDATION

FOREIGN DIRECT INVESTMENT IN AGRICULTURE

DECEMBER 2020

The need for economic development arose as an automatic consequence of globalisation. In India, agriculture is an important sector of the economy and accounts for almost 16% of its gross domestic product (GDP). Agriculture forms the backbone of rural India. Since economic reforms initiated in 1991, the Government of India has taken many programs to magnetize FDI inflows, to improve the Indian economy. The lower level of income in India can be basically attributed to the prominence of the agricultural sector as the means of livelihood. Moreover, the agricultural sector in India unlike developed nations exists at the subsistence level, engaging a very large chunk of population. This paper endeavours to analyse the efforts and policies of Indian Government to attract FDI to the agricultural and its impact on the same.

India's agriculture sector plays an important role in economic development because most of our country's Population and workforce depend upon the agriculture sector. In India, the agriculture sector accounts for almost 16% of Indian gross domestic products (GDP). India is among the 14 leading exporters of agricultural products in the world which shows that country has emerged as a significant exporter in certain agriculture items like rice, meat, spices, raw cotton and sugar¹. India has developed an export competitive advantage in certain specialized agriculture products like basmati rice, non-basmati rice, spices, cotton, coffee, cashew, guar gum, marine products, buffalo meat and castor oil. For rapid economic development, the central problem is capital formation not only in the industrial sector, but also in the agricultural sector.

Therefore, government permitted 100% Foreign Direct Investment in plantation sector namely tea plantations, Coffee plantations, Rubber plantations, Cardamom plantations, Palm Oil plantations and Olive oil tree plantations through automatic route and 100 % FDI is allowed in "Single Brand product retail trading, 51% FDI is permitted in "multi brand retail trading" with condition that fresh agricultural produce, including

1

<https://www.export.gov/apex/article2?id=India-Agricultural-Sector>

fruits, vegetables, flowers grains, pulses may be unbranded. Benefits available to the agricultural sector due to FDI also responsible for the progress of the nation and after the introduction of GST (Goods and Service tax) Agricultural sector can be at tremendous growth stage due to some projected benefits.



It is quite evident that agricultural investment is essential for promoting agricultural growth thus reducing poverty and hunger, and promoting environmental sustainability. Agricultural investment can be categorized as public or private and foreign or domestic. Studies have shown that there has been a favourable impact of foreign investment on economic development of any country². Indian economy needs to invest around 35 to 40% of GDP to grow by 7 to 8 per cent a year. National savings cannot manage this and therefore foreign investments have to cope up with this investment-savings gap.

² [Arora, Sucheta & Wadhwa, Shobhit. \(2014\). FDI in Agricultural sector in India: status and challenges: https://www.researchgate.net/publication/306406052_FDI_in_Agricultural_sector_in_India_status_and_challenges](https://www.researchgate.net/publication/306406052_FDI_in_Agricultural_sector_in_India_status_and_challenges)

This has already been recognized and successive governments have attempted to attract and facilitate foreign investments in varied sectors of Indian economy.



Agricultural investment is the most important and most effective strategy for poverty reduction in rural areas, where the majority of the world's poorest people live (World Bank, 2008, FAO, 2012)³. Investing in agriculture reduces poverty and hunger through multiple pathways. Farmers invest to enhance their productivity and incomes. From society's point of view, this in turn generates demand for other rural goods and services and creates employment and incomes for the people who provide them, who tend to be the landless rural poor. These benefits ripple from the village to the broader economy. Agriculture in India is a highly attractive sector. Besides the traditional opportunities, it presents numerous opportunities along its value chain to investors looking to invest in this lucrative sector. Some interesting areas are farm management services, agricultural inputs,

³ <http://www.fao.org/3/a-i3900e.pdf>

logistics services (example: cold storage) amongst a host of others⁴.

Main problems in the agricultural sector, as listed by the World Bank⁵, include factors like India's large agricultural subsidies that are hampering productivity-enhancing investment coupled with overregulation of agriculture that has led to increased costs, price risks and uncertainty. Government interventions in labour, land, and credit markets along with inadequate infrastructure and services.



Agricultural investment is also essential to eradicating hunger through all of the dimensions of food and nutrition security. Agricultural investment by farmers or the public sector that increases productivity at the farm level can also increase the

⁴

<https://www.investindia.gov.in/team-india-blogs/examining-foreign-direct-investments-indian-agricultural-sector>

⁵

https://www.researchgate.net/publication/306406052_FDI_in_Agricultural_sector_in_India_status_and_challenges#:~:text=FDI%20inflows%20into%20India.&text=Main%20problems%20in%20the%20agricultural.costs%2C%20price%20risks%20and%20uncertainty.

availability of food on the market and help keep consumer prices low, making food more accessible to rural and urban consumers. Finally, agricultural investments can also reduce the vulnerability of food supplies to shocks, promoting stability in consumption.

As per government's decision, the Foreign Investment Promotion Board (FIPB) under Ministry of Finance will be phased-out in 2017-18 as at present 91-95% FDI inflow which happens through the automatic route for agriculture. The decision to phase out the FIPB is to make India a better FDI destination. Increasing FDI inflows by providing greater ease of doing business will promote the "Maximum Governance and Minimum Government" principal. The work relating to confirmation of applications for FDI in agriculture sector approval shall now be managed and handled by the concerned Ministries/ Department in consultation with the Department of Industrial Policy and Promotion. 100 percent FDI is allowed in "Single Brand product retail trading". 51% FDI is permitted in "multi brand retail trading" with condition that fresh agricultural produce, including fruits, vegetables, flowers grains, pulses may be unbranded.



FDI plays a significant role in increasing productivity by offsetting the investment and technological gap through improved export import status. Although India is traditionally an agriculture dependent economy, the Government of India is relentlessly working towards making agriculture a promising sector to global players. Agricultural exports increased from Rs. 2,15,396 crores in 2015-16 to Rs. 2,50,273 crores in financial year 2017-18 registering a growth of nearly 16.19%. Agricultural exports during 2017-18 were primarily on account of higher exports of rice (basmati), rice (non-basmati), raw cotton, oil meals, castor oil etc. The share of agricultural exports in India's total exports increased from 12.56% in 2015-16 to 12.80% in 2017-18. Agricultural exports as a percentage of agricultural GDP have increased from 8.71% in 2015-16 to 9.00% in 2017-18. During the same period, agricultural imports as a percentage of agricultural GDP has decreased from 5.68% to 5.47%. India's agricultural imports increased from Rs. 1,40,311 crore in 2015-16 to Rs.1,52,061 crore in 2017-18

registering a growth of nearly 8.37%⁶. Increase in value of agricultural imports during this period was primarily on account of imports of vegetable oils, pulses, fresh fruits, cashew nuts, spices, sugar, cocoa, cotton etc. Share of agricultural imports in the total imports decreased from 5.64% in 2015-16 to 5.07% in 2017-18. Already the increments are being felt as in 12th five year plan (2012-17). As per the sources of Ministry of Commerce and Industry and DIPP, there is growth of FDI Equity inflows.



During the year 2012-13, there was a huge FDI Equity inflow in Agricultural Machinery sector, i.e., USD 95.41 million. There was an annual growth of 48.32% in FDI Equity inflow in this sector during 2014-15 over 2013-14. There was an annual de-growth of -77.28% in FDI Equity inflow in this sector during 2015-16 over 2014-15. An annual decline of -7.6% in FDI Equity inflow in this sector during 2016-17 over 2015-16 as per the sources of Government of India. With the progress in

6

http://agricoop.nic.in/sites/default/files/AR_2018-19_Final_for_Print.pdf

technology the agricultural service sector attracted USD 76 billions of investment which is 0.93% of the total inflow of foreign direct investment in the year 2012-13⁷. And the agriculture sector contributed 0.14% to the GDP as a whole. Moreover, the food processing industry had USD 86 billion investments which is 1.05% of the total foreign capital inflow⁸.

Table 1: STATEMENT ON SECTOR-WISE FDI EQUITY INFLOWS from APRIL 2000 TO MARCH 2019

S. No	Sector	Amount of FDI Inflows (In Rs Crore)	%age of Total Inflows	Sector wise Percentage
1	Agriculture Sectors	11126.28	11126.28	46.33%
2	Sugar	1276.72	12403	5.31%
3	Vegetable Oils and Vanaspati	5253.48	17656.48	21.88%
4	Fertilizers	3847.09	21503.57	16.02%
5	Agricultural machinery	2512.63	24016.2	15.77%
	TOTAL	24016.2		

Source: DIPP⁹

These foreign investments has the potential to boost the agriculture sector in India. The concept of contract farming would come of age in India. As a concept, Contract farming ensures execution of concepts like Agro Credit, Insurance,

⁷ [Mitra, Ananya "Inflow of foreign direct investment in the agricultural sector of India", Project Guru \(Knowledge Tank, Sep 12 2016\), https://www.projectguru.in/inflow-fdi-agricultural-sector-india/.](https://www.projectguru.in/inflow-fdi-agricultural-sector-india/)

8

http://www.indiahealthstat.com/SOCIO_PDF/109/fulltext.pdf

9

https://dipp.gov.in/sites/default/files/FDI_Factsheet_27May2019.pdf

development in agriculture¹⁰. Additionally, small farmers and agricultural workers would be enthused to team up with cooperatives which would allow mechanisation of land and multiple cropping which was not likely for practical complications. Indian Food Processing Industry can come of age. As proposed in the 12th FYP, food processing has been given particular opportunity which would allow farmers to get involved towards food processing industry. The basic idea of introducing the FDI in multi brand retail is strengthen the supply chain. Any company investing in the same would have to spend almost one third of the money in developing local supply chain which is very good for a country which doesn't have a strong Public Distribution System¹¹. Agriculturally rich states like Punjab, Haryana and Maharashtra have chances to build upon the current knowledge base and develop a customer base. FDI in retail would not only be concentrated in pockets of development. Farmers of North East can also join in considering certain fruits (jackfruit, pineapple) and horticultural products are abundant in these states but are scarce in the rest of the country.

There are constraints in the development of the agriculture sector at each and every level vis-à-vis local, national and regional

10

<file:///Users/lcf/Downloads/ImpactofFDIinAgricultureSectorinIndia.pdf>

11

<http://www.pragatipublication.com/assets/uploads/doc/4ebfc-677-683.16557.pdf>

level. Some of the key constraints are tepid economic growth, lack of transparency and consistency in foreign direct investment (FDI) policies, infrastructure bottlenecks and regulatory hurdles seems to have taken a toll on India's attractiveness as an investment destination for foreign investors, says Ernst & Young India Attractiveness Survey in 2014¹². Any business in the country will need to follow local law, rules and regulations. Thus permission for FDI cannot supersede other provisions in the country. The companies will need to follow import regulations, pay import duty, and fulfil all statutory requirements. Import duties – for food items are quite high. For instance for cheese, butter and ghee it is 40%, honey attracts 60% duty. APMC rules restrict the ability of any player to deal directly with a farmer. All these constraints need to be dealt with by the governments (State and Central) before any impact can be made. Here there can be no discrimination between a local player and a company with FDI.



12

<https://www.ibef.org/download/ey-attractiveness-survey-india-2014.pdf>

Limited development and lesser adoption of new production technologies essential for improving productivity by the poor in India are mostly low due to limited income and sources of credit. FDI plays a significant role in increasing productivity by offsetting the investment and technological gap. In recent years, India is losing its attraction as an FDI destination. From a position of 8th rank in 2009 India has fallen to 14th position as country attracting largest FDI, according to “World Investment Report 2011” by United Nations Conference on Trade and Development (UNCTAD). Developing countries like China, Hong Kong, Singapore, Thailand, Taiwan, Malaysia etc. are attracting a higher FDI inflow than India. A number of studies and reports highlight the weakness of India as a falling FDI destination. In the latest study from World Bank “Ease of Doing Business in India 2011” India ranked as 134 out of 183 countries. Thus Indian policy makers should revamp their efforts to attract FDI in the agricultural sector. Moreover, it should be done with a caution so that Indian farmers who are operating at the subsistence level do not suffer on account of this initiative of the government.

Foreign Direct Investment plays an important role in the economic growth and development of India. The inflow of FDI in the agriculture sector from April, 2000 to January 2015 attained substantial sustained economic growth and

development through creation of jobs in India. FDI is predicted to have a significant positive impact on rural populations, living in about 600,000 small villages of India. Agriculture is the backbone of Indian economy. Agriculture is an important sector, which determines growth and sustainability development and plays a vital role in the development of India. Service sector, Construction Development, Telecommunications, Computer, Software & Hardware and Drugs & Pharmaceuticals sector etc. were the other sectors to which attention was shown by Foreign Direct Investors (FDI). According to the study published by Global Journal of Finance and Management¹³ there has been a remarkable increase in FDI inflow in India during the period 2000 -2015. It is presumed that in the upcoming year FDI in the agriculture sector will grow more than the last years. FDI in Indian agriculture sector increases employment and development opportunities. Therefore, there exists the long run relationship between FDI and the agriculture sector in Indian economy.