FOREIGN DIRECT INVESTMENT IN INDIAN AGRICULTURAL SECTOR: OPPORTUNITIES AND CHALLENGES

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ABSTRACT:

In India, agriculture is an important sector of the Indian economy and accounts for almost 14% of India’s gross domestic product (GDP). Agriculture forms the backbone of rural India which inhabits 65% of the Indian population; hence any policy decision regarding agriculture has an impact on a large majority of the vast population. There is growing evidence that investing in Indian agricultural sector is among the most efficient ways to reduce poverty and hunger. Agricultural investments can generate a wide range of developmental benefits.

The agricultural sector is facing a crisis. Ardent students of the Indian Economy and all those who have been following the recent trends in its agricultural growth and development will agree that the sharp deceleration in the agricultural sector despite an overall impressive growth of the Indian economy is a major cause of concern today. There can be no better time than now – the period of second generation reforms – for a critical study of this vital sector of the Indian economy and for ensuring a second green revolution in the near future. FDI in Agricultural Sector is one of the fruitful steps in improving plight of Indian Farmers.
This paper attempts to study the FDI policy of Government for agricultural Sector. The present study has focused on the trends of FDI Flow in agricultural sector during 2000-01 to 2015-16 (up to December 2015). At the end, the paper contained the positive and negative impacts of Foreign Investment on Indian Agricultural Sector.

KEYWORDS—Agricultural Sector, Auxiliary Sectors, DIPP, FDI Equity Inflows

I. INTRODUCTION:

Agricultural sector has been the cornerstone of Indian economy and it accounts for almost 14% of India’s gross domestic product (GDP). Agriculture is an important sector, which determines growth and sustainability and plays a vital role in the development of India, with over 60 percent of the country’s population deriving their subsistence from it. Most of the rural population in India depends on agricultural practices for employment and livelihood. Indian economy in agriculture has shown a steady growth in the last two decades. The economy is also experiencing regular changes in its demographics, lifestyle, and domestic consumption. The agriculture industry in India is growing at a great pace and is expected to grow many folds in the near future.

After globalization almost every country in Asia welcome foreign direct investments in many sectors and it is growing its limits steadily. Being an agrarian developing country India is not an exception, like all other countries India also allowed FDI in various sectors including agriculture. FDIs have been playing an important role in promoting economic growth, triggering technological transfer and creating employment opportunities. Increased economic growth reduces poverty and raises the living standards.

II. OBJECTIVES AND METHODOLOGY:

The objectives and the research methodology are as follows:

OBJECTIVES OF STUDY:

The study has been geared to achieve the following objectives:
1. To understand the current Scenario of Indian Agriculture Sector

2. To analyse the trends of FDI inflow in Agricultural Sector during 2000-01 to 2015-16 (up to December 2015)

3. To study the opportunities and challenges of FDI in Indian Agricultural Sector

RESEARCH METHODOLOGY:

Type of Research: Quantitative and Analytical Research

Data: Data of FDI Equity inflows in Agricultural Sector from year 2000-01 to 2015-16 (up-to December 2015)

Data Collection Method: This study has been carried out with the help of secondary data only, all the data has been collected from the various sources such as websites & reports and compiled as said by the need of the study.

Sources of Data Collection: The study is based on the published data. The data was extracted from the various journals, magazines and websites particularly from the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry and Reserve Bank of India. Tables have also been used wherever required to depict statistical data of FDI during the study period.

III. MARKET SIZE OF INDIAN AGRICULTURE SECTOR:

Over the recent past, multiple factors have worked together to facilitate growth in the agriculture sector in India. These include growth in household income and consumption, expansion in the food processing sector and increase in agricultural exports. Rising private participation in Indian agriculture, growing organic farming and use of information technology are some of the key trends in the agriculture industry.

As per the 4th Advance Estimates, food grain production is estimated at 252.68 million tonnes (MT) for 2014-15. Production of pulses estimated at 17.20 million tonnes.
With an annual output of 138 MT, India is the largest producer of milk. It also has the largest bovine population. India is the largest importer of pulses at 19.0 MT and 3.4 MT, respectively. India, the second-largest producer of sugar, accounts for 14 per cent of the global output. It is the sixth-largest exporter of sugar, accounting for 2.76 per cent of the global exports.

Spice exports from India are expected to reach US$ 3 billion by 2016–17 due to creative marketing strategies, innovative packaging, strength in quality and strong distribution networks. The spices market in India is valued at Rs 40,000 crore (US$ 6.16 billion) annually, of which the branded segment accounts for 15 per cent. The procurement target for rice during marketing season (MS) 2015–16 has been finalised as 30 MT.

**FACTORS DRIVING GROWTH IN THE INDIAN AGRICULTURAL MARKET:**

- There has been a notable increase in the incomes of people living in urban areas, which in turn acts as the key driver for the increase in demand for agriculture products.
- The Government of India, in its Budget 2015–16, planned several steps for the sustainable development of agriculture.
- The increasing population of the country has been one of the biggest contributors for driving the demand in the agricultural industry for many decades.

The demands for agricultural products in India are always on the rise and the shortfalls in meeting the demands are also expected.

**AREAS FOR INVESTMENT OPPORTUNITIES IN THE AGRICULTURAL SECTOR:**

- There has been an overwhelming increase in the demand for agricultural products such as fertilizers and hybrid seeds.
- Millions of tons of food in India go wasted every year due to insufficient storage facilities. According to the 11th 5 year plan, there is an expansion scope of potential storage capacity by 35 million tons. The investment opportunities in the Food Storage facilities look very promising for both private and foreign investors.
• Infrastructure investments would include: Distribution, Quality control, Manufacturing, Food processing, Quality control, Storage and warehousing, Logistics, Packaging and lots more.

WHY FDI IS NECESSARY FOR INDIAN AGRICULTURAL SECTOR:

The growth target for agriculture in the 12th plan is estimated to be 4% as compared to 3.6% for the 11th Plan and in order to meet the food grain requirements of the country, the agricultural productivity and its growth needs to be sustained and further improved. The government too, is determined to rejuvenate the agriculture sector. India needs Foreign Capital that can boost Agricultural Sector in terms of productivity and capital formation. Moreover foreign capital with latest technology and research would be an added advantage for agricultural sector.

FDI INFLOW ROUTES:

India may receive Foreign Direct Investment under the two routes as given under:

1. **Automatic Route:** FDI in sectors /activities to the extent permitted under the automatic route does not require any prior approval either of the Government or the Reserve Bank of India.

2. **Government Route:** FDI in activities not covered under the automatic route requires prior approval of the Government which is considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, and Ministry of Finance.

IV. **FDI POLICY FOR AGRICULTURAL SECTOR:**

Foreign Direct Investment refers to capital inflows from abroad that are invested in or to enhance the production capacity of the economy. Foreign Investment in India is governed by the FDI policy announced by the Government of India.

The main governing bodies that define the future role of agriculture in India are the Ministry of Agriculture, the Ministry of Rural Infrastructure and the Planning Commission of India. It aims at developing agricultural sector of India. The latest developments in FDI in Indian agriculture sector are as follows FDI up to 100% is permitted under the automatic route in activities such as development of seeds, animal husbandry, Pisciculture, cultivation of vegetables and mushrooms etc under controlled conditions and services related to agro and allied sectors.
A. FDI IN AGRICULTURE:

Government of India has come up with its Foreign Direct Investment Policy in May, 2015.

<table>
<thead>
<tr>
<th>SECTOR/ACTIVITY</th>
<th>% of Equity/ FDI Cap</th>
<th>ENTRY ROUTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Floriculture, Horticulture, Apiculture and Cultivation of Vegetables &amp; Mushrooms under controlled conditions;</td>
<td>100%</td>
<td>AUTOMATIC</td>
</tr>
<tr>
<td>b) Development and Production of seeds and planting material;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Services related to agro and allied sectors</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Besides the above, FDI is not allowed in any other agricultural sector/activity

B. FDI IN TEA PLANTATION:

<table>
<thead>
<tr>
<th>SECTOR/ACTIVITY</th>
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<th>ENTRY ROUTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tea sector including tea plantations</td>
<td>100%</td>
<td>GOVERNMENT</td>
</tr>
</tbody>
</table>

Other Condition:

Approval of the State Government concerned is required in case of any future land use change.

V. FOREIGN DIRECT INVESTMENT IN AGRICULTURE SECTOR:

As per the data, recorded by Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Government of India, Foreign Direct Investment in Agriculture is studied under the following major heads:
A. FDI INFLOWS IN AGRICULTURAL SERVICES AND MACHINERY:

FDI inflows in the Indian agricultural services and machinery are allowed up to 100 percent and allowed through automatic route in India. The foreign direct investment (FDI) inflows in agricultural services and machinery sector during April 2000 - December 2015 stood at US$ 2261.33 million, as per data released by Department of Industrial Policy and Promotion (DIPP).

Sector-Wise Foreign Direct Investment Equity Inflows in India during April, 2000 - December, 2015

<table>
<thead>
<tr>
<th>Name of Sector</th>
<th>FDI Inflows (Crores)</th>
<th>FDI Inflows in (US $ million)</th>
<th>Percentage Share in Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture Services</td>
<td>9235.50</td>
<td>1838.37</td>
<td>0.66</td>
</tr>
<tr>
<td>Agriculture Machinery</td>
<td>2184.74</td>
<td>422.96</td>
<td>0.15</td>
</tr>
</tbody>
</table>

Table 1: FDI Inflows in Agriculture Services and Machinery

Source: Department of Industrial Policy & Promotion, Ministry of Commerce & Industry
The overall percentage of such foreign direct inflow in the Indian agricultural services and agriculture machinery is 0.66 and 0.15 of the total quantum of the FDI inflow during the 2000-15. FDI inflows into agricultural machinery of India have resulted in the steady rise of the Indian agriculture industry in recent years.

B. FDI INFLOWS TO FERTILIZERS INDUSTRY IN INDIA:

The government of India has allowed foreign direct investment in the fertilizers industry of the country. Foreign Direct Investment (FDI) in fertilizers in India is allowed up to 100% under the automatic route in India. The various advantages of FDI inflows into fertilizer industries are growth, quality, improved technology and expansion of fertilizer industry. It is widely believed that these steps will aid in the growth of agriculture infrastructure in the country and will benefit the sector in the long run.

Sector-Wise Foreign Direct Investment Equity Inflows in India during April, 2000 - December, 2015

<table>
<thead>
<tr>
<th>Name of Sector</th>
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<th>Percentage Share in Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fertilizer</td>
<td>2993.00</td>
<td>554.83</td>
<td>0.20</td>
</tr>
</tbody>
</table>

Table 2: FDI Inflows in Fertilizer

Source: Department of Industrial Policy & Promotion, Ministry of Commerce & Industry

C. FDI INFLOWS TO FOOD PROCESSING INDUSTRIES:

Food processing has a vital link with agriculture sector. Government of India gave an estimation of FDI inflows to reach USD 6695.26 million by December 2015 keeping in view the rising demand amongst the corporate players in the Indian retail industry.

100 per cent of FDI is permitted in almost all the food processing units with the exception of alcohol. Enactment of the Food Safety and Standards Bill, 2005 has introduced a governing body...
for the food processing sector. Most of the items in food processing sector are exempted from license agreement, except those that are kept in reserve for the small scale sectors.

Sector-Wise Foreign Direct Investment Equity Inflows in India during April, 2000 - December, 2015

<table>
<thead>
<tr>
<th>Name of Sector</th>
<th>FDI Inflows (Crores)</th>
<th>FDI Inflows in (US $ million)</th>
<th>Percentage Share in Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Processing Industries</td>
<td>39453.72</td>
<td>6695.26</td>
<td>2.41</td>
</tr>
</tbody>
</table>

Table 3: FDI Inflows in Food Processing Industries

Source: Department of Industrial Policy & Promotion, Ministry of Commerce & Industry

D. FDI INFLOWS IN SECTORS AUXILIARY TO AGRICULTURE:

FDI Inflows in sectors auxiliary to agriculture during April, 2000 - December, 2015;

<table>
<thead>
<tr>
<th>Name of Sector</th>
<th>FDI Inflows (Crores)</th>
<th>FDI Inflows in (US $ million)</th>
<th>Percentage Share in Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rubber Goods</td>
<td>11417.48</td>
<td>2031.52</td>
<td>0.73</td>
</tr>
<tr>
<td>Vegetable Oils and Vanaspati</td>
<td>3154.77</td>
<td>587.48</td>
<td>0.21</td>
</tr>
<tr>
<td>Sugar</td>
<td>1110.62</td>
<td>188.51</td>
<td>0.07</td>
</tr>
<tr>
<td>Tea and Coffee (Processing &amp; Warehousing Coffee &amp; Rubber)</td>
<td>505.49</td>
<td>109.62</td>
<td>0.04</td>
</tr>
<tr>
<td>Timber Products</td>
<td>789.11</td>
<td>140.19</td>
<td>0.05</td>
</tr>
</tbody>
</table>
Table 4: FDI Inflows in Sectors Auxiliary to Agriculture

Source: Department of Industrial Policy & Promotion, Ministry of Commerce & Industry

FDI would bring investment in post-harvest infrastructure that would increase the shelf-life of produce and minimize food wastage (now as high as 20-30%). Moreover, new investment would result in other positive externalities such as better seeds and stricter standards that would increase quality and productivity while lowering costs.

VI. FOREIGN INVESTMENTS IN AGRICULTURE SECTOR:

Several players have invested in the agricultural sector in India, mainly driven by the government’s initiatives and schemes. According to the Department of Industrial Policy and Promotion (DIPP), the Indian agricultural services and agricultural machinery sectors have cumulatively attracted foreign direct investment (FDI) equity inflow of about US$ 2261.33 million from April 2000 to December 2015.

Some major investments and developments in agriculture in the recent past are as follows:

- Mahindra & Mahindra (M&M), India’s leading tractor and utility vehicle manufacturer, announced its entry into pulses retailing under the brand ‘NuPro’. Going forward, the company plans to foray into e-retailing and sale of dairy products.

- Fertilizer cooperative IFFCO launched a joint venture with Japanese firm Mitsubishi Corp for manufacturing agrochemicals in India.

- Acumen, a not-for-profit global venture fund, has invested Rs 11 crore (US$ 1.7 million) in Sahayog Dairy, an integrated entity in the segment, based at Harda district in M.P.

- Rabo Equity Advisors, the private equity arm of Netherlands-based Rabo Group, raised US$ 100 million for the first close of its second fund – India Agri Business Fund II. The fund plans to invest US$ 15–17 million in 10–12 companies.

- Oman India Joint Investment Fund (OIJIF), a joint venture (JV) between the State Bank of India (SBI) and State General Reserve Fund (SGRF), invested Rs 95 crore (US$ 14.62 million) in GSP Crop Science, a Gujarat-based agrochemicals company.
• The world's seventh-largest agrochemicals firm, Israel-based ADAMA Agrochemicals plans to invest at least US$ 50 million in India over the next three years.

• Belgium-based Univeg has collaborated with Mahindra & Mahindra to develop a fresh fruit supply chain.

• Companies from the US, Canada, Australia, Israel, the Netherlands and other European countries have shown strong interest to transfer the best practices, linkages between scientific institutes, agriculture storage, cold-chain management, market access, and productivity enhancement such as the introduction of new technology in seed and plant biotech.

• Canada-based International Food Security Research Fund has major investments in food security research in several Indian universities. These strengthen food-processing and sustainable agricultural techniques.

GOVERNMENT INITIATIVES:

Given the importance of the agriculture sector, the Government of India, in its Budget 2015–16, planned several steps for the sustainable development of agriculture. The Department of Agriculture and Cooperation under the Ministry of Agriculture has inked MOUs/agreements with 52 countries including the US. In addition, the Department of Agriculture Research & Education (DARE) and the Department of Animal Husbandry, Dairying & Fisheries (DAHD&F) under the Ministry of Agriculture have signed MOUs/agreements with other countries, taking the number of partnerships with other countries to 63.

These agreements would provide better agricultural facilities in areas such as research and development, capacity building, germ-plasm exchange, post-harvest management, value addition/food processing, plant protection, animal husbandry, dairy and fisheries. The agreements could help enhance bilateral trade as well.

Road Ahead: The agriculture sector in India is expected to generate better momentum in the next few years due to increased investments in agricultural infrastructure such as irrigation facilities, warehousing and cold storage. Factors such as reduced transaction costs and time, improved port
gate management and better fiscal incentives would contribute to the sector’s growth. Furthermore, the growing use of genetically modified crops will likely improve the yield for Indian farmers. The 12th Five-Year Plan estimates the food grains storage capacity to expand to 35 MT. A 4 per cent growth would help restructure the agriculture sector in the coming years.

VII. OPPORTUNITIES AND CHALLENGES:

This can be studied under positive and negative outcomes of FDI in Agricultural Sector

**POSITIVE OUTCOMES OF FDI IN AGRICULTURAL SECTOR:**

- Permitting foreign investment in agricultural retailing is likely to ensure adequate flow of capital into rural economy in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers. It will bring about improvements in farmer income and agricultural growth and assist in lowering consumer price inflation.

- Due to lack of adequate infrastructure facilities and lack of proper storage facility farmers are forced to sell their products at very low price which sometimes cannot even cover their cost of production. It is assumed that now farmer could sell their all producer.

- **Increase in quality and productivity:** New investment would result in other positive externalities such as better seeds and stricter standards that would increase quality and productivity while lowering costs.

- **Remove the Middleman from the system.** Due the FDI inventiveness, the concept of the middleman, which has dominated farmers in India for decades, can be eradicated and farmers can now get the full benefit of their produce.

- Foreign companies are expected to take some constructive steps for the creation of supply chain. Entry of foreign players, storage and refrigeration infrastructure will improve significantly.

- Job opportunities in sectors such as transportation, packaging, agriculture processing and such like are expected to flourish.
A. MAJOR BENEFITS OF FDI IN AGRICULTURAL SECTOR:

Some of the benefits of FDI are:

1. **Contract Farming**: In contract farming, there is an agreement between the farmer and the buyer company wherein the farmer provides the buyer with predetermined quantity of produce at a predetermined price (mutually agreed). The advantages to the farmer are:
   
a. Provision of seeds, fertilizers etc. by the buyer company.
   
b. Risk of price lies with the buyer and not the farmer. Farmer is assured of his income and sufficient returns. India has very weak infrastructure (like transportation and warehouses for storage) and farmers in rural areas often have to make distress sale of their produce. In distress sale farmers get a very low price sometimes even below costs. Thus contract farming can improve financial status of farmers.
   
c. Farmers get access to credit; buyer companies provide them with loans.
   
d. Buyer companies often help farmers by training them, teaching them best practices and other inputs regarding scientific farming.

There have been some successful applications of contract farming in India most notably by Pepsi in Punjab for cultivation of tomatoes, and ITC in AP for cultivation of Tobacco.

2. **Food Processing**: FDI in Food processing industries (like beverages, juice, pickles, dairy, bakery etc.) also helps in improvement of financial status of farmers as it increases the farm gate prices (companies pay more to farmers than the middlemen (arhitiyas)) as well as reduce the wastage of produce. The companies have their own infrastructure like cold storage that can increase shelf life of food products.

3. **FDI in Retail**: The biggest benefit of FDI in multi-brand retail is expected to be on farmers; it will improve their income, as well as give them opportunity to diversify into other agriculture products. Currently Indian farmers are too focused on grains (wheat, rice) and cash crops
(sugarcane, cotton). FDI may prompt them to grow other items like pulses, vegetables etc. as it is expected that the advent of foreign companies in retail will boost demand for these products.

4. If FDI inflow increases in farm machinery, it will lower the price of agriculture tools, implements and machinery (like tractors) and make them more affordable. Though most farmers rent big machinery (like combine harvesters) but if the cost of machine decreases the rent may came down as well.

B. FOREIGN DIRECT INVESTMENT (FDI) IN AGRICULTURAL SECTOR ALSO COMES WITH ITS SHARE OF CHALLENGES & THREATS:

- There might be job losses in the manufacturing segment. Though the government has capped the sourcing of commodities from the domestic market at 30 per cent, the rest of the 70 per cent can be bought from the foreign markets.

- According to the non-government cult, FDI will drain out the country’s share of revenue to foreign countries which may cause negative impact on India’s overall economy.

- There is no being sure that multinational ventures would not further add to the woes of farmers by deploying for the benefits of other nations. This would enslave the farmers at the hands and mercy of giant companies who will still consider them as cheap labours, their energy to be harvested for their benefits.

- In a monsoon dependent agriculture, FDI can move out if there are two or three consecutive bad seasons and then the contract farmers could be left stranded and have to depend on MSP offered by government.

- In contract farming, farmers may lose out too. Some companies may indulge in monopolistic practices and extract any surplus from farmers. Farmers in many parts of India are illiterate and know little about market conditions. And companies may design the contract in such a manner that favors them at the cost of farmers. However this can be eliminated with proper governmental regulatory oversight.
• Seed companies like Monsanto have been accused of monopolistic practices. They first sell the seeds cheap, once they know farmers are dependent on them, they raise prices.

• There are fears that FDI in retail may also have a harmful impact of similar kind. Retail giants will first eliminate local markets through aggressive pricing, and once they know farmers are completely dependent on them, they will offer them pittance.

These fears are not unfounded. Farmers have been exploited elsewhere in the past. FDI in other sectors too does impact farmers; indirectly e.g. land acquisition say for steel or an automobile plant often on agricultural land renders them landless and results in loss of livelihood. Additionally FDI promotes employment, improves wages etc. and there is shift of landless agriculture laborers towards other sectors for wage employment. This increases the wages of agriculture workers affecting the margins of farmers. (This affect is miniscule though).

VIII. CONCLUSION:

New policy initiatives and actions are to be taken to make Indian farmers proactive whether in research, ploughing or sowing, reaping or reinvesting. Access to land and other resources also should become liberal. Quality inputs with timely supply – finance and insurance (based on climatic zoning/mapping, education and training etc) are required to bring healthy practices in farming. If a country’s agriculture is backward, the economy is also likely to remain backward. Good governance in agriculture is needed to meet the risks, uncertainties and challenges and avoid further crises. It will ensure empowerment, efficiency and equity in the agricultural sector.

The subsequent continuing development of the Indian agriculture sector through FDIs is predicted undertake a significant positive influence on the 700-million strong rural populations, moving into about 600,000 small villages of India. Rapid investments in technology development, irrigation infrastructure, increased exposure of modern agricultural practices and provision of agricultural credit and subsidies are classified as the major factors contributed to agriculture growth.

FDI in Indian agriculture sector increase employment opportunities and remains permanent in the host country with the development in the infrastructures from the host country. Therefore, there
exist the long term relationship between levels of GDP and foreign authorized shares. If the entry of FDI is permitting in agriculture retailing, it will ensure adequate flow of capital into rural economy in a manner more likely to promote the welfare coming from all parts of society, particularly farmers and consumers.

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