

Topic V

AGRICULTURE

• Importance of Agriculture for Economy

1. Impact on Employment & Poverty

- GDP share of agriculture declined to 14% but share in employment still abt. 50 %.
- Such mismatch causes rural unemployment, lower average income and poverty.
- Lower rural income leads to large scale rural-urban migration, increase in Informal sector size & urban poverty.

2. Impact on Industrial Growth

- Agriculture is key source of raw material for many industries like textile & food processing.
- Recently, demand for many industrial goods like consumer durables depend on agriculture
- Reasons – (a) increase in rural income with employment generation programmes
(b) slower growth in urban demand for these goods

3. Impact on Food Security

- Role of Agriculture in achieving food security cannot be substituted by any other sector.
- Since 1960, growth in food grain production (less than 2%) has been lower than population growth, making agricultural growth indispensable.
- Need to diversify such growth to allied sector as well.

- **Determinants of Agricultural Growth**

- Agricultural growth mainly depends on

- 1. Area Under Agriculture**

- 2. Agricultural Productivity**

- 3. Natural Factors like Monsoon**

- With economic development it is difficult to bring more area under agriculture & natural factors are unpredictable, so productivity most important.

• **Issues related to Indian Agriculture**

- 1. Agricultural Investment:** Refers to long-term capital addition in the sector in the form of machineries, irrigation facilities etc.
- Although Investment made by private sector has increased over time, these are driven by profit motive.
 - In public goods like irrigation, roads etc. **role of Public Investment** important.

- Only about 25% of Public Expenditure spent on investment, with the rest spent on subsidies.
- Real investment (physical capital formation) is another problem. E.g. despite higher investment in irrigation, the area under irrigation has increased marginally.
- It implies **Governance Problems** like those related to planning, implementation & management.

2. Agricultural Credit

- Important for inputs requirements like seeds, fertilizers etc. & for capital like irrigation facilities & adopting new technologies.
- Sufficient and timely supply of credit at lower interest rate is needed.
- Although the role of institutional credit (by Commercial banks, RRBs etc.) has increased, non-institutional sources like money lenders are still important.

- In India, most farmers take short-term credit for buying inputs and not long-term credit needed for investment.
- Banks also prefer giving short-term credit which are less risky and less costly.
- Most of rural credit goes to large farmers due to their capacity to offer collaterals.
- Although Micro Finance Institutions aim to provide credit to SHGs small farmers also, 50% of SHGs are in southern states.

3. Research & Extension: One of the most important determinant of productivity.

- Public Sector Investment on Research & Education is just about 0.55% & on Extension & Training is about 0.15 % of agricultural GDP
- Role of research is more important after 1991 as we face other changing situations for agriculture like open trade regime, environmental degradation etc.

4. Agricultural Marketing & Price Policy

- After 1991 reforms, it was expected that Indian Agriculture will benefit through higher prices as Industrial Protection decreased.
- But it has not happened due to
 - (a) Problems with government price policy
 - (b) Problems with Agricultural Marketing Policies

- During 1950s, Agricultural Produce Marketing Act (APMA) was passed leading to establishment of Agricultural Produce Marketing Committees (APMC) at state level.
- Its goal was to protect farmers from exploitation from middlemen by allowing them to sell products in regulated markets.

- But soon APMCs became anti-competitive as these had power to both create market & decide who can participate (commission agents, wholesaler etc.) & regulate them.
- Issuance of licences to participants lacked transparency.
- No transaction was allowed within the notified areas other than through markets licensed by APMC.

- Shankar Guru Committee, 2001 identified these problems & on its recommendations a Model APMC Act, 2003 was proposed.
- **Model APMC Act** features:
 - (a) Deregulation of Agricultural Markets
 - (b) Separate market for perishable goods
 - (c) PPP in developing & managing markets
 - (d) Promoting **Contract Farming**: A contract between farmers & buyers where farmer agrees to sell certain output at a price to buyer & get input & technical help from him.

5. Land Management: Refers to

(a) Maintenance of good soil quality through a viable subsidy policy on inputs & crops.

- Cheap fertilizers have led to nutrient imbalance & MSP policy has also affected sustainable agricultural development

(b) **Land Reforms** which looks into relationship between land and producers using land.

- Needed for clear property rights over land that encourages investment & productivity