

Executive summary

India is one of the fastest growing G20 economies, largely reflecting an ambitious reform agenda under implementation since 2014. Against this background, agriculture is a key sector in terms of its contribution to both employment and GDP. Sustained by improved access to inputs such as fertilisers and seeds, as well as better irrigation and credit coverage, production has been increasing on average at about 3.6% annually since 2011. The sector has also been diversifying from grains towards pulses, fruit, vegetables and livestock products, largely driven by evolving demographics, urbanisation and changing demand patterns. India has achieved a significant fall in the proportion of the population that is undernourished, from around 24% in 1990-92 to 15% in 2014-16. Moreover, it has also emerged as a major agricultural exporter of several key commodities, currently being the largest exporter of rice globally and the second largest of cotton.

Despite these notable achievements, challenges remain; among them, the prevalence of very large numbers of smallholders, low productivity, climate change, pressure on natural resources such as water, persistent food insecurity, and an under-developed food processing and retail sector.

Agricultural policies in India are designed and implemented by a complex system of institutions. States have constitutional responsibility for many aspects of agriculture, but the central government plays an important role by developing national approaches to policy and providing the necessary funds for implementation at the state level. Nevertheless, no sufficiently strong mechanism exists to bring state and central level policy-makers together to discuss problems, design solutions, and monitor performance. At the central level, while the Ministry of Agriculture and Farmers' Welfare has responsibility for agricultural policy, many other ministries and agencies have important roles. There is, therefore, significant risk of fragmentation, overlapping and unclear attribution of responsibilities.

Throughout the last decades, agricultural policies have sought to achieve food security, often interpreted in India as self-sufficiency, while ensuring remunerative prices to producers and safeguarding the interest of consumers by making supplies available at affordable prices.

The level of support to producers, as measured by the share of transfers from consumers and taxpayers in gross farm revenues, averaged -6.2% in 2014-16. It is composed of budgetary spending corresponding to 6.9% of gross farm receipts and negative market price support of -13.1% of gross farm receipts. Together they generate a negative producer support estimate (PSE) overall, which needs careful interpretation, because it is composed of both positive and negative elements.

India contrasts with most other countries studied by the OECD because of the prevalence of negative market price support and its size. In the 2000 to 2016 period, producer prices – as measured for the purposes of this report – have remained for many years and for many commodities examined below comparable reference prices in international markets.

This implies that domestic producers were implicitly taxed. This is partly policy-induced and partly related to other inefficiencies in the marketing chain. Policy-induced inefficiencies are due to minimum support prices being set below international prices for several commodities at different periods between 2000 and 2016, to domestic regulations, and to trade policy measures. Policies that govern the marketing of agricultural commodities in India include the Essential Commodities Act (ECA) and the Agricultural Produce Market Committee Acts (APMCs). Through these Acts, producer prices are affected by regulations influencing pricing, procuring, stocking, and trading commodities. Restrictions stemming from both the ECA and APMC Acts also deter private sector investment in marketing infrastructure. Differences among the states in the status of their respective APMC Acts and in how these Acts are implemented add to the uncertainties in supply chains and drive up transaction costs. Overall, the combination of market regulations and infrastructure deficiencies has had a price depressing effect.

In addition, a variety of trade policy measures applied in 2000-16 – such as export prohibitions, export quotas, export duties, or minimum export prices – have impeded the export of several key commodities and further contributed to depressing producer prices. For example, export restrictions or export bans were applied to wheat, non-basmati rice, chickpeas, sugar and milk at different times over the course of the period studied.

Virtually all of the budgetary transfers to agricultural producers in India are subsidies for variable input use, with overwhelmingly subsidised fertilisers, electricity, and irrigation water. On the other hand, public expenditures financing general services to the sector have declined over the last decades. Most of this expenditure is in development and maintenance of infrastructure (particularly hydrological infrastructure), followed by the cost of public stockholding and expenditure on the agricultural knowledge and innovation system.

A corollary to the farm price-depressing effect of the policy set is the resulting support to consumers. Policies that affected farm prices, along with food subsidies under the Targeted Public Distribution System, reduced consumption expenditure by 24.7% on average across all commodities, compared to what consumption expenditure would have been in the absence of these policies and subsidies.

The sum of all agriculture and food related spending (i.e. budgetary transfers to producers, to agriculture as a whole, and transfers to consumers from taxpayers), without accounting for the negative market price support, amounts to 1.9% of India's GDP in 2014-16. This shows the high cost to the Indian economy and contrasts with the sector's poor performance in productivity growth, highlighting the need for resources to be applied more effectively. Many policy initiatives are already underway or in the pipeline and these should be continued or reinforced. Only by shifting scarce budgetary resources to investments that will increase resilience and sustainability, while allowing better functioning markets to determine farmers' remuneration to a much greater degree, can the potential of the sector to contribute to growth and jobs be fully realised.

Key policy recommendations

Rebalance the policy package to foster sustainable productivity growth

- strengthen the regulatory environment governing land issues
- reform market regulations and strengthen market functioning across states
 - build on and reinforce initiatives already underway (E-NAM, Model Acts)
 - support farmers to integrate in competitive markets and allow the private sector to play a greater role
- encourage efficient and sustainable use of variable inputs such as fertilisers
- enlist all concerned actors in developing collective-action groundwater and watershed management schemes and correcting perverse incentives to over-use of scarce water, including a review of electricity pricing
- strengthen the overall access to credit and particularly encourage long-term loans
- re-focus investments on fostering the agriculture enabling environment, such as infrastructure and education in rural areas
- harness innovation for sustainable productivity growth and climate change adaptation and mitigation
 - increase research intensity and strengthen priority setting processes
 - reform and refocus the extension system on today's challenges
 - invest in digital connectivity in rural areas

Strengthen the role of agriculture in enhancing food and nutrition security

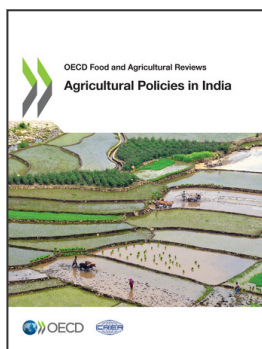
- scale back the public distribution system as incomes and the share of the middle class in the population rises
- move gradually to targeted lump sum transfers (Direct Benefit Transfers) or food stamp type mechanisms
- allow the private sector to play a role in managing remaining stocking operations

Improve agricultural institutions and governance systems

- clarify roles and responsibilities at central level by bringing key policy areas under a single umbrella
- strengthen co-ordination among central ministries and agencies and between the centre and the states
- prioritise institutional reforms to allow development of a single market for agricultural products

Making trade work for Indian agriculture

- streamline and clarify trade policy roles and responsibilities across the different ministries and agencies to iron out inconsistencies and simplify procedures
- reduce tariffs and relax the other restrictions on imports which are applied from time to time, with a view to creating a more open and predictable import regime
- move away from the use of export restrictions in order to create a stable and predictable market environment
- address a range of supply-side constraints in the application of sanitary and phytosanitary measures



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