AGRICULTURAL INVESTMENT

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"Free Enterprise was born with man and shall survive as long as man survives."

— A. D. Shroff
1899-1965
Founder-President
Forum of Free Enterprise

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By

Dr. G.V.K. Rao **

Introduction

The importance of agricultural sector in the development of the national economy hardly needs any special mention, nor does the impressive gains achieved in this sector over the last two decades and a half. Though in terms of its contribution to Gross Domestic Product (GDP), the share of agriculture has declined in the recent period to about 28 per cent or so, this sector still provides livelihood to nearly 70 per cent of the labour force and meets a significant part of raw material needs of the industry, besides providing the much needed wage goods. Agriculture also makes a sizeable contribution to increasing the Country's exports, which role would perhaps become more prominent against the background of recent

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developments in reorientation of the economy towards a global integration.

Agricultural Growth

Foodgrains continue to form a major proportion of the agricultural output. In the period prior to the advent of high yielding technology, the foodgrains production has increased from 50.82 million tons in 1950-51 to 74.23 million tonnes in 1996-67, which meant a compound growth rate of 2.4 per cent per annum, barely keeping in step with growth of population . In the post "Green Revolution" period and upto the beginning of the decade of eighties, the foodgrains production achieved a higher growth rate at 4 per cent per annum, the production having increased from 74.23 million tonnes in 1966-67 to 129.6 million tonnes in 1980-81. The tempo of development has however, slackened in the subsequent period. During the first seven years of the decade of eighties, the annual compound growth rate of foodgrains production has been as low as 1.7 per cent. But for the phenomenal increase of 17.6 per cent registered in 1983-84 and 21.6 per cent in 1988-89 the overall growth rate in foodgrains production during the eighties could not have been maintained at a respectable level of 3.1 per cent. There can hardly be any room for complacency in the effort to increase food output where there is no significant decline in population growth and recourse to imports is not a feasible proposition. The slackening rate of growth of agricultural output in the eighties has been attributed by certain observers to a relative decline in investments in the agriculture sector in recent years.

Strategy for Agricultural Growth

In the post "Green Revolution" period, a major proportion of growth in agricultural output has come from increase in productivity through the use of modern technology. In the future, increase in agricultural production has to come mainly from intensive agriculture and upgradation of land capability, which would be more technology based than at present. Accelerated growth of agricultural sector in the future would require concentrated efforts in the area of development and extension of improved technology for rain-fed farming based on watershed approach; ecological preservation and renewal of degraded land with the help of afforestation, soil conservation, water harvesting and drainage; removal of imbalances in cropping pattern with emphasis on horticulture and floriculture cultivation; intensification of efforts in production, processing and management of oilseeds and pulses; application of new concepts of science and technology such as bio-technology; post harvest technology including preservation of perishable commodities for export market; and promoting agri-business. More specifically, following are some of the areas which could be considered for long-term investment.

(i) Improving water management in selected irrigation projects. The existing World Bank Projects could be expanded.

(ii) Several processes have been developed by bio-technology like tissue culture etc., which can rapidly increase production. Dr. S. Ramachandran has identified about ten technologies which have been scientifically proved, and could be made financially possible. Examples are tissue culture for cardamom, floriculture and aquaculture - for prawns.

(iii) Poultry development calls for considerable investment. Recently, a development workshop was held in Delhi, and the Department of Animal Husbandry and Planning Commission have agreed to set up a National Poultry Development Board. This should be expedited. A project for the various measures to be taken to increase production, as well as export, can be prepared. This can be on the lines of the model adopted for Operation Flood I and II, by the NDDB.

(iv) Efficacy of drip irrigation and sprinkler irrigation techniques had been established and proved in the country. The Government of India is also willing to give 50 per cent subsidy for drip irrigation and I believe it has earmarked a sum of Rs. 15 crores. Projects could be prepared for taking up drip irrigation in about 1,00,000 hectares and bring 5,00,000 hectares under sprinkler irrigation in the country for producing high value, and low volume products like fruits, flowers and vegetables. Some of these may be earmarked for export also.

(v) Food processing is another area which calls for attention. The Ministry has identified certain activities which could be promoted, and could be fully involved.

(vi) Of the 80 million hectares under forests in the country, 40 million hectares are without tree cover. It is possible to afforest at least 1.5 million hectares every year, which can produce timber, fuel and raw material for industries like paper etc.

(vii) Sericulture is an area where projects have been approved by Banks. The production could go up to 20,000 tonnes by the turn of the century. Each hectare of mulberry produces 13 jobs.

(viii) Agricultural exports can be stepped up substantially. APEDA has done some work. Further expansion could be stimulated.

(ix) Horticultural Development - Cultivation of fruits, flowers and vegetables, construction of markets, cold storage on the model constructed in Delhi, by NDDB, to be replicated in cities with a population of more than one million.

The implementation of the above strategies would call for substantial increase in investment in agriculture in both public and private sectors, more so in the latter case. Increased levels of private investment in agriculture can be sustained only with larger availability of institutional credit as will be evident from the following discussion.

Agricultural Investment - current Scenario

The share of agricultural sector in the total investment in the economy has been declining in successive five year plans. It came down from 26.1 per cent in the First Plan to 15.1 per cent in the Sixth Plan and further to 11.9 per cent in the Seventh Plan.

This has inevitably led to a slow down in the process of capital formation in agricultural sector. The gross capital formation in agriculture (at 1980-81 prices) had increased at an annual compound rate of 6.3 per cent per annum in the decade of sixties, and at 5.9 per cent per annum in the decade of seventies. In the decade of eighties, however, the real gross capital formation not only did not increase but experienced an absolute decline at the rate of 2 per cent per annum from Rs. 5215 crores in 1979-80 to Rs. 4,477 crores in 1987-88. The decline in real gross capital formation has been shared by both public and private sectors, the rate of decline being 2.4 per cent per annum in the case of the latter. The rate of growth of gross capital formation in nominal terms (at current prices) also showed similar trends.

Resource Mobilisation

The above analysis indicates the likely dimensions of agricultural investment requirements in the remaining years of the decade of nineties. But the important issue is how to mobilise the resources to support this order of investment in agriculture. Almost whole of investment outlay of centre and the states in the agricultural sector would have to be met from budgetary resources.

As far as agricultural investment in the private sector is concerned, the major share as in the recent past, is expected to come from financial institutions. Analysis of past data shows that the ration of institutional term credit to private gross capital formation in agriculture increased from about 49 per cent in 1980-81 to about 67 per cent in 1987-88. Under assumption of 65 per cent of the investment in agriculture would be about Rs. 10,700 crores in 1994-95 and Rs. 11,000 crores in 1996-97 at 1991-92 prices.

After determining the amount of credit for agricultural sector that may have to be supplied by credit institutions, in future, it is necessary to assess availability of resources with credit institutions for financing agriculture.

Supply of agricultural credit

Based on projections of deposits and share of agricultural sector in total credit, credit availability for investment in agricultural sector in the 8th five year plan could be estimated at Rs. 39,200 crores at 1991-92 prices.

Thus, the institutional credit gap in respect of investments in agricultural sector during the eighth five year plan at 1991-92 prices would be of the order or Rs. 14,400 crores.

If the institutional credit support for private sector agricultural investment has to increase as to match with the projected demand from this sector, it would require certain policy changes and would call for a significant deviation from the past trends.

Suggestion for Mobilising Additional Resources

(i) As of March 1992, credit deposit ratio of commercial banks (including RRBs) was 61 per cent. Steps are being taken to increase the credit deposit ratio of the bank by reducing SLR and CRR requirements as proposed in the Narasimham Committee Report on financial reforms. If this ratio increases to 70 per cent and if 18 per cent of the credit is made available to agricultural sector during the eighth five year plan, it would be Rs. 5,500 crores at 1991-92 prices. Thus, the total term credit available from financial institutions would be of the order of Rs. 44,700 crores.

(ii) However if the entire term credit requirement of agricultural sector of the order of about Rs. 53,600 crores is to be met during the Eighth five year plan, it might be necessary to step up the allocation of credit to agricultural sector from 18 per cent to atleast 21 per cent of the total bank credit. It may be pertinent to add here that it is not so much the right interest rates as inadequate or untimely supply of credit that affects the performance of this sector. The objective should, therefore, be to make available adequate volumes of credit at competitive rates of interest.

(iii) The resources with co-operative sector should be increased by mobilising more deposits from members and non-members. This may only be possible when co-operatives function like business institutions with less of official interference.

(iv) A system of mopping up widely dispersed agricultural surpluses may have to be developed and the same should be made available to the investors on the scales required. In addition to collection of deposits the sale of bonds, mutual funds and other financial scrips and instruments should be promoted in rural areas to mobilise saving for the purpose of agricultural investments. The banking system with its widely dispersed network of branches has the potential to play this role.

(v) The rural deposits of commercial banks (including RRBs) as of March 1992 were Rs. 35,000 crores. It is estimated that this would of the order of Rs. 75,000 crores by the end of Eighth Five Year Plan. The incremental deposits of Rs. 40,000 crores (Rs. 31,500 crores at 1991-92 prices) collected from rural could be utilised for the purpose of investment in agricultural sector. For this, it might be necessary to exempt the incremental rural deposits, either fully or partly, from SLR and CRR requirements. This would also help in boosting deposit mobilisation in rural areas.

Related Issues

In view of the crucial role the institutional credit plays in promoting private investments in agriculture, it is important to strengthen the capacity of the credit institutions in meeting the increasing needs. The data available indicate that the total overdues of the co-operatives and commercial banks, in 1989-90 were of the order of Rs. 8,026 crores, (55 per cent of total demand). If the recovery performance is improved it can contribute to efficient recycling of the lendable resources and thus augment availability of credit for meeting investment needs in future.

A related aspect that requires serious attention is improving the effectiveness of investments. Evaluations done of several credit supported projects in sectors like minor irrigation have brought to light deficiencies, such as, reduction in command areas due to non-adherence to technical standards, under-utilisation of potential inadequate maintenance leading to frequent break-down, etc. resulting in generation of reduced benefits and poor returns on investments thereby increasing the pressure on the scarce investible resources. All efforts have to be made to bring an improvement in the situation through systematic project formulation, effective monitoring and evaluation and efficient project operations and management, besides strengthening of the activity - specific infrastructure.

Another area of concern is the increasing unit costs of investments over the years due to technical and economic factors. For example, in the hard rock areas cost of construction and minor irrigation structure like dug wells, bore wells have increased sizeably over the years due partly to increase in input prices and partly for the reason that the newer investments are being made in relatively more difficult terrains where the costs of exploitation of potential are higher than in the case of past investments. The higher cost not only increases the requirements of credit but also affect the availability of investments. It is therefore imperative to develop suitable cost-effective alternatives, which aspect needs the attention of the scientific community.

Development of appropriate institutional and organisational mechanisms and policies, including sharing of benefits, aimed at ensuring community participation in the development effort using both public and private investments to promote agricultural developments of compact areas, as in the case of watershed approach to development of rainfed farming, is another aspect that merits serious attention. Such an approach can lead to maximising the returns to investments in agriculture.

The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

- **Eugene Black**

562

FORUM OF FREE ENTERPRISE

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