FDI IN AGRICULTURAL SECTOR IN INDIA: STATUS AND CHALLENGES

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ABSTRACT

Agriculture has a greater role to play in the economic development of a country. Around 2/3rd of the world population is dependent on agriculture for its livelihood. As per 2011 Census, In India, 69% of the total population lives in villages and more than 49% of the total working population are dependent on agriculture. Apart from contributing 17% to national income, it provides largest employment opportunity for larger segment of the population. In India more than 49% of the population, still depends on agriculture. Indian Agriculture is regarded as the back bone of Indian economy. Agriculture supplies food grains to people. To raise the standard of living of the people and to enable them to use the benefits of science and technology, miraculous advances in agriculture, industry, transport, communication, education, health services and other fields, it is almost essential that, capital formation should take place at a higher rate than before, so that the big development projects may be financed properly. When domestic capital available is not sufficient, it must be compensated through other means and FDI is an important source to supplement the capital scarcity faced in the country. In view of this, significant improvements are required to boost agricultural performance and growth in order to increase output through technological innovations and efficiency.FDI plays a very significant role in increasing growth in the agricultural sector by offsetting the investment and technological gaps, mainly as a result of limited income and sources of credit. This paper analyses the impact of such FDI on Agricultural sector.

KEY WORDS: FDI, Agriculture, Seed production, Consumer market, Aggregate demand, GDP.

India is primarily an agricultural nation. Agriculture and related activities support more than half of the Indian population. The sector accounts for 14 percent of India's GDP in terms of gross domestic product (GDP). Agriculture also serves as a source of raw materials for other industries. India is the world's largest producer of milk, jute, organic fibers, and pulses, as well as the world's second largest producer of sugarcane, wheat, rice, vegetables, fruits, groundnuts, and cotton. In addition, the country is the leading producer of certain plantation crops and spices. Foreign direct investment has been one of the most significant reforms in the Indian agriculture sector over the years (FDI). Because of the positive numbers from the Indian agricultural story, the sector has been a priority for the Indian government since independence. This is also consistent with the current government's memorandum on economic development and poverty reduction. According to studies, foreign direct investments have a positive impact on a country's economic development. While the agricultural sector has always been supported, there was a significant policy shift following the liberalisation of the Indian economy in 1991. The agriculture sector was only allowed 45 percent of foreign capital during the first half of the liberalisation policy. This was followed by policy changes by the government in the latter half of 2000. Later, the policy was changed to allow 100 percent foreign direct investment through the automatic route.

Foreign direct investment serves as a means of integrating developing countries into the global market by increasing the amount of capital available for investment, which is necessary for economic growth in order to reduce poverty and raise living standards. All of these objectives necessitate significant financial investment. Foreign direct investment (FDI) is capital provided by foreign investors, either directly or indirectly, to enterprises in another economy with the expectation of profiting from capital participation in the management of the enterprise in which they invest. In proportion to their equity holdings, foreign investors acquire ownership assets in host country firms. Foreign direct investment is defined as the process by which residents of one country (the home country) acquire ownership of an asset in another country (host country) and such movement of capital involves ownership, control as well as management of the asset in the host country. According to International Monetary Fund (IMF), foreign direct investment is defined as "An investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor". The investor's purpose is to have an effective voice in the management of the enterprise (IMF, 1977). FDI has three components, namely: Equity Capital, Reinvested earnings, and other direct capital in the form of intra company loans between direct investors (Parent enterprises) and affiliate enterprises. Based on the nature of foreign investments, FDI may be categorized as horizontal, vertical, or conglomerate. Economic prosperity and a relative abundance of capital are required preconditions for any sector's growth and development, including agriculture. The effects of FDI in the host economy are commonly thought to be increased employment, increased productivity, increased exports, and accelerated growth of technological transfer It makes utilisation easier and the use of local raw materials, introduces modern management and marketing techniques, and facilitates access to new technologies, foreign inflows can also be used to finance current account deficits as well.

Role of FDI

Foreign direct investment (FDI) provides the most favorable way to boost a company or a sector. The agricultural industry is among the most crucial segments when it comes to foreign investments since India is predominantly an agrarian economy.

To keep the Indian agricultural system up-to-date with the rest of the world, foreign capital inflow is essential because of the following reasons:

To take advantage of modern scientific and technological advancements – As the world progresses at breakneck speed, our farmers and the farming capacity of the country need to match up to the world. FDI helps in benefiting from the latest scientific research and farming technologies.

To enhance the employment in the segment – As more people are employed in the sector, the agricultural prowess will grow and lead to countries worldwide looking towards the nation for farm products.

To increase exports – The infusion of foreign capital results in the increased productivity of the sector and establishes the country as a leading exporter. India's total agricultural and related commodities exports are valued at around $40 billion for FY20.

To provide access to new technologies – With the fast-moving technological age, farmers must be provided with contemporary technologies to help grow production.

OBJECTIVES OF THE STUDY

1. To study the impact of FDI in agriculture sector in opportunities and challenges.
2. To study the benefits of FDI

RESEARCH METHODOLOGY: This research paper is based on information collected from various secondary sources, articles website, journals, data available online and various books.

FDI is one of the most important means of arranging finance for the economy of any country. Government of India is relentlessly working towards making agriculture a promising investment sector for global players. The FDI inflows to Agriculture services are allowed up to 100% and allowed through the automatic route covering horticulture, floriculture, development of seeds, animal husbandry, pisciculture, aqua culture, cultivation of vegetables, mushroom and services related to agro and allied sectors. Agriculture is the main stay of the Indian economy as it form the backbone of rural India which inhabitants more than 70% of total Indian population. Only in tea sector 100% FDI is allowed with prior permission. FDI up to 100% is permitted, under the automatic route, subject to certain conditions mentioned in Consolidated FDI Policy, in the following agricultural activities:

1.Agriculture & Animal Husbandry (a) Floriculture, Horticulture, and 100% automatic cultivation of vegetables & mushrooms under controlled conditions; (b) Development and production of Seeds and planting material; (c) Animal Husbandry (including breeding of dogs), Pisciculture, Aquaculture under controlled conditions; and (d) Services related to agro and allied sectors. 2. Tea Plantation.

India is traditionally an agro based and agro dependent economy but average per hectare yield is lower than the global yield. This is due to lack of finance with the farmers. Banks and financial institutions do not play an impactful role in financing the agricultural sector and hence the sector is severely suffering from lack of finance. Even the foreign investors do not find the agricultural sector of India an attractive one and the share of agriculture in the total FDI in India is negligible. The recent data shows that agriculture accounted for only about 0.8 per cent of the total FDI inflows into India. Though the foreign direct investment in agriculture was permitted but the size of the investments were small. This is due to the primitive structure of the sector and lack of a technological base. Out of 129 million dollars of total inflow in 1991 only 6% was invested in the agricultural sector. Eventually with the development of the Indian agricultural market and the improvising technology usage in the agricultural sector the inflow of capital has increased to USD 40,885 million. With the progress in technology the agricultural service sector attracted USD 76 billion of investment which is 0.93% of the total inflow of foreign direct investment. And the agriculture sector contributed 0.14% to the GDP as a whole. Moreover, the food processing industry had USD 86 billion investment which is 1.05% of the total foreign capital inflow. Similarly 100% foreign direct investment was allowed through the automatic route in various sectors. These include horticulture, floriculture, development of seeds, animal husbandry, pisciculture, aqua culture, cultivation of vegetables, mushroom and services related to agro and allied sectors. In agriculture machinery, total inflows during the period of 2001-2015 was USD 418.65 million. Consequently foreign investment in horticulture and floriculture was USD 534 million .

Along with the food processing sector, horticulture, floriculture and animal husbandry had an increase in foreign direct investment after the liberalisation as the demand for these goods increased in the foreign market. Increasing demand of agricultural services and chemicals for cultivation has induced the foreign investors to invest in above mentioned industries. However, the increasing demand of the cash crops like tea, coffee, jute in the foreign market has initiated the
government to liberalise the policies referring to these industries. After the reformation in 1991, agriculture sector was opened for foreign investment and was also followed by better technology, better seeds and thus rapid growth. However, the growth was confined to certain areas which led to increase in equality in the country. The interest of the investors in the allied sectors of the agriculture aided the export of goods which perused a greater demand for them. However the production of food crop cultivation declined for those products which have comparatively less demand in the international market. However, the overall growth in the agricultural sector has been immense compared to the period before liberalisation. Now India stands as one of the leading exporters of the agricultural goods in the world.

Year-wise Foreign Direct Investment in India

S. No.	Financial Year	Total FDI Inflow (in US$ billion)
1.	2014 -15	45.14
2.	2015 -16	55.56
3.	2016 -17	60,22
4.	2017 -18	60.97
5.	2018 -19	62.00
6.	2019 -20	74.39

In these years, the government has eased FDI rules across 21 sectors to accelerate economic growth and boost jobs."The country has now become the topmost attractive destination for foreign investment," the ministry said in a statement.FDI inflows were at $55.6 billion for the year ending March 2016, which was a record. In 2016-17, the FDI inflows were even higher at $60.08 billion. Since 2014, the government opened up "conservative" sectors like rail infrastructure and defence. FDI reforms were also carried out in financial sector, medical devices and construction sectors.FDI rules were radically overhauled across sectors such as broadcasting, retail trading and air transport. The government amended legislation to hike the foreign investment cap to 49% in insurance and pension from the earlier
26%.

Sector-wise FDI Inflow in India (US $ million)

	2015 -16	2016-17	2017-18	2018 -19	2019 -20
Manufacturing	8,439	11,972	7,066	7,919	8,153
Communication Services	2,638	5,876	8,809	5,365	6,838
Retail & Wholesale Trade	3,998	2,771	4,478	4,311	4,914

Financial Services	3,547	3,732	4,070	6,372	4,326
Computer Services	4,319	1,937	3,173	3,453	4,104
Business services	3,031	2,684	3,005	2,597	3,684
Restaurants and Hotels	889	430	452	749	2,546
Transport	1,363	891	1,267	1,019	2,333
Construction	4,141	1,564	1,281	2,009	1,937
Electricity ,energy Generation, Distribution & Transmission	1,364	1,722	1,870	2,427	1,906
Real Estate Activities	112	105	405	213	564
Education, Research & Development	394	205	347	736	528
Miscellaneous Services	1,022	1,816	835	1,226	443
Mining	596	141	82	247	217
Trading	0	0	0	0	0
Others	215	470	226	102	137

The above table describes the sector-wise FDI inflow in India, in which foreign investors are significantly interested are including service sector, computer software & hardware, telecommunication, trading, automobile industry, construction, chemicals, drugs & pharmaceuticals and metallurgical industries. During the period of 2019-20 manufacturing and communications sector, Retail and Wholesale trading and Financial services are the highest acquiring sector of FDI followed by the Computer, Business, Restaurants and Hotels & Transport sector.

FDI in Agriculture Sector

The FDI Inflows to Agriculture Services are allowed up to 100% and allowed through the automatic route covering horticulture, floriculture, development of seeds, animal husbandry, pisciculture, aqua culture, cultivation of vegetables, mushroom and services related to agro and allied sectors. FDI in agriculture sector in India has always been a primary focus of every government. The agriculture sector accounts for nearly 19 percent of India's GDP. India possesses the second-largest amount of agricultural land in the world (157.35 million hectares). It is also one of the 15 leading exporters globally. In the Indian agricultural sector is unquestionably a necessity because any increments in investment in this sector support the agricultural activity. The purpose of FDI investors will be to profit from the gains in the Indian market. Therefore, in such cases FDI inflows do not have to be accompanied by any significant increase in exports, whether such investment leads to an increase in domestic capacity or not. As a result of various economic reforms and various government efforts, India received a total FDI of US $ 21111.64 billion from 2004 to 2016 .The FDI inflows in agricultural sector are 95973.15 billion from 2000 to 2017. In agricultural sector food processing industry attracts highest FDI 60349.12 but agricultural machinery attracts only 3118.45 Rs crores .Gross Value Added by Agriculture, Forestry and Fishing estimated at $276.37 bn in FY20. The share of agriculture and allied sectors in Gross Value added (GVA) of India at current prices stood 17.8 % in FY20. Agricultural commodity exports increased by 23.24 percent from March to June 2020, with a total of INR. 25,552.7 crore compared to INR. 20,734.8 crore in the same period last year. Agriculture also accounts for 16.5 percent of India's GDP and employs 43 percent of the country's workers.

Top ten Sectors of FDI Inflow

S.No	Sector	% age of Total Inflows
1	**Services Sector** (Fin., Banking, Insurance, Non-Fin/Business, Outsourcing,	17.66

	R&D, Courier, Tech. Testing and Analysis, Other)	
2	**Computer Software & Hardware**	9.54
3	**Telecommunications**	8.13
4	**Trading**	5.81
5	**Construction Development:** Townships, housing, built-up infrastructure and construction development projects	5.55
6	**Automobile Industry**	5.23
7	**Chemicals (Other Than Fertilizers)**	3.82
8	**Drugs & Pharmaceuticals**	3.59
9	**Construction (Infrastructure) Activities**	3.54
10	**Power**	3.21

BENEFITS OF FDI IN AGRICULTURE SECTOR

1. The concept of contract farming would come of age in India. As a concept, contract farming ensures execution of concepts like Agro Credit, Insurance, development in agriculture.
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 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. 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.

4. Policy Support: Schemes like Paramparagat Kvishikas Yojana helps in creating natural bunches and make accessible substance free contributions to ranchers.
5.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. Allowing foreign investment in agriculture can ensure sufficient income for the local economy in a way that will enhance the well-being of all sectors of society, especially farmers and consumers. It will improve farmers' income and agricultural growth and help lower consumer prices.

6. Competitive Advantage: High extents of agrarian land, various agro-climatic conditions support development of various harvests.
7. Small farmers and agricultural workers would be additional enthused to team up with cooperatives which would allow computerization of land and multiple cropping which was not likely for practical complications.
8. 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, 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.

9.Remove the Middleman from the system: Due to 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.

10.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.

CHALLENGES

The following challenges face by FDI in India are :

Resource challenge: India is known to have huge amounts of resources. There is manpower and significant availability of fixed and working capital. At the same time, there are some underexploited or unexploited resources. The resources are well available in the rural as well as the urban areas. The focus is to increase infrastructure 10 years down the line, for which the requirement will be an amount of about US$ 150 billion. This is the first step to overcome challenges facing larger FDI.

Equity challenge: India is definitely developing in a much faster pace now than before but in spite of that it can be identified that developments have taken place unevenly. This means that while the more urban areas have been tapped, the poorer sections are inadequately exploited. To get the complete picture of growth, it is essential to make sure that the rural section has more or less the same amount of development as the urbanized ones. Thus, fostering social equality and at the same time, a balanced economic growth.

Political Challenge: The support of the political structure has to be there towards the investing countries abroad. This can be worked out when foreign investors put forward their persuasion for increasing FDI capital in various sectors like banking, and insurance. So, there has to be a common ground between the Parliament and the foreign countries investing in India. This would increase the reforms in the FDI area of the country.

Federal Challenge: Very important among the major challenges facing larger FDI, is the need to speed up the implementation of policies, rules, and regulations. The vital part is to keep the implementation of policies in all the states of India at par. Thus, asking for equal speed in policy implementation among the states in India is important. India must also focus on areas of poverty reduction, trade liberalization, and banking and insurance liberalization. Challenges facing larger FDI are not just restricted to the ones mentioned above, because trade relations with foreign investors will always bring in new challenges in investments.

Conclusion :

Foreign Direct Investment (FDI) Policy in Agriculture aims at attracting investment in technology, machinery, equipments, seeds/ planting material, warehousing and cold storages and other infrastructure logistics. It complements public and private investments necessary to bring knowledge, technologies and services to farmers.FDI impact on farmers 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 the current scenario of inefficient supply chain, lack of proper storage facilities and presence of multi-level intermediaries between farmers and direct consumers. The Department of Agriculture must also set strict funding policies and their implementation. We also need to build better local agricultural infrastructure and market opportunities to attract foreign investors to the sector. Union govt. should impose policies on this in relation to the federal state. which should be free of the beaurocratical process; laws & customs are outdated, fraudulent and transparent then this will lead to good economic productivity. Appropriate attention should be given to all related activities if we want to grow fast, sustainable and inclusive agriculture. The government should consider attracting FDI to improve the health of the various sectors of the Indian economy and agriculture in particular. Government should try to develop India as a viable investment destination to solve all of India's economic and agricultural problems in particular. FDI is important for India because it is an important economic growth driver and has the potential to transfer knowledge and technologies, create jobs and eradicate poverty through economic development of different regions. However, there are many hurdles in the way of FDI inflows. It is necessary that the government should promote sustainable agricultural development through FDI. If this is done on priority basis then the FDI definitely will play a dominant role in the economic development of our country.

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