

Making Things Happen

Whither Indian Agriculture!

Out of 1.5 million rural households, farmer households in India are estimated as 0.9 million. This huge number shows the importance of agriculture in our economy: not only for ensuring food security but also as the driver of the economy. Since independence, Indian agriculture has undergone several phases. In the initial phase of 1950s and 1960s, agriculture played a crucial role in India's industrialisation: by supplying cheap food to the market. The crisis in mid-60s brought the significance of food self-sufficiency to the centre-stage of the political economy of India. Green revolution was ushered in, whose objective was to make the country independent of imported food.

While the nature and contribution of agriculture in the Indian economy was changing, the fundamental characteristics of the economy as a whole remained unchanged till early 1990s when major reforms started. However, the sector, which was to get maximum attention (for the poor to benefit more from reforms) was mostly left unattended. Since early 1990s, no major attempts have been made to reform the Indian agriculture.

This can be understood by looking at the contrasting data on public expenditure (capital formation) in agriculture and terms of trade of agricultural commodities (with respect to non-agricultural commodities). While public expenditure has declined steadily from 4.62 percent (as percentage of total value of agricultural production) in 1980-81 to 1.48 percent in 2000-01, terms of trade increased from 88.7 (with 1990-91 as base, i.e. 100) in 1981-82 to 102.8 in 2000-01. This increase in terms of trade was due to continuous hike in minimum support price of cereals. Even in this case (terms of trade), there is a declining trend since 1998-99.

The reason is that economic reforms in India are mainly focused on price factors without much attention on infrastructure and institutional issues (such as, credit facilities, commodity boards), which are crucial for the growth of agriculture. Between 1990-91 and 2001-02, average growth rate of agriculture was 2.95 percent. During this period, a major development took place, i.e. the formation of the World Trade Organisation (WTO) in 1995, and thus increasing exposure of Indian agriculture to the international market. If we break this period into pre- and post-WTO, the rate of growth of Indian agriculture during 1990-91 and 1995-

What is wrong with the state of Indian agriculture? While agriculture is increasingly becoming more input-intensive (because of changing cropping pattern and other factors), there is a decline in the quality of institutions, such as credit facilities, agricultural extension services, etc. Almost 50 percent of farmer-households are indebted. A majority of them belong to scheduled castes, scheduled tribes and other backward classes. Most of them are tenants, i.e. they do not own land. Two most important reasons for borrowing were to meet current farm expenses, i.e. inputs for cultivation, and capital expenditure in farms. The biggest source of funds was moneylenders. This is not surprising, as, except in West Bengal, tenant farmers do not get credit facilities from institutional sources.

In the second half of 1990s, the growth rates of all major agricultural commodities (including horticulture and animal husbandry), except paddy and onion, showed a decline. Several factors were attributed to this, including the removal of quantitative restrictions on agricultural imports in the post-WTO era. However, there is not much quantitative analysis to establish the role of these factors in decelerating the growth of Indian agriculture.

One of them is that as Indian agriculture is getting more exposed to international trade (India is a net agricultural exporter), deterioration in terms of trade has set in since late 1990s. This was mainly due to the impact of declining international prices of most of the agricultural commodities on domestic prices.

Given this situation, what policy reforms are required? Arresting the deterioration of terms of trade is one such intervention, but not the panacea. Developing and extending infrastructure facilities with effective accessibility and at affordable prices, and improving institutions for pro-poor growth (including curbing anti-competitive practices) in agriculture should be two crucial elements of policy reforms that Indian agriculture requires in order to withstand increasing competition in this and future era.

Production Performance of Selected Commodities (As % Growth Rates)

Commodity	Pre-WTO (1990-91 to 1995-96)	Post-WTO (1996-97 to 2001-02)
Foodgrain	1.51	1.17
Cereals	1.81	1.71
Pulses	-0.66	-2.56
Wheat	3.27	1.12
Paddy	1.53	2.25
Oilseeds	3.91	-3.94
Sugarcane	2.92	1.74
Cotton	5.53	-6.06
Onion	2.96	3.76
Milk	4.34	4.14
Egg	5.36	4.10
Fish	5.16	2.25

Source: Ramesh Chand, "Agricultural Growth During the Reforms and Liberalisation: Issues and Concerns," Policy Brief No. 20, 2004, National Centre for Agricultural Economics and Policy Research, New Delhi.

96 was 3.16 percent and between 1996-97 and 2001-02 it was 1.75 percent. If this trend continues, it will be impossible to achieve four percent growth rate in agriculture as stated in the Tenth Five Year Plan (2002-07) and the National Agriculture Policy.

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Saga of Mustards

The Solvent Exporters' Association of India (SEAI) has opposed the move by the National Agricultural Marketing Federation (NAFED) to issue a global tender to export mustard procured from farmers during the current season. It has urged the Government of India to auction this seed in domestic open markets, to buy and crush the seed and make vegetable oil out of it.

"NAFED has been procuring mustard seeds at a minimum support price of Rs 17,000 (US\$378) per tonne and has resulted in an accumulation of nearly two million tonne oilseeds. But around 90 percent of the oil extractors are closed owing to the unavailability of oilseeds," said D P Khandelia, President of SEAI. In such a crisis, NAFED should not sell oilseeds in the international market where the price is around Rs 11,500 (US\$ 256) at current exchange rate, he added. (BS, 26.05.05)

Facing the Chilli Heat

Growing acreage of chilli in neighbouring states, declining exports and fluctuating international prices has made the going difficult for Andhra Pradesh's chilli farmers. Prices have dropped to as low as Rs 1,300 (US\$29) per quintal from Rs 3,400 (US\$76) per quintal in 2003-04.

There was a demand to set up a separate board for chilli. But, how far the proposed measure will help the farmers is another question. According to D Prakasham, Additional Director of Marketing, Government of Andhra Pradesh: "We can infer the ineffectiveness of a board from the experience of the Tobacco Board, which has been neither effective in regulating the acreage of crop nor has it ensured a stable pricing regime." (BS, 22.05.05 & HT, 14.05.05)

Horticulture Mission Launched

The Cabinet Committee on Economic Affairs of the Government of

India has cleared the initiation of National Horticulture Mission. During the (current) 10th Plan, it will have an outlay of Rs 2,300 crore (Rs 23bn or US\$0.5bn) to root out inefficiencies in production, processing and marketing of fruits and vegetables. Horticulture includes fruits, vegetables, flowers, nuts and spices. Currently, India grows about 150 million tonnes of such produce.

India is the second largest producer of fruits in the world. The same is true for vegetables. Considering the gap between high production and relatively low exports with domestic consumption showing no distinct offtake, the result is enormous wastage. According to a report by the Department of Agricultural Research and Education, Government of India: "The nation has been facing recurring post-harvest losses of horticultural crops of about Rs 51,500 crore (Rs 515mn or US\$11.5mn) per annum for want of effective, easily accessible and economically viable means to prevent such losses."

In this context, the Government of West Bengal has requested for the Centre's nod for setting up a codex cell in the state. The proposed cell will keep a track of codex information, codex documents, will compile codex standards, codes of practices, and so on, to help food processing industries adopt total quality management and be competitive in the global market. (BL, 23.05.05 & 27.05.05)

Reform Agriculture Marketing

The Central Government has drafted a model Agricultural Produce Marketing (Regulation and Development) Act. Shankarlal Guru, Chairman of the International Society for Agricultural Marketing, has urged the states to implement reforms in agricultural marketing as according to this model act.

According to him, agricultural marketing should no longer remain a state subject under the Constitution,

especially when the trade in agro commodities is governed by WTO agreements. So far, states have made little or no progress to amend existing acts.

An Expert Committee on Agricultural Marketing (also Chaired by Guru) made recommendations with three key objectives:

- encouraging contract farming;
- allowing direct sales by farmers to buyers without routing produce through agricultural produce marketing committees; and
- permitting private parties to set up agriculture marketing facilities.

(BS, 28.04.05; ET, 28.04.05)



Women in Agriculture

In order to ensure effective participation of women in agriculture, a National Policy was framed almost a decade ago. Albeit late, the Government of West Bengal has taken an initiative to take this forward.

A project has been undertaken, which focuses on skill transfer to women farmers with small and marginal landholdings to make them sustainable. Special attention will be given to women farmers belonging to the scheduled caste and schedules tribe.

It will be implemented through self-help groups. Training will be provided to increase managerial, organisational, entrepreneurial and decision-making skills. The project is to be implemented in 10 districts and will cover the following sectors/issues:

- agriculture in general and food security;
- horticulture and food processing;
- nutrition;
- sericulture;
- fisheries;
- animal husbandry, dairy, poultry, duckery; and
- any other suitable sector of the representative districts.

(Government of West Bengal, 16.12.04)

Safety Net for Farmers

Since its inception in December 2002, Agricultural Insurance Company of India (AICI) has extended crop insurance facility to 1.80 crore (18 million) farmers. AICI was formed as a joint initiative of the General Insurance Corporation of India and the National Bank for Agricultural and Rural Credit. A large number of crops are covered under this scheme.

For states like Rajasthan, which face recurrent shortage of rainfall and drought conditions, AICI has taken up schemes, such as "Sookha Suraksha Kabach" (safety net against drought). It is a specially designed rainfall-indexed insurance scheme covering almost all

important crops grown in Rajasthan. The premium rates would be flexible, ranging from five to eight percent.

Another innovation to crop insurance has been made in West Bengal. Instead of taking a block as a unit, a *panchayat* (village council) will be considered. As this (*panchayat*-based) unit covers a smaller geographical area as compared to a 'block' it will be easier to calculate the crop damages. A block normally consists of 12 *panchayats*. In many cases, it has been found that while average production (or indemnity level) of a block was more than satisfactory (thus nullifying insurance claims), it was not so in one particular *panchayat* of that block.

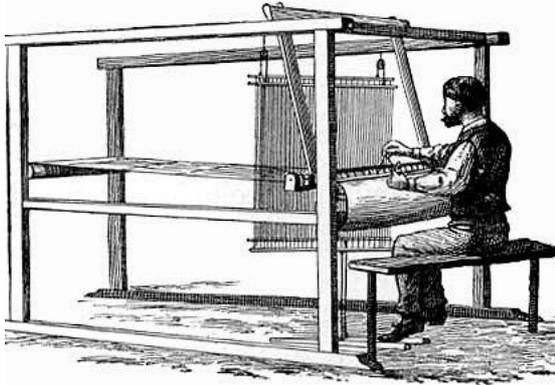
(BS, 21.04.05, NN, 30.05.05 & ABP, 14.06.05)



With the end of the textile quota regime, the Handloom Export Promotion Council (HEPC) of the Ministry of Textiles, Government of India, has targeted to exceed exports by Rs4,000 crore (Rs40n or US\$0.89bn) this year. This is 25 percent higher as compared to last year. "The export potential for the handloom sector is huge. As an environment-friendly industry, it is ideally positioned to create a major impact on the world textile market," said S S Vaghela, Union Minister of Textiles.

According to the HEPC, cotton handloom exports of fabrics and made-ups have crossed US\$500mn mark. HEPC is planning to appoint marketing consultants having good

Weaving Big Hopes



tasar, and eri) should explore enormous potential in this regard.

(BS, 26.05.05 & 30.05.05)

New Textile Bill

The Government is set to enact a legislation to protect consumers' interests in the deregulated textile-trade environment. The modified draft Textile Development and Consumer Protection Bill would make it compulsory for all textile goods sold in the country to indicate the fibre contents, the name of the manufacturer and maintenance instructions.

The Bill would also provide relief to textile manufacturers by removing all textile items from the ambit of Essential Commodities Act of 1955. Another objective of the Bill is to ensure collection of accurate textile trade data to map the country's textile export growth in the post-quota regime.

(ET, 11.06.05)

Size Matters

Size seems to be the latest obsession of the Indian textile industry as it initiates consolidation through mergers and acquisitions (M&A). According to D K Nair, Secretary General of Indian Cotton Mills' Federation: "M&A activities will be more prominent in the spinning and the weaving sector as we have almost 95 percent decentralised units in both these sectors."

A large number of small spinning and weaving facilities were set up between 1967 and 1985 due to policy induced bias against large textile mills. While the Government allowed fabric production in the organised sector since 1985, fiscal incentives were offered to the unorganised powerloom sector, putting composite mills at a disadvantageous position.

Commercial banks and financial institutions are also finding the sector a safe lending bet. Under the Technology

Upgradation Fund Scheme, loans sanctioned and disbursed jumped by 123 percent (Rs30bn or US\$0.66bn) in 2004-05 as compared to the previous year.

(ET, 01.06.05 & FE, 03.05.05)

Integrated Scheme for Synergy

The Ministry of Textiles, Government of India, is keen to merge two existing infrastructure development schemes to infuse synergy in the overall development of production amenities in the textile industry. These are Textile Centers Infrastructure Development Scheme and Apparel Parks for Export.

The Ministry has approached Infrastructure Leasing and Financial Services to act as a nodal agency to arrange development of 20 to 25 identified clusters across the country where it could organise textile units – weaving, processing and garmenting – to produce world-class material at optimal production level. Already, the Tirupur cluster is known for its knitwear exports.

The need for a merger of these schemes was felt after a mid-course review found them making tardy progress. The funds from the merged scheme would cover creation of infrastructure facilities such as:

- common effluent treatment;
- testing facilities;
- strengthening of power supply;
- establishment of design centers; and
- improvement of roads and drainage facilities.

(BL, 06.06.05)

Cotton's Share to Increase

Cotton's share in total fibre use by the textile industry in India is to increase to 58 percent, in this year. However, it will still be far lower than the 67 percent share witnessed in the year 1995-96.

According to Global Agriculture

contacts with textile trade, particularly for household textiles, home furnishing and dress materials. The handloom sector is the second largest employment generator in the country after agriculture, providing employment to most 6.5 million persons.

In this context, it is to be mentioned that silk is one of the most important and niche sources of handloom production. The commodity, in its basic form, is the source of livelihood for nearly 6 million people. India's annual raw silk requirement is over 25,000 tonnes, while the domestic supply is only 16,000 tonne. The country, which is the only producer of wild silks, (muga, tropical and oak

Information Network, this increase is to be partially fuelled by higher prices of man-made fibres (MMFs) due to strong petroleum and petroleum product prices. Future growth of cotton usage is likely to be determined by the relative prices of cotton vis-à-vis MMFs.

Market sources report that low-priced cotton caused mills to change their cotton/polyester blend from 55:45 to 60:40. Polyester and poly-blends are popular in India due to their durability and ease in washing and maintenance under tropical conditions. (FE, 23.05.05)

Congratulations!



Arjun Sengupta, Chairman of the National Commission for Enterprises in the Unorganised and Informal Sector, has

been appointed member of the high-level International Commission on Empowerment of the Poor. Kofi Annan, Secretary General of the United Nations formed this 25-member body. Former US Secretary of State, Madeleine Albright, and Hernando de Soto, Peruvian economist and author of the book "The Mystery of Capital" will be the Co-Chairpersons. Members include Benjamin Mkapa, President of Tanzania and Ernesto Zedillo, Former President of Mexico.

The Commission, supported by Norwegian and other governments, aims at legally protecting the economic assets of the poor and develop tools for effective formalisation of poor people's property rights.

Dr. Sengupta is associated with the GRANITE project as Chairman of the Project Advisory Committee.

Voices of the People



Following the launch of the GRANITE project in January this year, an orientation-cum-training workshop of project partners was organised in February. Besides other activities, project partners decided to organise curtain raiser in their respective states, in order to familiarise stakeholders with the project's objectives and activities. Major recommendations that emerged from these meetings are as follows.

- To counter the negative effects of globalisation, domestic policies should provide stronger safety nets. Awareness generation of the masses and capacity building for using modern techniques should be the focus of government interventions. This further necessitates that the government officials themselves should be well versed with the changing nature of globalisation and the WTO regime. The project should look into this aspect through better networking with the policy-makers, regular dissemination of relevant information and by organising advocacy dialogues. WTO-related issues should be demystified and disseminated widely.
- For the people to benefit more from international trade, state governments will have to play a more proactive role in trade policy-making and implementation. Civil society organisations should take initiatives to form local bodies and involve state and industry bodies, which can act as platform for policy debates and to gather inputs for policy-making.
- Technological adoption and upgradation through extension services and marketing of produce were identified as missing links in agriculture. Significant anti-competitive practices were prevalent in agricultural marketing, which were preventing farmers to realise better value of production. Furthermore, farmers were mostly unaware of prices prevailing in other markets. This, along with factors such as absence of post-harvesting facilities, indebtedness, is resulting in lower price realisation. Information about agro-climatic conditions and soil conversation is lacking, which prevent farmers to adopt right crop-mix. This was a significant reason for crop failure.
- Efforts should be made to educate farmers on issues concerning organic farming, contract farming, crop marketing, etc. The relevance of contract farming for small and marginal farmers who produce primarily for self-sustenance was identified as an issue requiring further discussion.
- Dismantling of the quota regime in trade in textiles and clothing has offered several opportunities as well as challenges. With the rise in the level of competition and the inability of the small-scale industries to survive in the new regime, government intervention by way of policy changes is needed. For instance, the silk sector in Karnataka is facing problems of power shortage, technological obsolescence, dearth of marketing facilities, etc.
- Textile sector is diverse and coordination is required between the handloom, powerloom and mill sectors. As large number of people (mostly low-skilled and poor) is involved in all these sub-sectors there should be balanced promotion of the sector. For instance, handloom sector is facing specific challenges on account of high input costs and competition from the powerloom sector. The latter is fast imitating designs used by handloom weavers. Most of the initiatives under the various textile policy statements and recommendations of the various committees, since 1985, have had an adverse impact on the handloom sector, which needs to be promoted as the strength of the Indian textile production.

SOURCES: ABP: ANANDA BAZAR PATRIKA; BS: BUSINESS STANDARD; BL: THE HINDU BUSINESS LINE; ET: THE ECONOMIC TIMES; FE: THE FINANCIAL EXPRESS; HT: HINDUSTAN TIMES; NN: NAFA NUKSAN

Making Things Happen newsletter: Composed and Published by CUTS Centre for International Trade, Economics & Environment (CUTS-CITEE), D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India, Ph: 91.141.228 2821, Fx: 91.141.228 2485 Email: citee@cuts-international.org, Website: www.CUTS-CITEE.org. Printed by: Jaipur Printers P. Ltd., M.I. Road, Jaipur 302 001, India.

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