

INDIA | BACKGROUND

Population¹	1.2 billion
Of which in agriculture¹	~610 million (52%)
Of which smallholders²	~485 million (21.6% of global total)
Funding flow % world	9.2% of total funding captured
% Asia	27.2% of total Asia funding captured

Total Funding Captured 2009-onward:

\$1.1B

Total Number of Projects Captured:

49



Overview of India's agricultural sector

India has experienced rapid growth since introducing economic reforms in the early 1990s. The average GDP growth since 1997 has been 7.0% per year.¹

Despite only contributing to **21%** of India's current **GDP** the **agricultural sector remains crucial** to India's economic, social, and political development. Over 70% of India's 1.1 billion people live in rural areas, and most of them depend on agriculture or forestry for their living.³ **Agriculture accounts for about 10% of India's export earnings**, with rice, soybeans, sugar, maize and tea being the typical cash crops.

In 2007/08 the agricultural sector grew by almost 5% due to a good monsoon, an increase in minimum support prices for grains, and a rise in global prices for agricultural products. Before that, annual growth was at a much lower 2.5-3% on account of lower rain falls and drought.⁴

During the **Green Revolution** in the 1970's India was able to **achieve self-sufficiency and reduce the risk of famine** by steeply increasing foodgrain production. Rural poverty and food insecurity further declined in the 1980's thanks to productivity gains. Sustained, although much slower, agricultural growth in the 1990s reduced rural poverty to 26.3% by the year 2000.³

In the last decade however, agricultural growth has slowed. Today, India's rice yields are only a third of China's and about half of those of Vietnam or Indonesia. **Low productivity** compared to other countries holds true for a host of other commodities as well (exceptions are sugarcane, potato and tea).³

Land and water use practices are unsustainable in many regions. Especially, rice and wheat production systems have been identified as a major reason for land degradation as well as ground water depletion.

Given its strategic importance to growth and food security, it will be essential for India to build a productive, diversified, and competitive agricultural sector and facilitate rural, non-farm entrepreneurship. To achieve this, subsidy-based regimes will need to be replaced with market-driven mechanisms.³ In addition, India will need to shift its agricultural focus to **high-value crops**.

Challenges and opportunities of the agricultural sector

India's agricultural sector faces several challenges:

- **Public spending** on agricultural subsidies may be **crowding out productivity-enhancing investments** such as agricultural research and extension, as well as investments in rural infrastructure.³
- **Over-regulation of domestic trade** has increased costs, and led to price risks and uncertainties, thereby potentially undermining the sector's competitiveness. In addition, government has intervened in factor and output markets, which has hindered growth of the rural non-farm sector.³
- State governments have **not in all cases installed the necessary regulatory and institutional frameworks** for the efficient, sustainable, and equitable allocation of water.³
- As a consequence of uncompleted irrigation projects the **irrigation infrastructure remains lacking**. Existing infrastructure has deteriorated as operations and maintenance is given low priority.³
- Although India has a wide network of rural finance institutions, **many rural poor people are still denied access to credit** due to inefficiencies in the formal finance institutions, high transaction costs, and risks associated with lending to agriculture.³

However, there are several opportunities that can be seized:

- Low yields per unit in a variety of crops indicate an **immense potential to increase productivity** once farmers gain easier access to factor input markets.³
- The Indian agricultural sector ranks as the **third most diversified in the South Asia Region**, driven mainly by a shift to high-value crops, livestock, and fisheries.⁵ Increased diversification opens up new export markets and creates new labor opportunities.

¹ World CIA Factbook

² Estimate extrapolated from "Small farms: current status and key trends", Oksana Nagayets, IFPRI, 2005

³ World Bank: "India: Priorities for Agriculture and Rural Development" (World Bank Website)

⁴ World Bank: "India Country Overview April 2010" (World Bank Website)

⁵ World Bank: National Agricultural Innovation Project Document, 2006

INDIA | SMALLHOLDER FUNDING TRENDS

Funding trends by focus area

International donor funding for smallholder development in India spans all three focus areas, but not surprisingly, in line with the challenges around water management described on the previous page, **more than half of the funding relates to infrastructure, especially water management and irrigation systems.**

In terms of funding for inputs/training, there is a lot of activity in specific regions, especially **Uttar Pradesh, Andhra Pradesh and Orissa.** In terms of crops and products, there is emphasis on **rice**, e.g., through the Gates Foundation's rice intensification project, as well as legumes, fisheries, and animal husbandry.

Within the finance/markets category, USAID is funding several efforts around **rural finance** and a project to link smallholders to input and output **markets.** The World Bank is supporting a myriad of projects related to **commercialization and value chain investments**, for example the National Agricultural Innovation Project, which aids the transformation of the Indian agricultural sector to more of a market orientation.

Reflecting, though not necessarily aligned with, the Indian government's National Watershed Development Project for Rainfed Areas (NWDPR), a proportion of projects focused on inputs/training, and all of those in infrastructure/environment, are concerned with water management. The World Bank and JICA are funding a number of **large-scale projects** working solely on the construction, rehabilitation or improvement of irrigation infrastructure, while regional agricultural development projects often include an element of water management training, or improvement to farm-level irrigation technology.

In addition, and not included in these figures, a number of **government agricultural development initiatives make specific provision for smallholder farmers.** States allocating government funding as part of the National Food Security Mission have been advised to earmark 30% for small and marginal farmers¹, who also qualify for a 10% subsidy on crop insurance premiums² and are likely to be the main beneficiaries of the nationwide 'Rural Go-Down' project which aims to reduce post-harvest waste and crop deterioration.

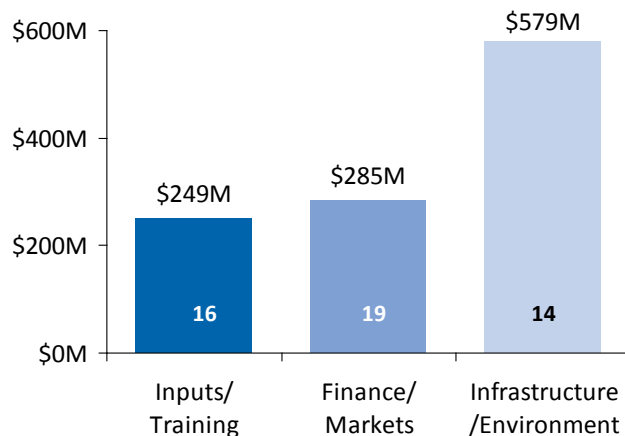
The donor landscape

Whilst the number of projects active in India is distributed between multilaterals, bilaterals and foundations, the vast **majority of funding** is contributed by **multilateral donors**, specifically by the **World Bank.** **FAO** is supporting several water management efforts.

Among the bilaterals, **JICA** is particularly active, funding principally irrigation work, while **USAID** supports several efforts around markets and finance.

Foundations account for a large number of much smaller sized projects, across the areas of inputs/training and finance/markets. Of these, the largest is a **Bill & Melinda Gates Foundation** project to improve smallholder access to micro-irrigation technologies.

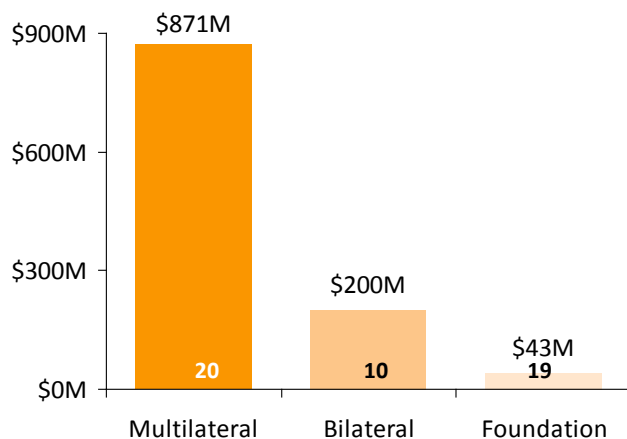
Funding & number of projects by main focus area



Representative projects

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|---|--|--|
| <ul style="list-style-type: none"> North Eastern Region Community Resource Management Project for Upland Areas, IFAD Micro-irrigation techniques for smallholders, BMGF | <ul style="list-style-type: none"> Connecting Smallholder Farmers to Agriculture Value Chain, ADB Assam Agricultural Competitiveness Project, WB | <ul style="list-style-type: none"> Andhra Pradesh Irrigation and Livelihood Improvement Project, JICA Tamil Nadu Irrigated Agriculture Modernization and Water-Bodies Restoration and Management Project, WB |
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Funding & number of projects by funder type



Active funders

World Bank FAO	JICA USAID	Gates Foundation Ford Foundation
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¹ Indian Ministry of Agriculture Annual Report 09-10, 8.13 / ² ibid, 4.11-4.16