Population
Of which in agriculture
Of which smallholders
Funding flow % world

<table>
<thead>
<tr>
<th>Population</th>
<th>1.2 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of which in agriculture</td>
<td>~610 million (52%)</td>
</tr>
<tr>
<td>Of which smallholders</td>
<td>~485 million (21.6% of global total)</td>
</tr>
<tr>
<td>Funding flow % world Asia</td>
<td>9.2% of total funding captured</td>
</tr>
<tr>
<td>% Asia</td>
<td>27.2% of total Asia funding captured</td>
</tr>
</tbody>
</table>

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 arise 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).5

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.5 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.

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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)
**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 (NWDPRA), 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.

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¹ Indian Ministry of Agriculture Annual Report 09-10, 8.13 / ² Ibid, 4.11-4.16