



United States  
Department  
of Agriculture

Economic  
Information  
Bulletin  
Number 37

July 2008



A Report from the Economic Research Service

[www.ers.usda.gov](http://www.ers.usda.gov)

# The Environment for Agricultural and Agribusiness Investment in India

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## Abstract

Despite strong overall economic growth and strengthening food demand, investment in Indian agriculture and agribusiness has remained sluggish, and growth in farm output has slowed, since the early 1990s. An array of policies and regulations affecting agricultural production, marketing, and food processing—along with weak infrastructure and a lack of market services—have discouraged private investment by farmers and large, vertically integrated agribusinesses. The policy environment has grown more investor friendly since the late 1990s and private investment appears to be responding, but significant barriers remain and the pace of future reforms remains uncertain.

**Keywords:** India, agriculture, agribusiness, investment, trade policy, domestic policy, infrastructure

## Acknowledgments

Holly Higgins, P.K. Joshi, Ashok Gulati, Mary Anne Normile, and an anonymous reviewer made valuable comments on earlier drafts of this report. Indian Agribusiness Systems, Ltd of Okhla, Uttar Pradesh, India provided assistance in data collection. The report was edited by Dale Simms and the graphics were provided by Vic Phillips. Financial support for this study was provided by the USDA Emerging Markets Program.

## **Contents**

|  |             |
|--|-------------|
| <b>Summary</b> .....   | <b>.iii</b> |
| <b>Introduction</b> .....  | <b>.1</b>   |
| <b>Trends in Agricultural Investment</b> .....                     | <b>.3</b>   |
| Investment “In” and “For” Agriculture .....                        | .3          |
| Agricultural Investment in India Compared With Other Countries ... | .4          |
| Public and Private Investment .....                                | .5          |
| Foreign Direct Investment .....                                    | .7          |
| Sources of Foreign Direct Investment .....                         | .8          |
| <b>The Private Investment Climate</b> .....                        | <b>.10</b>  |
| Consumer Demand .....  | .10         |
| Policy Factors Affecting Investment .....                          | .14         |
| Infrastructure Factors Affecting Investment .....                  | .27         |
| <b>Prospects for Agricultural Investment</b> .....                 | <b>.36</b>  |
| <b>References</b> .....  | <b>.40</b>  |

## Summary

Although rising incomes are contributing to expanding and diversifying food demand, investment in Indian agriculture has remained low relative to other sectors and grown slowly since the early 1990s. Lagging private investment in agriculture and agribusiness has corresponded with burdensome regulatory policies, poor infrastructure, and weak institutional support for agricultural markets. Even though India has one of the world's largest agricultural economies, Indian agribusiness is characterized by a multitude of small-scale, nonintegrated processing and marketing firms that use mostly outdated technology and are uncompetitive in global markets.

## What Is the Issue?

India, with one of the world's fastest growing and most populous economies and one of its largest farm sectors, is emerging as a potentially large market for global agricultural trade and investment. Despite the rapid productivity gains occurring in India's service and manufacturing sectors, average crop yields remain below potential, agricultural markets are underdeveloped, and growth in farm output has slowed. Policymakers are increasingly focused on how to strengthen agricultural investment and growth, raise rural incomes, and help sustain rapid overall gains in income growth and poverty reduction.

## What Are the Major Findings?

Both public and private investment in Indian agriculture and agribusiness have remained weak since the early 1990s, despite accelerating growth in the overall economy and a large domestic market for agricultural products. Growth in farm output has slowed since the early 1990s, and although a turnaround is seen as critical for sustained economic growth, consensus on agricultural reforms has proven difficult.

India's numerous domestic policy interventions—along with weak infrastructure and limited institutional support for agricultural markets—have been a deterrent to agricultural investment, particularly in large vertically integrated agribusinesses. Interventions have included restrictions on transporting, storing, and marketing of agricultural commodities, restrictions on the size of agribusiness firms, high taxes on processed products, high-cost credit, and complex food laws. The climate for private investment is also undermined by weak transport and power infrastructure and lack of key services such as market information, risk management tools, and grading/inspection systems.

For farmers, disincentives have included trade and price policies that maintained low domestic prices for many farm commodities, inefficient markets that dampen returns to growers, and few public and private marketing services. Onfarm investment may also be constrained by India's many small and marginal farmers, who account for nearly 40 percent of farmland, and often have limited access to input and output markets and more limited investment options.

Since 2000, the policy environment seems to be improving and investment in agriculture to be strengthening, as evidenced by higher market prices and input subsidies for farmers. Movement and storage restrictions on essential commodities, like wheat and rice, are becoming less common, restrictions on farm size have been largely removed, State marketing laws are evolving to accommodate private marketing channels, and taxes on agricultural products are being reduced and simplified. And although power, transport, and other infrastructure problems will likely be solved only in the longer term, there is evidence that private investment is now on the rise in those sectors. Food marketing ventures oriented toward development of supply chains and retail outlets represent a turnaround in investor confidence.

Recent investment in India's food marketing sector includes a number of ventures by U.S. and other foreign investors, mostly in collaboration with Indian firms. Since India does not permit foreign direct investment by multi-brand retailers, foreign investment has taken the form of wholesale (or "cash and carry") trading enterprises, or partnerships with Indian franchisees who own the retail outlets.

### **How Was the Study Conducted?**

This study was based on analysis of literature and secondary data from published and online sources, together with interviews of representatives from Indian agribusinesses. Data collection and interviews in India were facilitated by Indian Agribusiness Systems, Ltd, of Okhla, Uttar Pradesh. Financial support for this study was provided by the USDA Emerging Markets Program.