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GOI Budget 2018-19 – Agricultural Highlights

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Report Highlights:

On February 1, 2018, the Indian Minister of Finance presented the Union Budget for fiscal year 2018/19 (April/March) that focused on strengthening the agricultural and rural economy through measures designed to generate higher incomes for farmers. Major policy announcements were made on bolstering farm produce prices and improving the marketing infrastructure. Tariffs on several imported agricultural products, including, fruit juices, crude and refined edible vegetable oils, and food manufacturing ingredients were increased and an additional levy of 10 percent of the aggregate import duty was proposed as a Social Welfare Surcharge.

General Information:

On February 1, 2018, Finance Minister (FM) Arun Jaitley presented the [Indian fiscal year \(IFY\) 2018/19 \(April/March\) budget](#) before the parliament that focused on farmers and rural India. Presenting the last full-year budget of the ruling National Democratic Alliance (NDA) before the 2019 national elections, Minister Jaitley addressed the concerns of *Bharat* (“India” in Hindi) as he announced a slew of programs to increase farmers’ income, invest in education, and expand healthcare coverage to poor families and rural areas.

In his budget speech, Minister Jaitley noted that the Indian economy has performed well since the NDA government came to power in May 2014 and achieved an average growth of 7.5 percent in its first three years. The [GOI’s Economic Survey 2017/18](#) released on January 29, 2018 suggested growth to accelerate in the coming years after having slowed in 2016/17 and 2017/18 due to the demonetization of higher currency notes (November 2016) and implementation of Good and Services Tax (July 2017). The Survey expects real GDP growth in 2017/18 at 6.75 percent and that it could recover to its medium term economic potential of 8 percent in IFY 2018/19.

Strong Focus on Agriculture and Rural Economy

Minister Jaitley said that ongoing NDA government programs are designed to direct the benefits of structural change to reach farmers, the poor, and other vulnerable sectors of society. Consequently, this year’s budget will consolidate these gains and focus on strengthening agriculture and the rural economy among other things. Due to the NDA government’s commitment to double farmers’ incomes by India’s 75th anniversary in 2022, the budget emphasized programs for generating higher incomes and generating productive and gainful on-farm and off-farm employment for farmers and the rural sector. Consequently, the budgetary allocation for various departments of the Ministry of Agriculture and Farmers Welfare (MOAFW) and affiliated ministries has been raised significantly (see Annex Table 1).

Minimum Support Price (MSP) Policy

The NDA government has been criticized for not adopting its 2014 Parliamentary Election manifesto that promised farmers a minimum support price (MSP) valued at 1.5 times the cost of production. The FM claimed that the government declared the MSP for a majority of the 2017/18 *rabi* (winter planted) crops (e.g., wheat, chickpeas, rapeseed, mustard, and barley) at least one and a half times the cost of production. The government has decided to implement this formula as a principle for determining the MSP for all crops during the upcoming 2018/19 *kharif* (fall harvested) crops (e.g., rice, maize and various coarse grains, oilseeds and pulses).

The FM further stated that increasing MSP is not enough and the government will ensure that the farmers get the MSP benefits for all 23 crops. In case market prices are less than the MSP, the government should procure at MSP or compensate farmers through other means. The FM informed that the GOI think tank [NITI Aayog](#), in consultation with the central and state governments, will devise a mechanism to ensure farmers get adequate price MSP for their produce. In the past year, some state governments have experimented with differential pricing compensation schemes, where registered farmers sell in the open market, and the government compensates the farmers by paying the differential between the MSP and modal market prices (average market prices in major markets) in cases when

market prices are below MSP.

The FM announced that the government intends to set up an institutional mechanism with participation from various concerned ministries to develop policies and practices for price and demand forecasting, the use of futures and options markets, and to decide on specific export and import related measures. The FM stated that this will help farmers make better decisions based on price expectations after harvest to improve overall price realization.

Additional Funds for Improving Market Infrastructure

An Agri-Market Infrastructure Fund with a corpus of INR 20 billion will be set up for improving the agriculture marketing infrastructure. The FM expressed satisfaction with government progress on the [electronic National Agricultural Market \(e-NAM\)](#) with about 470 agriculture produce markets (APMC) connected already to the e-NAM network and the remaining scheduled for connection by the end of March 2018. The government proposes to develop and upgrade an existing 22,000 rural *haats* (informal market yard) into *Gramin* (Rural) Agricultural Markets (GrAMs). In the GrAMs, the physical infrastructure will be strengthened using the Mahatma Gandhi National Rural Employment Guarantee Program (MNREGA) and other existing schemes so that these can be electronically linked to e-NAM and provide farmers the capability to make direct sales to consumers and bulk purchases without market intermediaries.

“Operation Greens” for Potatoes, Onions, and Tomatoes Launched

The government proposes to launch “Operation Greens” that shall promote Farmer Producer Organizations (FPOs), agri-logistics, processing facilities, and professional management with an allocation of INR 5 billion. Potato, onion and tomato are the three major vegetables consumed throughout the year across the country. However, seasonality of production in diverse regions and the highly perishable nature of the produce makes it a challenge to connect producers and consumers and consequential severe market supply and price fluctuations. Promoting professional production and modern supply chain infrastructure helps address the issue of fluctuating markets, especially at the time of harvest, and should ensure higher returns to the farmers.

Promote Cluster Farming Approach

The MOAFW will reorient existing schemes like the [National Food Security Mission](#), [National Agriculture Development Program](#), [National Horticultural Mission](#), and others to promote a cluster-based approach for cultivation of identified agricultural produce in specific districts and regions. The approach will be promoted more for horticultural crops as it brings scale advantages to the operation establishment of a modern value chain from production to processing.

The government has also allocated INR 2 billion to support organized cultivation of medicinal and aromatic plants for production of perfumes, essential oils, and other associated products.

Promote Food Processing and Agricultural Exports

The allocation for the Ministry of Food Processing Industries has been doubled to INR 14 billion in IFY 2018/19 from INR 7.1 billion last year to boost investment in the food processing sector through the [Prime Ministers *Krishi Sampada Yojana*](#) (Scheme for Agro-Marine Processing and Development of Agro-Processing Clusters). The government will promote the creation of specialized agro-processing financial institutions to cater to the sector.

The FM said that export of agri-commodities will be liberalized to raise India's agri-export from the current level of \$30 billion to the potential of \$100 billion per annum. The government proposes building state of the art testing facilities in forty-two government supported [mega food parks](#) to promote processed food product exports.

Funds for Animal Husbandry and Fisheries Infrastructure Development

The government set up a Fisheries and Aquaculture Infrastructure Development Fund and an Animal Husbandry Infrastructure Development Fund for financing infrastructure requirements with the total funding of INR 100 billion.

Expand Agriculture Credit

The target for institutional credit for farmers in IFY 2018/19 has been raised to INR 11 trillion from INR 10 trillion in IFY 2017/18.

The government proposes extending institutional crop loans to lessee cultivators who are currently unable to avail loans and are forced to secure credit from non-institutional sources at usurious rates of interest. The NITI Aayog will work with the state governments to devise a suitable process to enable lessee cultivators to avail themselves of institutional credit without compromising the rights of the land owners.

The government proposed extending [Kissan \(Farmer\) Credit Cards](#) to animal husbandry and fisheries farmers to help them meet their working capital requirements.

Other New Programs and Policy Announcements

- Propose a restructured National Bamboo Mission with an allocation of INR 12.9 billion to promote the bamboo sector in holistic manner.
- Farmer Producer Companies having a turnover of up to INR 1 billion will be given 100 percent tax deduction for a period of five years from IFY 2018/19 on profits to encourage professionalism in modern farming and post-harvest value addition.

Food and Fertilizer Subsidy Raised

The budgetary allocation for the food subsidy for IFY 2018/19 was raised by over 20 percent to INR 1.7 trillion on higher funding needs due to increasing MSPs for major food grains and state implementation of the National Food Security Act. The fertilizer subsidy allocation for the budget year was raised by

about 8 percent over last year to INR 700 billion on expected higher global prices for petroleum-based products.

Import Duty Raised

In a major departure from previous budgets wherein the trend was largely to reduce or keep unchanged the custom duty on food and agricultural items, the FM announced increases in custom duties on certain items to incentivize domestic value addition and the “Make in India” campaign for key sectors. Consequently, the import duty on vegetable oils, various juices and other processed food products was raised. The exception to import tariff increases was for raw cashews which received an import tariff reduction so as to support the cashew processing industry. (See [IN8011](#) for more details).

Ten Percent Social Welfare Surcharge instead of Education Cess

The budget proposed to abolish the Education Cess (2%) and Secondary and Higher Education Cess (1%) and replace it with a Social Welfare Surcharge of 10 percent of the aggregate custom duties on imported goods, including food and processed food products. The Social Welfare Surcharge collected will provide for various social welfare schemes. Imported goods that were exempt from education cess will remain exempted from the Social Welfare Surcharge. However, the education surcharge remains in effect until the Financial Bill 2018 is approved by Parliament.

Annex Table 1: Selected Agricultural and Food Related Budget Items

(Figures in Billion Indian Rupees)

A) Allocation of Expenditures for Departments and Ministries				
ITEM	2015/16 (Actual)	2016/17 (Actual)	2017/18 (Revised)	2018/19 (Budgeted)
1. Department of Agriculture Cooperation and Farmers Welfare (DACFW), Ministry of Agriculture and Farmers Welfare				
a. Centrally Sponsored Schemes	112.95	119.79	141.85	179.09
b. Central Sector Schemes/Projects	30.32	245.94	263.98	282.00
c. Other Expenditures	9.70	3.39	5.22	5.91
2. Department of Agriculture Research and Education (DARE), Ministry of Agriculture and Farmers Welfare				
a. Central Sector Schemes/Projects	49.13	54.63	21.66	29.15
b. Other Expenditures	4.65	2.66	4.96	5.01
3. Department of Animal Husbandry, Dairying and Fisheries (DAHDF), Ministry of Agriculture and Farmers Welfare				
a. Centrally Sponsored Schemes	11.01	15.97	19.35	28.63
b. Other Expenditures	3.10	2.61	2.32	5.38
4. Department of Fertilizers (DoF), Ministry of Chemicals and Fertilizer				
a. Central Sector Schemes/Projects	724.15	663.13	650.00	700.90
b. Other Expenditures	6.11	0.30	0.33	0.35
5. Department of Consumer Affairs (DCA), Ministry of Consumer Affairs, Food and Public				

Distribution				
a. Central Sector Schemes/Projects	1.69	70.29	36.30	16.90
b. Other Expenditures	1.33	2.27	0.86	0.85
6. Department of Food and Public Distribution (DFPD), Ministry of Consumer Affairs, Food and Public Distribution				
a. Central Sector Schemes/Projects	1404.29	1150.16	1457.82	1741.59
b. Other Expenditures	0.92	1.29	1.10	1.14
7. Ministry of Food Processing Industries (MOFPI)				
a. Central Sector Schemes/Projects	4.89	7.01	6.34	13.13
b. Other Expenditures	0.16	0.16	0.81	0.87
8. Department of Rural Development (DRD), Ministry of Rural Development				
a. Centrally Sponsored Schemes	769.10	948.20	1085.95	1119.25
b. Central Sector Schemes/Projects	4.91	2.85	4.00	4.29
c. Other Expenditures	-0.32	-0.36	0.48	0.50
9. Department of Biotechnology (DBT), Ministry of Science and Technology				
a. Central Sector Schemes/Projects	9.56	12.01	14.75	15.99
b. Other Expenditures	5.98	6.95	7.85	8.12
10. Ministry of Water Resources and River Development (MWRRD)				
a. Centrally Sponsored Schemes	46.98	16.32	26.70	31.78
b. Central Sector Schemes/Projects	16.25	24.43	41.74	47.72
c. Other Expenditures	5.39	6.39	8.16	9.10

B) Allocation for Major Centrally Sponsored Schemes on Food and Agriculture

ITEM	2015/16 (Actual)	2016/17 (Actual)	2017/18 (Revised)	2018/19 (Budgeted)
1. Green Revolution (DACFW)	97.77	101.05	111.85	139.09
2. White Revolution (DAHDF)	9.37	13.09	16.33	22.20
3. Blue Revolution (DAHDF)	2.00	3.88	3.02	6.43
4. Prime Minister Agriculture Irrigation Program (MWRRD and DACFW)	77.81	51.34	73.92	94.29
5. Mahatma Gandhi National Rural Employment Guarantee Program (DRD)	373.41	482.15	550.00	550.00
6. Prime Minister Rural Road Program (DRD)	182.90	179.23	169.00	190.00

C) Allocation for Central Sector Schemes/Projects on Food and Agriculture

ITEM	2015/16 (Actual)	2016/17 (Actual)	2017/18 (Revised)	2018/19 (Budgeted)
1. Crop Insurance Scheme (DACFW)	29.83	110.52	106.98	130.00
2. Interest Subsidy for Short Term Credit	130.00	133.97	147.50	150.00

to farmers (DACFW)				
3. Market Intervention-Price Support Scheme (DACFW)	0.48	1.46	9.50	2.00
4. Agriculture Extension (DARE)	6.64	7.54	2.33	2.42
5. Agriculture Engineering (DARE)	1.86	1.91	0.43	1.00
6. Natural Resource Management & Forestry Research (DARE)	6.00	6.10	1.68	1.74
7. Climate resilient agriculture initiative (DARE)	0.95	0.70	0.50	0.52
8. Crop Science (DARE)	12.73	13.48	4.00	8.00
9. Horticulture Science (DARE)	5.01	5.22	1.55	2.00
10. National Agriculture Science Funds (DARE)	0.45	0.35	0.37	0.51
11. Animal Science (DARE)	7.34	8.11	2.72	4.00
12. Fisheries Science (DARE)	3.43	3.95	1.16	1.71
13. Agriculture Universities and Institutions (DARE)	6.10	6.61	6.58	6.85
15. Economics Statistics and Management (DARE)	0.49	0.65	0.31	0.33
16. National Agriculture Higher Education Project (DARE)	0.00	0.00	0.05	0.08
17. Urea Subsidy (DoF)	219.38	474.70	427.48	450.00
18. Nutrient based Subsidy (DoF)	504.78	188.43	222.52	250.90
19. Price Stabilization Fund (DCA)	6.60	69.00	35.00	15.00
20. Food Subsidy under National Food Security Act (DFPD)	1120.00	783.35	1019.82	1381.23
21. Food subsidy for decentralized procurement of food grains under NFSA (DFPD)	229.19	273.38	380.00	310.00
22. Schemes financed under Sugar development Fund (DFPD)	7.50	16.72	9.18	6.11
23. National Mission on Food Processing/Ag Produce Program (MOFPI)	4.89	7.01	6.34	13.13
24. Biotechnology Research and Development (DBT)	8.44	10.13	12.52	13.50

D) Allocation for Subsidies and Subsidies Related Schemes on Food and Agriculture

ITEM	2015/16 (Actual)	2016/17 (Actual)	2017/18 (Revised)	2018/19 (Budgeted)
1. Food Subsidy (C20, 21 and others)	1394.19	1101.73	1402.82	1693.23
2. Fertilizer Subsidy (C17, 18)	724.15	663.13	649.74	700.80
3. Interest Subsidies				

a. Interest Subsidy for Short Term Credit to Farmers	130.00	133.97	147.50	150.00
b. Interest subvention for extending soft loan to sugar mills	2.01	2.24	0.00	0.00
4. Other Subsidies				
a. Market Intervention-Price Support Scheme	0.48	1.46	9.50	2.00
b. Diesel subsidy in drought and deficit rainfall areas	0.00	0.07	2.14	0.00
c. Price Stabilization Funds	6.60	69.00	35.00	15.00
d. Assistance to state agencies for intra-state movement of food grains under NFSA	0.02	25.00	45.00	40.00
e. Production subsidy to Sugar Mills to facilitate timely payment to farmers	0.00	5.22	0.23	0.00
f. Subsidy on maintenance of sugar buffer stocks	0.03	0.03	0.00	0.00
g. Subsidy to Jute Corporation of India for market operations	1.07	0.49	0.40	0.08
h. Subsidy to Cotton Corporation of India for procurement of cotton under MSP	2.60	6.10	3.03	9.24

Source: GOI Expenditure Budget Profile, [Statement 3A](#), [Statement 4A](#), [Statement 4B](#), and [Statement 7](#).

Note: Besides the GOI's budget allocations for centrally sponsored schemes, central schemes and agriculture input and food subsidies, the states also allocate state funding for various central schemes and food and agriculture subsidies to their farmers. The estimates for the state budgets for food and agriculture related schemes and programs are not included in the Table.