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AGRICULTURE

Foreign Direct Investment Opportunities in Agriculture & Allied Sectors in India

Foreign Direct Investment (FDI) inflows in India across different sectors have been on an upward trajectory since certain parts of the economy were opened up for foreign investment in 1991. India's position as an appealing market for foreign investors was further substantiated when it recently attained its highest ever FDI inflow of approximately 62 Billion U.S.D during the Financial Year of 2018-19. The FDI framework regarding permissible investment thresholds for different sectors in India can broadly be grouped under two routes i.e., Automatic & Approval.

Automatic Route: Under this route, investment norms and regulations into different sectors are more liberalized. As the name suggests, for the sectors falling under this route, the foreign investor does not require a prior approval from the Reserve Bank of India (RBI) or government of India prior to making an investment into the country.

Approval route: The sectors falling under this route present certain restrictions for the foreign investors looking to make investments in India. They are required to take some mandatory prior approvals from the RBI and/or the concerned ministries of the government of India before making investments under this route.

The agriculture sector is a vital component of the Indian economy. According to the Indian Economic Survey (2017-2018) presented in the parliament, the agriculture sector engaged more than 50% of India's total workforce and amounted for around 17-18% of India's Gross Domestic Product (GDP). The fact that India ranks tenth globally in terms of the area of arable land at its disposal coupled with the fact that it possesses diverse climatic conditions provides for the perfect ecosystem for cultivating a wide range of crops. As per the data released by the Ministry of Commerce regarding sector-wise equity inflows from April 2000 to December 2019, agricultural services (excluding fertilizers) invited FDI inflows of INR 11,373 Crores.

FDI in different segments of the agriculture domain fall under different routes based on the FDI policy prepared as per inputs received from different ministries of the government of India as well as RBI circulars and notifications governing different facets of foreign investments in India.

Agriculture & Plantation Activities: At present, 100% FDI is allowed through the automatic route in India if investment is made in floriculture, horticulture, animal husbandry, pisciculture, aquaculture and cultivation of vegetables, mushrooms etc. under controlled conditions and some other services related to agriculture and allied sectors. Investment by person resident outside India is prohibited in all other agriculture and plantation activities based in India. Since 2015, 100% FDI has also been permitted in plantations like tea, coffee, rubber, cardamom, palm oil tree and olive oil tree under the automatic route.

In case of Animal Husbandry, Investors are looking to set up poultry breeding farms and hatcheries where micro-climate is controlled through advanced technologies like incubators, ventilation systems etc. Moreover, with regards to pisciculture and aquaculture, investors are coming up with aquariums and hatcheries where eggs are artificially fertilized and are hatched/incubated in an enclosed environment with artificial climate control. Apiculture is another popular industry attracting FDI in India recently, whereby foreign investors are establishing units for production of honey via bee-keeping in designated spaces with control of temperatures and climatic factors like humidity and artificial feeding.

The Government of India has also allowed 100 per cent FDI under the automatic route for "development of seeds under controlled conditions" in 2006 vide its Press Note No. 4. In 2011, the consolidated FDI policy was modified to cover "development and production of seeds and planting material" whereas the "controlled condition" pre-requisite was removed. In addition to complying with the FDI policy, business activities involving the use of genetically engineered cells and material need to receive approvals from Genetic Engineering Approval Committee (GEAC) and Review Committee on Genetic Manipulation (RCGM).

Land Procurement: One of the major hurdles for bringing in foreign investments into the Indian agricultural sector is the difficulty in acquiring agricultural lands in India. Agricultural land in India can only be sold to a person residing in India and not to a non-resident. Non-Resident Indians (NRIs) can only acquire agricultural land in India via inheritance from a person residing in India. Moreover, NRIs can only transfer such inherited property to Indian citizens permanently residing in India. A Person of Indian Origin (PIO) may transfer agricultural land / Plantation property / farm house in India by way of sale or gift to a person resident in India, who is a citizen of India. As NRI / PIO do not have general permission to acquire agricultural land / plantation property / farm house in India, such proposals requires specific approval of RBI and the proposals are considered in consultation with the government of India.

Foreign Investors looking to acquire agriculture land in India should also be mindful of different state laws regulating the framework for procurement of land. Certain states in India impose restrictions on land acquisition based on state domicile.

Logistics & Warehousing Sector: Logistics and warehousing plays a key role in the delivery of goods across the length and breadth of the country. E-commerce along with the manufacturing sector is amongst the major occupiers of warehousing space and all these sectors are becoming more reliant on each other with every passing day. To provide an additional stimulus to the warehousing segment, the government plans to create 34 multimodal logistics parks at different places in India. These parks are being setup at an estimated expense of INR 2 trillion and aim to facilitate the highest levels of freight movement the country has ever witnessed. On the back of the reform initiatives undertaken by the government of India in recent years, according to the World Bank's Logistics Performance Index (LPI), in terms of overall logistics performance India's rank has gone up from 54 in 2014 to 44 in 2018.

The FDI policy has allowed for 100% foreign investment under the automatic route to the storage and warehousing sector. Moreover, the government has bestowed the infrastructure status to the entire logistics segment. This decision is likely to help companies in the logistics and warehousing sector to avail domestic/external funds for longer tenures and at amplified borrowing thresholds. Companies are now expected to reap the benefits of having a comparatively low cost of capital which has been made possible due to debt financing being restructured with longer repayment tenures.

Food Processing Sector: The government of India has permitted up to 100% FDI in the food processing sector. This decision has led to several international players investing huge sums of money in this sector in India. The food processing segment received

FDI inflows worth USD 904.70 mn in 2019-20 which was an increase of 44% compared to 2018-19. At present, 100% FDI in the food processing sector (excluding alcoholic beverages and a few other restricted items) is allowed via the automatic route.

In the year 2016, the government of India had permitted 100% FDI through the approval route for retail trading, including e-commerce, with regards to food products which are manufactured in India. The major sources of foreign investment in the food processing industry arises out of countries like Switzerland, USA, Germany, Korea, France, the UAE, and Saudi Arabia.

Other Allied Sectors: Government of India has permitted for up to 100% FDI in the fertilizer sector in India under the automatic route. Under the National Agricultural Policy, special impetus has been provided towards private sector participation in the agricultural sector through the concept of contract farming which is seeing growing levels of investment by Multi-National Corporations such as Pepsi and Cargill. This is enabling domestic farmers to attain economy of scale, modern farm technology, and assistance in capital investment to boost yields.

The government of India is striving to increase job opportunities in India by boosting outputs using new technology and increasing income levels. As a developing country, India can use additional equity inflows to channelize the systematic development of rural areas which are highly dependent on agriculture. Therefore, by permitting inflow of FDI in a diverse set of sectors relating to agriculture like contract farming, agriculture finance and research & development works in the field of agriculture and farm machinery/equipment amongst many others allied activities, the government of India is aiming to provide foreign investors the perfect platform to become a part of India's success story while reaping the financial rewards its blooming economy has to offer.

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