



Prosperity



Supporting Rural Livelihoods



Actionable Area

Promoting and enabling primary processing towards enhancing rural incomes through value addition and reducing waste.

Issue

- India leads production worldwide in several commodities, including shrimps, spices, fruits such as mango, papaya, banana, is the second largest producer of rice and has the largest population of buffaloes. However, India currently processes less than 10% of its agri output (only around 2% of fruits and vegetables, 6% of poultry, 21% of meat, 23% of marine and 35% of milk).
- In terms of India's exports as well, share of raw commodities is higher than processed goods. Processed foods only constitute 16% of India's agriculture exports; in comparison, 25% of US exports and 49% of Chinese exports are value-added. Reasons for low value-addition include relative lack of private sector investment and adequate incentives. Improved infrastructure can also in some instances help with value-addition.

Category	Total value of world imports, USD bn	Total value of India's exports, USD bn	India Share of market %	India Ranking	World leader	World leaders share of market
Processed F&V	52.4	.5	.9	18	China	15.6
Processed fish & sea food	97.2	4.4	4.6	6	China	14.6
Meat	101.8	1.7	1.6	10	USA	12
Dairy	77.9	.2	.3	35	New Zealand	14.3
Poultry & egg	24.7	0	.2	61	Brazil	22.2

Status

- During the 5 years ending 2018-19, the food processing sector has been growing at an Average Annual Growth Rate (AAGR) of around 10.00% at 2011-12 Prices. The food processing sector has also emerged as an important segment of the Indian economy regarding its contribution to GDP, employment, and investment.
- India's agriculture exports at USD 38.7 billion in 2019, a mere 7% of India's production, have stagnated over the last 5 years, with processing having only ~15% share. Despite a strong starting position, India, with a market share of 2.5%, ranks 13th globally, lagging several countries such as the Netherlands, Belgium, and Italy, not just in exports but also in export realisation.
- To scale up India's food processing basket, there is a need to strengthen primary processing at the farm level, including sorting/grading, packaging, drying, etc., while focusing on higher levels of value-addition is also required.
- While primary processing offers lower value-addition than secondary processing, which includes processing high-value items, viz fruits, and vegetables, dairy, bakery, chocolates, etc., it is crucial to enable distributed primary processing towards building upscale for higher-value processing.

Government Initiatives

- The Government has undertaken several initiatives towards scaling up food processing in general and focusing on primary processing, in particular, to enable better sourcing opportunities for processing, the reforms announced under the Prime Minister's Aatma Nirbhar Bharat stimulus package have indeed been gamechangers.
- The Agricultural Produce Market Committee (APMC) Act has been amended towards promoting barrier-free trade in agricultural produce. It will help farmers gain a better price for their produce by opening up more choices and reducing marketing costs. The freedom of inter-state trade will expand the market available to the farmers, which in turn will help them have better prices.
- During the period of the Covid-19 lockdown, several innovative direct procurement models were witnessed, wherein several large food processing companies stepped in to procure directly from farmers and Farmer producer organisation (FPOs), allowing a win-win situation for both parties.
- In line with the demonstrative success of these procurement models, the government has facilitated legalised engagement of farmers with processors, aggregators, wholesalers, large retailers, exporters. This will give great impetus to bulk buyers to invest in extension services to the farmers to improve productivity and return. The amendment to Essential Commodities Act is expected to encourage private investment into cold storage. It is also expected to grow the modernisation of the food supply chain, which in turn will help reduce food wastages.



Moreover, to offset the challenge of small landholdings, there has been a dedicated focus on building farmer aggregation through the Farmer Producer Organisation (FPO) model. The FPO model allows farmers to leverage economies of scale towards better prices of inputs and technology, easier access to finance, and also allows them better control on prices and stronger market access of processed as well as fresh produce.

Several schemes have been launched towards Incentivising primary processing infrastructure. These include -

a. PM Formalisation of Micro food processing Enterprises Scheme (PMFME): The scheme has been launched for providing financial, technical and business support for upgradation of existing micro food processing enterprises. This will not only reduce wastages by enabling food processing at the grassroots level, but also improve farmer income levels.

b. Creation/ Expansion of Food Processing/ Preservation Capacities (Unit Scheme): The scheme aims to increase the level of processing and value addition, leading to a reduction in wastage. The setting up of new units and modernisation/ expansion of existing units are covered under the scheme. As of February 2021, 145 projects were approved under this scheme.

c. Production Linked Incentive Scheme for Food Processing Industry (PLISFPI): The scheme has been launched with the objective to support the creation of global food manufacturing champions; promote Indian brands of food products; increase employment opportunities for off-farm jobs, ensure remunerative prices for farm produce and higher income to farmers. The key components of the scheme include

- Incentivising production of four major food product segments viz. Ready to Cook/ Ready to Eat (RTC/ RTE) including millet-based foods, processed fruits & vegetables, marine products & Mozzarella cheese.

- Incentivising innovative/organic products of SMEs across all the above four food product segments, including free-range- eggs, poultry meat & egg products.

- Support for branding and marketing abroad to incentivise the emergence of strong Indian brands.

d. Operation Greens: Under the scheme, the MoFPI provides financial support on transportation of eligible crops (horticulture) from surplus production clusters to consumption centres; and/or hiring of appropriate storage facilities for eligible crops.

e. Agro Processing Cluster scheme: The scheme aims to enable a cluster approach-based development of modern infrastructure and common facilities to encourage a group of entrepreneurs to set up food processing units. As of March 2021, 56 projects have been approved under the scheme.

f. Agri Infrastructure Fund: The scheme will provide a medium to long-term debt financing facility for investment in viable projects for post-harvest management infrastructure and community farming assets through interest subvention and financial support.

Vision 2030

○ Increase on-farm primary processing through district-level primary processing clusters.

○ Increase share of processed products in India's export basket from 15% in 2019 to 30% by 2030.

Pathways

KNOWLEDGE & RESEARCH



Predominantly processed food is regulated by FSSAI, while there is no regulation for fresh produce. To enable the shift from primary production to primary processing, it is crucial to educate farmer groups and entrepreneurs on FSSAI regulations on pesticide, contaminants, toxins, labelling, etc., to ensure a smooth transition as they get integrated into larger supply chains. Additionally, in terms of market access, primary produce that meets safety standards will receive a higher market price, thus impacting rural incomes.

In the case of agri produce, produce wasted is equivalent to income loss. Thus, it is key to reduce post-harvest wastage levels towards improving rural incomes. Proper post-harvest protocol training, including time/technique of harvest, sorting/grading, pre-cooling, packing, etc., extends the shelf life of perishables and is crucial for reducing wastage and income loss. Such commodity-specific training should be disseminated on a large scale. While the partnership of industry and academia can be leveraged to develop commodity and region-specific protocols, KVKs can be leveraged for dissemination.

While there are Business incubation units for developing primary processing technologies at the national and state levels, the challenge remains to disseminate the access of information amongst farmers. Krishi Vigyan Kendras should thus be leveraged to develop an awareness of technologies and innovative products developed by several food processing training institutes and innovative solutions developed by start-ups for their greater adoption by farmers and micro-entrepreneurs through learning missions product showcases.

Increase awareness about government schemes to support investments into primary processing by connecting all KVKs on a digital platform for better dissemination of information.

Create small videos on schemes available for primary processing infrastructure and disseminate them in regional languages.

Pathways

POLICY



Also, common processing infrastructure such as packaging and bottling units, common cold storage for perishables, etc., should be encouraged. This will bring in scale towards primary processing and greatly improve the incomes of rural producers and entrepreneurs.

To catalyse investments and help encourage smaller farmers and entrepreneurs, access to long-term finance is necessary. Towards this, food processing should be treated at par with agriculture, and banks should be incentivised to pay equal attention to food processing companies. Food processing should be included as a separate priority sector and not just part of agriculture.

IMPLEMENTATION



It has been empirically observed that the price realisation of farmers is better for a processable variety of crops compared to table varieties. Thus, the cultivation of processable varieties amongst farmers and farmer groups should be promoted through workshops and capacity-building programmes to increase acreage under cultivation and build up a procurement base.

Given the potential of food processing towards impacting rural incomes, the power tariff for food processing industries should be set at par with the tariff on agriculture activities.