

## Resilient agriculture sector — trade challenges and way ahead

1 February 2021

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(6 min read)

We will always remember 2020 as a challenging year. The year brought us face to face with problems that were common to all of humanity and were largely ignored or undermined previously. In order to deal with these challenges effectively, developing resilience and being prepared is becoming a major focus for policy makers, government and industry. The Indian agricultural sector has shown immense resilience all through these tough times. Support from policy makers and government further contributed to the sector's health during 2020.

Post liberalisation of the economy, the share of agriculture in India's GDP (gross domestic product) dipped from 27.3 per cent in 1991 to 16.8 per cent in 2006<sup>1</sup> and has remained stable since. Considering the current contribution of agriculture in overall GDP, India may no longer appear to be an agrarian economy although a major share of the rural population in India is still dependent on agriculture for their livelihood.

Services, trade and manufacturing sectors have fuelled Indian economic growth, but agriculture has remained the backbone of the Indian economy and continued to support growth. Agriculture GVA (gross value added) is estimated to grow by 7.3 per cent during FY21, where overall GVA is estimated to dip by 4.2 per cent<sup>2</sup>. Contribution of agriculture in total GVA during 2020–21 is estimated to be the highest since 2001 at 19.8 per cent. These numbers are a testimony to the resilience of Indian agriculture.

Considering agriculture's importance to the overall economy, there are challenges that need to be addressed urgently to unleash its full potential. One such challenge is agricultural marketing and trade. In India, only a few universities have a dedicated department for agricultural marketing and a lot more focus is needed by academia and research.

### Recent government initiatives to strengthen agricultural marketing and trade

**Agricultural marketing reforms:** Recent years have witnessed several initiatives from policy makers to bring in the required efficiency in agricultural produce trade and marketing system. Some of these key initiatives include amendments to the APMC (Agriculture Produce and Market Committee) Act, introduction of e-NAM (National Agricultural Markets), allowing private players to set up APMCs, focus on development of FPOs (Farmer Producer Organisations) as aggregators and profitable farmer enterprises.

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**Infrastructure focus:** Infrastructure investments are required to boost market linkages and the GoI (Government of India) launched a scheme to develop Agricultural Marketing Infrastructure (AMI) in 2018 and the recent Atmanirbhar Bharat scheme in 2020 to develop other farm gate infrastructure. These schemes are expected to mobilise farm gate investment in the range of INR1000-1500 billion (USD13.7-20.5 billion)<sup>3</sup> in the next three to four years. This infrastructure investment is expected to bridge the gap in primary processing, storage, quality assaying and logistics infrastructural requirements. These initiatives are steps taken in the right direction to make agricultural markets vibrant and efficient.

Despite some success stories in a few clusters, infrastructure alone cannot foster efficiency in agricultural produce trade. Agricultural trade inherently is complex due to variations in the quality of produce, seasonal production, spatial and temporal spread of consumption, unavailability of reliable information about production and prices across various markets.

### **Key focus areas to strengthen agricultural marketing and trade in India**

**Strengthening of e-NAM and e-trading platforms:** This would include continuing with allocation of funds for strengthening of e-NAM implementation in the existing e-NAM mandis, implementing e-NAM in all mandis across states and expanding e-NAM's scope to outside mandi premises to leverage farm gate infrastructure development process and connecting farmers, FPOs to direct buyers.

Development of platforms or a spot commodity exchange with operational and risk guidelines for online trading platforms would also help in collection and dissemination of information for efficient price discovery.

**Production and market intelligence system:** Allocation of funds for developing a robust national level agricultural production and trade intelligence system would effectively reduce time taken for information at the production centre to translate into price action at the trade centre. This means higher co-integration of agricultural produce price and efficient markets.

**Minimum support price (MSP) purchases through derivative markets:** This would encompass linking physical trade with commodity derivative instruments, which can further evolve as an efficient risk management tool for farmers. For instance, FCI (Food Corporation of India) or any other government agency that is participating in MSP purchases may write a put option at a strike price equal to the MSP with delivery during the harvesting month and any farmer who is interested in de-risking can pay a marginal amount as premium to buy the right to sell at MSP. This gives flexibility to the farmer who can decide whether to sell to the government agency or in open market depending on the price at the time of harvest. The procurement system becomes efficient as third-party assayers and service providers will ensure quality of the produce as per the exchange parameters. Furthermore, this will give flexibility to procurement agencies to purchase produce to be delivered at storage facility near consumption centres.

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**Access to formal credit:** Availability of formal credit to farmers has increased substantially, however it is restricted to owner farmers. Tenant farmers are still deprived of formal farm credit and dependent on commission agents for their financial needs. Strengthening of FPOs to act as business correspondent and extending credit to all members with suitable risk management measures is likely to reduce the dependency of farmers on informal credit sources.

**Agricultural produce quality standardisation:** Agricultural commodity trade is a sample-based trade with several quality disputes and claims. There is a need to develop quality standards for agricultural produce trade in line with food quality standards. Gradually, trade should switch from the current practice of 'Fair Average Quality' (FAQ) to grade-based trading practices in agricultural produce marketing.

Indian agriculture has travelled from a concerning state of ensuring food security to be one of the major producers in the world. Indian agriculture has potential to become the food bowl of the world, which requires increased emphasis in building agricultural produce trade efficiencies, integrating quality standards as part of trade practices, production cost optimisation to bring in price competitiveness and market integration through effective information dissemination mechanism.

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<sup>1</sup> India: GDP share of agriculture, The Global Economy, accessed on 29 January 2021

<sup>2</sup> Staring down Covid, agri among few sectors to grow in FY21 in arid economy., APEDA Agri Xchange, 8 January 2021

<sup>3</sup> Government of India websites – Agriculture India Fund (AIF) (INR1000 billion), Animal Husbandry Infrastructure Development Fund (AHIDF) (INR150 billion), Ministry of Food Processing Industries (MoFPI) (INR100 billion), Pradhan Mantri Matsya Sampada Yojana (PMMSY) (INR200 billion), accessed on 29 January 2021