

Food processing impact on doubling farmers' income

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Food processing can be India's answer to the current PM's call for doubling farmers' income. This critical sector links agriculture, manufacturing sector and final consumers; reduces post-harvest wastage through infrastructure creation and adds significant value to agriculture produce through processing technologies. The added value, when it flows back to farmers via the value chain along with the value realised through wastage prevention, can add significantly to farmers' income.

The sector has also grown at a faster CAGR of 9.5 per cent¹ as compared to agriculture's five-year CAGR of 3.4 per cent. KPMG in India in its recent report – "[Indian Food Processing Industry- Growth opportunities post the COVID-19 pandemic](#)" estimates that, going forward, this sector will reach USD535 billion by 2025 at a CAGR of 15 per cent, which indicates significant potential for increasing farmers' income through processing. The sector also aims to add 9 million jobs by 2024. Thus, the sector can potentially be the solution India needs to double farmer's income.

In the past, efforts have been made to increase farmers' income by increasing food production and introducing new ways to increase productivity, providing incentives through better crop prices and subsidies, and via public investment in agriculture and facilitating agricultural institutions². While these efforts have increased our agriculture produce by 3.7 times since independence, it has not translated into a corresponding increase in farmers' income. Majority of the farmers (small and marginal - accounting for 82 per cent of all farmers) still have not seen any significant rise in their income. Being at the lowest end of the value chain without any bargaining power, these farmers continue to bear losses arising due to several reasons, including lack of post-harvest storage and transportation and processing facilities.

Globally all major economies have advanced food processing ecosystems with high levels of processing (70-80 per cent against 10 per cent in India)³ and correspondingly higher value added per worker in agriculture. India, despite being the leader in production of several agricultural commodities, lags behind several countries in terms of value added per worker in agriculture.

¹ KPMG in India analysis

² Strategies for Doubling Farmers Income through Agro-Processing, Indian Council of Agricultural Research, accessed on 16 August 2021

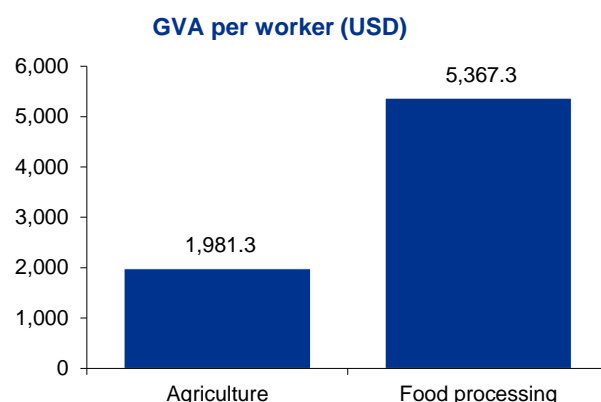
³ Food Processing Industry in India: Challenges and Potential*, RBI Article, accessed on 16 August 2021

Country	Value added per worker in Agriculture (USD) ⁴
Canada	112,867
United States	93,728
United Kingdom	51,960
Germany	42,622
United Arab Emirates	30,180
Brazil	13,750
China	4,191
India	1,998

Thus, the need of the hour for the country is to expedite its move towards value addition in agriculture through food processing.

India's food processing sector generated a much higher gross value added (GVA) (USD5,367 at current prices) per employee per worker than that generated in agriculture (USD1,981)⁵ in 2019. This increased GVA per worker, if distributed to the players in the value chain, including farmers, can be their potential earnings.

To accomplish this, small and marginal farmers will have to be integrated into the food processing value chain, not as producers but as entrepreneurs engaged in primary and secondary processing activities that are profit generating.



Some of the ways in which food processing results in addition to farmers' income include:

- Reduction of post-harvest losses through efficient storage and transportation:**
 The post-harvest/in transit wastage account for approximately 40 percent of the total food wastage in India compared to 28 percent globally and result in significant erosion of farmer income. The impact is more so in high-value crops, such as fruits and vegetables, keeping farmers away from reaping benefits. Well-developed storage (e.g. cold storage) and transportation facilities help farmers reduce these losses by preserving food for extended periods of time. This also allows monetisation of the crop when the prices are higher. For achieving the desired results, the storage and transportation facilities need to be accessible and affordable. A cluster approach with shared infrastructure is one such model with demonstrated success.

⁴ Data from World Bank, accessed on 16 August 2021

⁵ Economic Data- MOFPI, accessed on 16 August 2021 and KPMG in India analysis

- **Near farm processing:**

Farmers engaged in the production of low-value crops can add value and increase household income through primary and secondary processing creating higher value products. This is a proven method globally. In many African countries, farmers process sorghum into beer or cassava into garri or snack foods and have formed very successful small-scale businesses⁶. In India, demonstrated examples include papad, pickle and chutney-making, which have become a major source of income for many farmers, including women in rural areas. By including more farmers and expanding the product range, near farm processing activities can be very fruitful for a large number of farmers. The Government of India has approved more than 63 near farm agri-processing clusters under its Scheme for Agro-Marine Processing and Development of Agro-Processing Clusters (SAMPADA Yojana).

Case Study: Rural entrepreneurship through amla farming

Mr. Amar Singh from Rajasthan, aged 60 years, initially was receiving an income of INR7 lakh from amla farming. Assured market and remunerative market led him to set up his own processing unit with an initial investment of INR5 lakh that employed both men and women.

His unit presently is involved in growing, processing, packaging and transporting.

Currently, his turnover is nearly INR26 lakh in one season (August -February).

(Source: National Institute of Agricultural Extension Management (MANAGE))

- **Value chain linkages:**

Farmers can be directly connected to food manufacturers (secondary/ tertiary processors) and sell their produce (fresh/ primary production) to large food manufacturers. A recent study involving farmers of Krishnagiri cluster in Tamil Nadu, showed that farmers who are linked with the processing industry were able to gain on an average additional income of about 49 per cent in comparison to the farmers who operate in the non-processing industry region.⁷

The future market potential of food processing (USD535 billion) is likely to generate greater demand for crop produce, creating a new market for processable varieties for farmers. Food processing companies can enter into end-to-end arrangements for direct engagement with farmers, including their education leading to the enhancement of farmers' knowledge of advancing technologies, cultivation of processable crops and manufacturing of higher value-added product lines.

Food processing has the potential to enhance farmer's income in India by adding significant value to the agricultural produce. By engaging farmers in processing activities, providing better storage and transportation and creating market linkages, it is possible to generate avenues for enhancing income for the farmers.

⁶ FAO, accessed on 16 August 2021

⁷ "Agro-Processing Industry and Farmers' Linkages: Pattern and Impact on Enhancing Farmers' Income in Tamil Nadu" by P. Ventakesh et al, accessed on 16 August 2021

We are also witnessing greater consumer preference for processed food in the post COVID-19 world. The sector is expected to see enhanced private sector investment creating opportunities for integrating farmers into the value chain of large producers.

An effort needs to be made to ensure that the benefits reach the intended beneficiaries - small and marginal farmers. A policy intervention or action plan is the need of the hour.

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