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Subject III

Emerging Trends in Agro Processing Sector

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The theme received an overwhelming response from the scholars. As many as sixty-seven papers covering various aspects flagged in the guidelines circulated were received. These papers encompassed a wide range of commodities, pattern and pace of growth, structure and composition of processed agro-products, infrastructure and institutional domains, corporate dominance, co-operatives and contractual arrangements, import-export scenario and trends in the wake of liberalisation. There was also a general scattering in many papers about the improvements to be made and maintaining of quality standards so as to meet the requirement of the sanitary and phyto-sanitary governance systems. Five papers were published in full. The keynote paper was presented and the issues flagged therein were discussed. The paper-writers were given the opportunity to present the papers focusing on the issues being discussed. The researchers brought out with enthusiasm many recommendations based on their studies and field experiences. The discussions focused on the issues raised in the rapporteur’s report and the keynote paper presented.

The agro-processing in general and food processing in particular has started gaining momentum. The total market of the value-added food products is assessed at about one-third of the total value addition in agro-processing, which is estimated at about Rs. 2,500 to Rs. 3,000 billion. This also has a large buffer of employment generation in the rural sector with a multiplier impact on the economy. The agro-processing industry is concentrated in the unorganised sector with low science and technology input and heavily weighted in favour of low value-added products. It was pointed out that the new demand segment for high-value added agro-processed products is emerging at a fast rate, which needs to be appropriately exploited. The low productivity of the agro-processing sector remains the most crucial issue. It demands public investment and support for infrastructure and institutional improvements that would help to improve the productivity of the large number of small-scale agro-processing units, cut down their fixed costs and improve their profitability. The fact is that agro-processing is a vast house of small-scale enterprises, which has strong presence in the Indian economy. And in the rural economy of India, it simply dominates. There is a flip over from the negative to positive growth rate in the number of agro-based enterprises and employment as well

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as the real productivity therein and even more so in the unorganised sector, particularly during the post reforms period. The policy incentives to address the constraints of the unorganised agro-processing sector, thus, should keep its due focus intact.

The agro-processing capacity during the past two decades has increased at a much faster rate. The capacity utilisation has also increased but at a lower rate (e.g., by about 34 per cent and 13 per cent respectively in the case of fruits and vegetables). It has created a wide extent of capacity to be utilised. There is need for product development to meet the emerging demands and aggressive marketing to capture the vast potential markets globally and domestically. This calls for the large players as well as the public investment and support to play a significant role in this context. It was suggested that the development of niche markets with generic promotional activities is crucial to promote the value-added goods.

The role of strengthening the vertical and horizontal, backward and forward linkages among the farmers, the processors and R & D organisations to tide over the impediments, to improve upon the economic efficiency and in better realising the economies of scale were highlighted. It was felt that the weak integration of the producers and processors keeps the farmers oblivious of the quality and quantity requirements of the processors and hence the farmers' emphasis remains concentrated on quantity of production. This needs to be corrected. The promotion of vertical and horizontal integration among marketing co-operatives, farmers' associations, self-help groups (SHGs) and food chain stores are vital to improve value addition chain. Improving the productivity of producing the raw materials at the farmers' level and of the processing units in procuring the right kind of raw materials are the main pre-requisites in developing the agro-processing sector. The next stages of sufficient conditions in the development of agro-processing sector are reducing the costs in the marketing channels from producer to the agro-processor and from the agro-processor to the consumer. These demand improvements in the marketing infrastructure, marketing institutions and improvements in the organisation management and set up, which are very crucial to boost the agro-processing industry.

It was strongly felt that the constraints on the development of agro-based industries should be studied/assessed and addressed to adequately. It has become more important in the wake of increasing emphasis on nutritional food security to ward off the 'silent-hunger'. It was also suggested that the quality consciousness and preference for health food by the high-income domestic consumers should also be capitalised upon through development of agro-based high value processed and branded products, which also should be marketed aggressively. The self-help groups and local co-operatives need to be encouraged to develop the small but economically viable agro-processing units to meet the local/regional/ethnical specific demand. These will help generate local employment and improve rural incomes. The examples ranged from local co-operatives, managed by women groups, to the large number of dairy co-operatives, which have helped to make a clear impact on the role of private sector in increasing the producers' share in the consumers' rupee by acting as price leaders in the market in most states.

The role of contract farming in promoting the agro-processing sector was deliberated with great enthusiasm. It was felt that the terms of the contract are generally or at least more in favour of the processor rather than the farmers. The contracts are short-term, inequitable and ambiguous. It was felt that there are examples where the system can be devised to establish general win-win situation by involving all the stakeholders including the government departments as facilitators rather than keeping them outside the ambit. There are economies in the contractual arrangements mainly through the dis-intermediation in the wider context of the marketing system. The large-scale processors input in the technology of production of the raw material and the flexibility to incorporate the market uncertainties by adjustments in the contracted price are important to maintain the continuity of the agro-processing establishments. The system should help in harnessing the economies of scale in producing large quantity of quality produce by large number of small producing units and the scale economies in the processing as well as the marketing by the agro-processing units. The need to analyse the economics of contract involvement price, quality, quantity and terms of payment was largely felt.

The need for assessing, appraising and evaluating and then establishing the food-parks, agro-processing centres, agri-export zones is the demand of the day. These should focus on minimising the losses, *repeat minimising losses,* creating the scale economies, improving the quality of the product throughout the processing system, i.e., from the producer to the processor to the consumer, which is the need of the day. It also needs to be oriented and directed to improve the efficiency in production, processing, employment and income generation. The financial constraints need to be adequately and appropriately addressed. There is need to improve and impart education to generate agro-processing entrepreneurs. The emphasis on the 'quality' remained the focus in all the discussion in order to meet the requirements of the sanitary and phytosanitary systems in the context of competition in the export markets.

Some issues raised in the rapporteur's report published earlier were not adequately addressed and need to be researched further. Some more issues were also identified for more focused research, which are as follows:

- The inter-regional inequality in the development of the agro-processing industries needs to be investigated. In particular, the constraining factors that have led to the location/development of the large scale agro-processing industries in regions away from the raw-material production centres need to be studied for devising the appropriate policies and strategies for promoting balanced development of the sector.
- What production, procurement and establishment systems need to be developed to improve the productivity of the quality produce at the farmers'

level and the productivity and efficiency of the agro-processing industry at the processors' level? Further, what marketing systems need to be adapted to reduce the costs and margins from the processor to the consumer level?

- Why is the capacity utilisation lagging far behind the capacity creation in the agro-processing sector? What steps or policies need to be followed to improve capacity utilisation?
- Different models of developing the organised markets and market systems for improving the productivity of the agro-processing industry need to be focused. What are the strategies for developing the aggressive marketing system for agro-processed products?
- What sort of specific public and private capital formation in the agro-processing sector need to be promoted to improve the backward and forward linkages and increase the effectiveness of the multiplier effects?
- How to develop the institutional mechanism to strengthen the contractual arrangements in the farmer-processor-consumer chain for the betterment of all the stakeholders? What should be the facilitator's role and how best it can be achieved?
- How to develop the food-parks, agro-processing centres or export zones, etc., with what type of infrastructure, investments, institutions and incentives to capitalise upon the economies of scale, cut down costs, create quality products with brand images, etc., especially keeping in view to conform to the sanitary and phyto-sanitary standards.