

## Sectoral Consultation Report on “Impact of COVID-19 on Agri-Processing Enterprises: Challenges, Opportunities & Recommendation”

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### I. Introduction

Swaniti Initiative organised a Sector consultation on “Impact of COVID-19 on Agri-Processing Enterprises” on April 13, 2020. Sectoral experts and industry professionals from Agri-processing organisations, international trade, dairy, logistics, and warehousing were part of the consultation to discuss the challenges and way forward for the organisations in the current scenario. The participants shared their perspective on what was the ground reality in different parts of India’s and the world’s food system along with the information they have come across from bankers, entrepreneurs, researchers, and policymakers in their peer networks.

The proposed objective of the Sectoral Consultation was:

- Understanding the impact of COVID on the agribusiness sector
  - Perspective on the impact of COVID-19 on operations of the agribusiness enterprises
  - Understanding the effect on the export
  - Bringing about a strategy document to support state governments / nodal ministries as a feasible action plan

The sectoral consultation commenced with opening remarks from the representative of Swaniti Initiative that the ongoing coronavirus pandemic is a public health emergency with grave implications for the population of the world. India has also been adversely impacted by the ongoing health crisis-- especially the poor and marginalized. Although supplies of staples, fruits, vegetables, and meats have been adequate during the COVID-19 outbreak so far, there remains threats to food security, in the long term. **Restrictions on transportation and movement of people have already led to some food logistic challenges. Yet the impact of the outbreak will spill over to food processing industries, which have suspended production till the market opens without any restriction.**

Supply of processed food remains relatively abundant for the time being, but **production may be affected by a manpower crunch and falling demand for agricultural products. As farmers are already struggling to harvest and trade perishables due to shortage of workforce, transportation, limited market operations.** The trade impact of the coronavirus epidemic for India is estimated to be about 348 million dollars and the country figures among the top 15 economies most affected as slowdown of manufacturing in China disrupts world trade, according to a UN report.

According to Asian Development Bank (ADB) the Covid-19 outbreak could cost the Indian economy between \$387 million and \$29.9 billion in personal consumption losses. **The food processing sector is recognised as a sunrise sector in India. The \$600 billion industry currently employs close to 70 lakh workers, including around 15 lakh women.** Furthermore, it has a massive potential to unlock the economic value of agricultural produce, facilitating the national agenda of doubling

**farmers' income by 2022.** Thus it becomes imperative for the food processing sector to come together as a collective and combat the issue for better functioning.

## II. Farmers and Farm Income

The members in the consultation decided to start the consultation towards the ground realities on the plight of the farmers. The **national lockdown from 25 March 2020 has severely affected lives and livelihoods across rural India.** Agriculture and allied sectors employ more than half of the workforce in the country. A majority of India's farmers (85%) are small and marginal farmers with less than two hectares of land. **The farmer incomes are going to be lower than normal.** Farmers were looking forward to a bumper harvest in March–April after a good rabi season, but the lockdown has changed the situation for the worse. As the trains and trucks are not moving and, suddenly, India is fragmented into thousands of small village markets that are sealed off from each other.

**Price discovery will be difficult for farmers and coordinating supplies from surplus areas to major demand centres will be a huge challenge.** Although, the Food Corporation of India (FCI) and the state governments may manage to procure wheat at the minimum support prices even during the lockdown in Haryana, Madhya Pradesh, Punjab, and western Uttar Pradesh, but the public procurement system is weak in Bihar and eastern Uttar Pradesh and unlikely to improve this year.

**High-value food commodities (HVCs),** such as milk, fruits and vegetables, and meat, fish and eggs, **account for 56% of the total value of output from agriculture and allied sectors.** Supply chain issues for these perishable products will be more challenging. Apart from the supply issues, there will be a larger **decline in their consumption because of their higher income elasticities.** Shutting down of hotels, restaurants, and catering (HORECA) is another reason for decline in the demand of HVCs. According to trade estimates, the **HORECA segment accounts for 30% of total milk consumption in North India.**

Despite the demand dipping, milk procurement has not come down as the dairy cooperatives are forced to adhere to the government notification of not meddling with the livelihood of farmers. This has led to surplus milk in most states. A lot of the smaller private dairies which depend on institutional sales have been selling their milk to the cooperatives. **Cooperatives such as GCMMF (Amul) and the Karnataka Milk Federation and Mahanand in Maharashtra are buying extra milk just to help farmers.** But the **not so well-off cooperatives in the states of Odisha, Jharkhand and West Bengal are not able to buy as much and farmers are forced to throw milk.**

The demand for chicken and eggs had started going down even before the lockdown started because of rumours that poultry products can be vectors for COVID-19. In recent months, **many small poultry farmers had to cull their mature broilers because there was no demand.** The central and state governments should make public announcements to dispel these rumours. In Delhi, the price of broiler chicken has gone down from ₹55/kilogram in January to ₹24/kilogram in March.

Along with the HVCs and Poultry, the **floriculture farmers have also faced the heat of the pandemic** due to closure of transport as well as lack of demand from the public following the stoppage of religious functions and restriction on private ceremonies. **Jasmine and marigold flowers are also processed for their chemical constituents, but the closure of the processing units has affected demand** from that end also. Further, the availability and capacity of these **processing units is not sufficient to procure and convert the large volume of production into value added products that can be stored**

**for future trades.** All these factors put together have brought both organized and unorganized supply chains for loose flowers to a stand-still. Many farmers, following the end of the agricultural season for paddy and other foodgrains, turn to horticulture crops — fruits, vegetables and flowers. The investment for raising flower gardens is anywhere between ₹50,000 and ₹1 lakh per acre in open cultivation and those who raise flowers in about 1,200 poly houses, invest anywhere between ₹3 lakh and ₹4 lakh to raise orchids, carnations and roses. Some State governments have announced subsistence to the poor, and MSP at their doorstep for paddy and maize farmers but **there is despair for thousands of small and marginal floriculture farmers who have lost their investment.**

The major losses to the farmers and farm income are due to the disruption of supply chain. Thus, it becomes important to analyse the supply chain and its effect in this crucial juncture.

### III. Disruption to Supply Chain

Though the governments across the country have largely refrained from implementing measures that explicitly close down food production, manufacturing and distribution, deeming these to be “essential services”. The measures vary from state to state depending on the intensity of COVID in the states. Nevertheless, measures in place have still created unintended challenges across the entire food value chain in the following areas:

- **Labour Shortages:** The Agri-processing industries and **value chain are a highly capital-intensive industry and requires huge dependent on labor** at different locations of the value chain. Travel to work has in many cases been made **impractical for many low-wage workers when public transport has been closed, with alternatives often unaffordable.** The **restrictive measures** on the movement of individuals has therefore significantly **impact businesses ability to sustain their operations.**
- **Input Shortages:** The agri-processing industries are dependent on other industries for their input which includes oils, packaging material and electronics. **Due to the lockdown and the input commodities being deemed as “non-essential” commodities, the production has been restricted** for these items which act as a crucial part of agri-processing industries. The lockdown has had a knock-on effect on the overall food supply chain.
- **Closure of Borders:** The places where inputs or finished products have reached different state borders or in case of imports of products, they are facing difficulties in clearing them. This has also been due to **asymmetry of information dissemination and sudden changes made by the government around the logistics worker (like truck drivers) being allowed to cross-borders, given the lockdown in place.** For international imports such as oils, one of the major bottlenecks has been labor shortage at regional ports.

The points shared by the experts was shared with the example from the packaging industry which plays a key role in the agri-processing industries. The packaging material industry is operating much below its installed capacity as it faces issues in supply lines and shortage of manpower due to the lockdown. The new batches of the FMCG products, manufactured after the lockdown, lack standard packing format and this is mainly because of disruption in the supply of packaging materials. This could be a shortage of food

packaging material with these companies. They are facing problems in sourcing other raw material also because the whole ecosystem is disrupted.

Though the government has allowed food processing companies and pharma companies to operate, they in turn are dependent on their raw material and packaging material suppliers. The suppliers too are dependent on their supply chain. **This entire supply chain is broken currently with a shortage of labour, packaging material, trucks etc and the government must react quickly to this situation or else we may have serious supply shortages in the coming days.**

#### IV. Export, Trade and Logistics

India's export market is interconnected with global value chains and a leading exporter in agricultural and other essential commodities such as pharmaceuticals. Trade restrictions imposed by several countries to curb the outbreak of COVID-19 has substantially affected logistics and transportation, which has implicated effect on the food & beverage industry. Restrictions have had a direct impact on the food supply chain with the tightening of transportation and port capacities whilst also leading to an increase in shipping and freight costs. Furthermore, this has resulted in the shortage of food supply, leading to choked production and affected availability of food & beverage products at retail level. The availability of containers is also going to be a concern going ahead. Shipping agencies have indicated that there could be a shortage of containers due to the disruption of business in China, from where a lot of containers come. Some exporters are facing delays in payments from buyers in Europe countries like Italy (major importer of coffee beans from India) as banks in that country are not functioning at full capacity. A prolonged restriction on trade and logistic challenges will likely have a significant impact on the revenue of food businesses.

#### V. Long Term Effects Post Crisis and Opportunities

- **Changing Consumer Behavior:** The experience of lockdowns may accelerate some of the consumer trends that were already developing before the crisis. The biggest impact is likely to be on the online food delivery market. The effects on the at-home market are more uncertain – whilst some segments may generate a preference for higher-quality fresh ingredients (having had more time to cook at home), others may stick with lower cost products they relied on during the crisis, potentially reducing brand loyalty. Either way, **businesses will need to carefully evaluate the effects of the crisis on consumer preferences and adapt accordingly.**

There is a general consensus that the **consumer will would eat at home more often** than before the outbreak also **resulting with a high demand for more takeaway food and home deliveries** of food as **consumers have moved away from an 'on-the-go lifestyle' to more of a 'safe in-home consumption' trend.** When it **comes to ingredients**, many **shoppers will have lessened their aversion to frozen options.** This may **open the door to products and brands** that previously struggled to establish a **foothold in the fresh-food space.** Instead of leaving the store empty handed when a certain item is unavailable, **shoppers may be more willing to seek frozen alternatives in the post-pandemic time.**

- **Entry of Smallholder Farmers in Agri-processing Value Chain with Digital Solutions:** The current crisis may also emphasise **the importance of bringing smallholders more closely into the food system**. This will **involve accelerating digital solutions that provide clearer information to the producers**, as well as **microfinance initiatives that offer desperately needed credit** especially in times of disruption.

Most of the **farmers cultivate less than 10 acres of land**, far away from paved roads and with limited access to the improved seed and fertilizer they need to produce good harvests. Most of these **farmers also lack access to financial services** that could help them buy that seed and fertilizer. The operation of **microfinance institutions is focused in urban and peri-urban areas**, with a few offering products specifically targeted at farmers. This is due to **lack in-house expertise on agriculture** in the microfinance institutions. This lack of understanding leads many **MFIs to inflate the risk of farm microfinance**. The **production risk** in agriculture can be **mitigated by bundling lending with access to inputs and training**. If a farmer is given a cash loan and uses it to buy low-quality seed or fertilizer, the production will suffer. Lenders can **eliminate this risk by bundling loans with access to inputs and training**. They can **use contractual arrangements with agrodealers and extension workers** to guarantee input quality and access to training, or they can provide these services using their own resources and staff. If financial institutions utilize the strategies above, agriculture risk is manageable.

For example, **MShwari** in Kenya uses **cellphone based lending to the farmers**. The app uses cellphone records as credit score to rate the customer. It uses **agronomic geospatial data to ensure that lending is only given to farmers growing the right crops in the right location**. Plus, migrating cash management to mobile money platform reduces the money disbursement and recovery costs. The mix of these technologies could grant access to seasonal lending to smallholder farmers. On similar terms, **DigiFarm and Connected Farmer** platform offers **a range of services to farmers including e-vouchers for quality inputs at discounted prices; access to agriculture advice services via a training module; and advice on how to appropriately use inputs like seed and fertilizer**.

The current situation will **open the door for new startups and organisations to get into the new models of agricultural financial inclusion activities** in the country and create a niche for themselves. This will also lead to expansion of the customer base for startups currently offering loans to previously un-bankable customers using cellphone data.

**The most exciting of all is the impact that this will have on farmers who will have increased opportunities to invest in their endeavors.**

- **Decentralized Production and Procurement:** Large players with multiple facilities, are likely to be pay a greater emphasis on reducing reliance on any particular country or facility. This may require a larger number of smaller specialist operations, or existing facilities producing a greater variety of products. **Businesses of all sizes can be expected to look to diversify the mix of their supplier bases to reduce their exposure to individual geographies**. This logic will also extend to customers, with organisations looking to limit their concentration by product, geography, and industry. **This may increase organic and inorganic market entry activity, as businesses seek to broaden their focus.**

## VI. Policy Recommendations

The suggestions for policy recommendations put forward by the sectoral experts involve steps which need to be taken by both enterprises and government to smoothen the supply chain and strengthen the supply chain systems for future. The policy recommendations also give a view towards expansion of businesses by enterprises through utilization of opportunities arising from the current crisis.

- **Exemptions for Labor Supply, Workforce Protection and Agri Value Chain:** The government can consider **strengthening exemptions from movement restrictions for food and beverage workers - to keep the supply chain functioning.** This allowance is likely to be conditional on employers implementing measures such as provision of personal protective equipment and safe distancing. On the other hand, **packaging companies should also be provided relief as they play a major role in the agri value chain.** The enterprises should be taking care of the movement of such workers by providing sufficient protection and testing.
- **Open Borders for Good:** Proper planning should be done for both external and domestic border management controls to allow for continued access to raw materials and distribution of finished products to consumers. This could **include exemptions for transport workers from border restrictions, priority lanes for freight transport (“green lanes”) and maintenance of staffing levels.**
- **Supporting Vulnerable Suppliers and Customers:** Large organisations are fortunate enough to have the scale and flexibility to manage short term disruption, many are **considering measures to support some of their more vulnerable suppliers and customers.** This includes greater flexibility of payment terms to allow certain suppliers and customers to retain cash. The organisations can look for **initiatives such as maintaining order levels where inputs are non-perishable and can be stored for future use.**
- **Reforms in APMC rules and Utilization of eNAM:** The primary factor behind supply and price distortions for farm produce in India is the inherent inefficiency in the Agricultural Produce Market Committee (APMC) structure for marketing of agricultural goods in our country. this can be addressed by taking advantage of the electronic national agriculture market or eNAM, one of the digital initiatives of the government. This can bring significant efficiencies in the farm marketing mechanism, act as an effective tool for fighting inflation or price distortions and also reduce the procurement burden on the exchequer.
- **Strengthening Downward Logistics:** The organisations should work towards improving their downward logistics. This includes spreading **distribution over multiple routes to reduce the impact of disruption** at borders, and even agreeing to **sharing capacity with other producers** - for example where each party may be exposed to different geographical risks.
- **Strengthening Bilateral Trade Agreements:** Efforts to-date should be applauded – supply chains are generally remaining intact and supermarket shelves are still well-stocked. However, it is essential that governments and businesses continue to work hard and maintain the nimble and pragmatic attitudes that have served the populations so well over the last month. The **current situation also creates an opportunity for the government and business houses to align and collaborate through new bilateral trade agreements** with countries and capture the market, as

several countries are facing supply chain situation due to disruptions in China and overall market. This gives an opportunity to analyse the commodities and countries and get into the trade agreements.

- **Digitization and Automation in Agri Value Chain:** The enterprises and government should look towards mechanization and automation of some parts of the agri value chain through technologies such as robotics, artificial intelligence and the Industrial Internet of Things (IIoT). This will reduce their dependence on on-site operational workers, with the new high value jobs created being ones that could in theory be done remotely (e.g. cloud computing specialists, data analysts) and help in increasing productivity and competitiveness in the agri value chain.
- **Relaxation in Railway Freight Charges:** The government **should provide freight subsidy in railway**. This can help **in efficient movement of bumper harvest of rabi crops from producer states to consumption zones at competitive price**. This will help the enterprises to revive their losses since the enterprises have suffered losses in lockdown and are running on lower output.
- **Relaxation in Power Charges:** Agri-Processing requires oil and power as input. Since small and some large enterprises are shut but need to pay fixed charges. **The relaxation in terms of power charges or reduction on power charges for agribusiness enterprises will help in reducing the losses.**