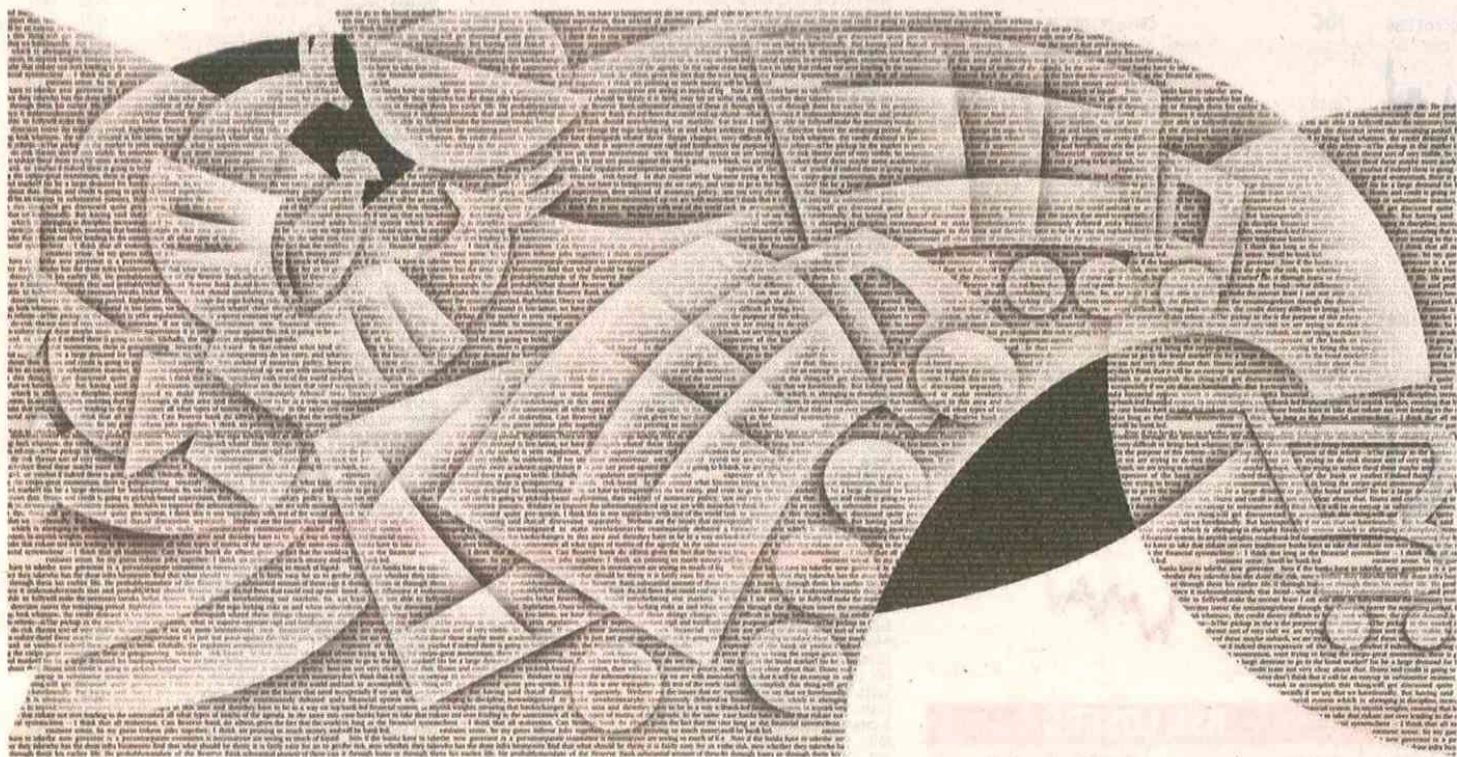


ourview

When big retail meets small farmers

From strengthening farm infrastructure to streamlining the supply chain, large retailers have the potential to galvanize Indian agriculture



JAYACHANDRAN/MINT

The knock-on effects of the Indian grocery store going big and coming online stretch far beyond consumer benefits. From strengthening infrastructure in the farm sector to streamlining the food supply chain, thereby increasing productivity, farmers stand to benefit as well. The Union government clearing US e-commerce giant Amazon's \$500 million investment in the food retail sector earlier this week should be seen in this context.

Amazon is not the only one. The department of industrial policy and promotion is also expected to soon greenlight similar investment proposals, totalling \$195 million, from Bigbasket and Grofers, the two established market leaders in India's online grocery space that already sell fresh fruits and vegetables, or FFV (Amazon only does packaged items). In fact, the proposals had already been approved but recent administrative changes stemming from the dissolution of the Foreign Investment Promotion Board mean that these have to go through the clearance process afresh.

Amazon, Bigbasket and Grofers were the three major candidates that expressed interest in food retail after the government opened up the sector last year—allowing 100% foreign direct investment both in brick-and-mortar stores and online establishments on the condition that the goods were procured within the country. In short, India's growing food retail sector is about to get a whole lot more competitive, and as this paper has argued earlier, Indian farmers are likely to be its biggest beneficiaries.

The most important aspect in this regard will be the development of modern supply chains in the agricultural sector, which is currently fragmented and hinges on middlemen. What this means is that there is a huge gap between wholesale and retail prices, and farmers don't profit much even when their produce is sold at a high price. However, big retailers can reach out directly to the small farmers through collectives and bring them into the system. For example, with more than 20 collection centres across the country, Bigbasket procures about 60% of its FFVs directly from farmers and the company reportedly expects that number to go up to 80% as it adds more collection centres. Others big retailers like METRO Cash & Carry, Walmart, Mother Dairy, Reliance Fresh, Heritage and PepsiCo also have similar arrangements.

The absence of critical infrastructure facilities, such as cold storage, is another problem—resulting, for example, in the wastage of 30-40% of the country's total produce every year. In 2016, the Central Institute of Post-Harvest Engineering & Technology in Ludhiana pegged the annual value of harvest and post-harvest losses of major agricultural produce at a whopping Rs92,651 crore (calculated using production data of 2012-13 at 2014 wholesale prices). In a country where thousands struggle to have two square meals a day

and malnourishment threatens to stunt social development, such wastage is a deeply problematic.

Investments in better storage facilities and an overall tightening of the supply chain, including direct procurement from farmers, can go a long way in preventing such wastage, bringing down food inflation and also preparing the Indian farm sector for more exports. And while some these processes have been in the works for decades—think of Mahagrapes, the cooperative firm which exports grapes to Europe and the Middle East, or Operation Flood which ushered in the White Revolution, or even PepsiCo's Rs180 crore citrus fruit processing facility in Nanded—progress has been slow and patchy. The entry of large retailers like Amazon, which not only have deep pockets but also the technological expertise, should help breathe new life into the sector.

The government is also working in conjunction with the private sector here. For example, in May, the Union cabinet cleared a Rs6,000 crore scheme for agro-marine processing and development of agroprocessing clusters called SAMPADA. Weeks earlier, the government had announced plans to set up 100 integrated cold chain projects for perishable items. According to Union food processing minister Harsimrat Kaur Badal, the idea is to build a "national food grid"—except that it will have limited success without reforms in the agricultural produce market committee system.

India is one of the world's largest producers of fruits and vegetables, yet only about 4% of its FFVs are processed. In comparison, China processes 23% of its produce, Indonesia 50% and Brazil 70%. Clearly, India has a long way to go, and more so since domestic consumer preferences are changing. As incomes and standards of living improve, Indians are moving up the food chain and demanding high-value FFVs. Their tastes are also diversifying, resulting in greater demand for poultry items and seafood, for example.

Though this change is yet to reflect in government policy, which still focuses on foodgrain, it actually works well also for farmers, who earn more from FFVs. In fact, according to Bigbasket chief Hari Menon, direct sourcing has increased margins by 6-7% and farmer incomes by 10-15%.

That said, as big retailers make their way into the Indian FFV market, expect some blowback from small vendors who, experience shows, will be hit to some extent. But the political considerations arising from that must not be allowed to play spoiler as they have before. The benefits that will accrue across the board—from consumers to farmers to the economy in general if the agricultural sector receives a shot in the arm—are worth fighting for.

How do you think big retailers can improve India's farm supply chain? Tell us at theirview@livemint.com