

## Economics Class 36

### INTRODUCTION (09:03 AM)

- A Brief Review Of The Previous Class.

### IMPORTANT QUESTIONS W.R.T FOOD PROCESSING (09:06 AM)

- **Question 1:**What are the challenges and opportunities in food processing? How can the income of farmers be substantially increased by encouraging food processing?
- **Question 2:**Elaborate the policies taken by the government of India to meet the challenges of the food processing sector.
- **Question 3:** Briefly discuss the significance of the Food Processing industry in the economic development of the country and the challenges which need to be addressed to boost the industry. Also, elaborate on the salient features of the national mission on food processing.
- **Question 4:**Briefly explain the role of the supply chain in the food processing industry. Elaborate on backward and forward linkages across the supply chain in the food processing industry.

### POTENTIAL OF THE FOOD PROCESSING INDUSTRY (09:12 AM)

- Rapid growth in organised retail acts as a catalyst for the food processing industry
- Deregulation and liberalization of the Indian economy driven by central and state government.
- India is the world's 2nd largest producer of fruits and vegetables but hardly 2% of produce is processed.
- Despite a large production base the level of processing is low. **(less than 10%). Approximately 2% of fruits and vegetables, 8% marine, 35% milk, and 6% poultry are processed.**
- At present India's agricultural exports predominantly consist of raw materials which are then processed in other countries indicating the space to move up the values chain.
- **India's livestock population** is the largest in the world with **50% of the world's buffaloes but only 1% of total meat production is converted to value-added products.**

The term livestock population refers to the total number of domesticated animals that are raised by humans for various purposes such as food, fiber, labor, and other products. This population includes animals like cattle, sheep, goats, pigs, poultry (such as chickens and ducks), horses, and other farm animals.

## SUPPLY CHAIN (09:28 AM)

- Supply chain is a network between **suppliers of raw materials**, food processors and distribution network to ~~make~~ the finished product.
- to the end consumer.
- **Inputs:** → Supply chain represents the steps it takes to get the product or service
- They are farm inputs.
- Example: National Seed Corporation Limited.
- **Production:**
- Farmers and cooperatives like Amul.
- **Procurement and storage:**
- Warehouses, cold storage facilities, entities like FCI.
- **Processing:**
- It involves grading sorting packaging etc.
- **Sales or Retailing:**
- Malls, cash and carry shops etc.
- **Backward and forward linkages:**
- **Backward linkage:**
- Connectivity of food processing industries with the sources of new materials:
- Example: supply of raw materials like potatoes to the ~~chip~~ manufacturers.
- **Forward linkage:**
- It means connectivity of food processing industries with markets through the distribution network comprising physical infrastructure like storage, road and rail network, retail shops etc.

(farmers)



market



chips



### **SIGNIFICANCE OF LINKAGE (09:35 AM)**

- It ensures timely delivery of food products to the consumer market.
- It enables farmers to grow products of appropriate quality.
- It ensures appropriate and remunerative returns to small farmers.
- Reduces food wastage especially perishable products like fruits vegetables dairy products etc.
- Better infrastructure results in cost savings and enhanced efficiency.
- It helps in improving hygiene and food safety standards leading to greater acceptability of processed food domestically and internationally.

### **CHALLENGES IN ESTABLISHING LINKAGE (09:42 AM)**

- High seasonality of raw material production. → it refers to a situation where the production or availability of raw materials is heavily influenced by specific seasons or periods within the year.
- Poor infrastructure facilities.
- Highly fragmented industry which is dominated by unorganised sector.
- Substandard level of processing industries.
- Inadequacy of information with farmers and small processors.
- Underdeveloped food testing network.
- Anamolies in domestic food laws in comparison to int food safety standards.
- Multiplicity of legislations leading to contradictions. → international



## **POLICY INITIATIVES AND MEASURES TAKEN BY THE GOVERNMENT (09:48 AM)**

- FPI included in the priority sector for bank lending.
- Most of the processing industries have been exempted from the purview of licensing except items reserved for small-scale sectors and alcoholic beverages.
- Automatic approval of Foreign equity up to 100%.
- Zero per cent duty on import of capital goods and raw materials for **100% export orientation** oriented units.
- **In budget 2017-18, govt. has set up a dairy processing infra funds worth 8000 crore.**
- Union budget 2016-17 proposed 100% FDI in marketing of food products produced and manufactured in India.
- The Food Safety and Authority of India (FSSAI) plans to invest Rs 482 cr to strengthen food testing infra in India by upgrading 59 existing food testing labs and setting up new mobile testing labs across the country.
- Setting up of MFP in the states of Bihar, Maharashtra, Himachal and Chhatisgarh.
- Govt plans to set up 42 such mega food parks in the next 4 years.

## MEGA FOOD PARKS (10:12 AM)

- The scheme of mega food parks aims at providing a mechanism to link agricultural production to the market by bringing together farmers, processors and retailers to ensure maximising value addition minimising wastage, increase in farmers's income and creating employment opportunities, particularly in the rural sector.
- The scheme is aimed at providing modern infra facilities along the value chain from the farm gate to the market through backward and forward linkage.
- The scheme has a cluster-based approach based on the **hub and spoke model**.
- **Collection centres (CC):**
  - Collection centres work as points of aggregation of produce from individual farmers, farmers groups and SHGs.
  - CC supplies raw materials to PPC.
  - The CCs are managed by local entrepreneurs and they serve as farm-level aggregation points for adjoining areas within a radius of 10 KM.
- **Primary Processing centres:**
  - Act as a link between producers and processors for the supply of raw materials to the central processing centres.
  - PPCs also work as primary work-handling centres Some PPCs have in-house facilities for pulping, grading, sorting etc.
- **CPCs:**
  - It is an industrial park in an area of around 50 acres and houses several processing units owned by different business houses.
  - The parks provide common facilities like **electricity, water, cold storage facilities, ware housing, logistics and backward integration through a network of PPcs and CCs.**
  - The scheme is demand-driven and would facilitate food processing units to meet environmental safety and social standards.

In this model, a central location (the "hub") serves as the main point where various activities or processes converge, and from which they are then distributed to various peripheral locations (the "spokes").

A Special Purpose Vehicle (SPV), also known as a Special Purpose Entity (SPE), is a legal entity created for a specific and limited purpose. SPVs are commonly used in finance, investment, and project management to isolate financial risk or to achieve specific goals that might be difficult to accomplish within the structure of a parent company or organization.

## IMPLEMENTATION AND FINANCIAL ASSISTANCE (10:29 AM)

- MFPs are implemented by **SPVs** which is a body corporate registers under a company acyt. 
- The financial assistance for MFP projects in the form of grants and aid at 50 % of the eligible project cost in general areas and 75% of the eligible project cost in NE regions subject to a maximum of 50 crores per project.
- **Benefits:**
  - Reduced post-harvest losses.
  - To maintain of supply chain sustainably.
  - Additional income generation for farmers.
  - Shifting the farmer to more market drive and profitable farming activities.
  - It would be a one-stop shop where everything will be available a a single location.
  - As per experts it will directly employ around 10 thousand people.
  - Wastage across the food value chain will also be reduced.
  - Quality and hygiene will be improved.



## ROLE OF STATE GOVERNMENT (10:34 AM)

- Assisting SPVs in the procurement of suitable land.
- Creating a single window clearance.
- Providing a conducive and flexible labour environment.
- **Policy initiatives:**
  - A special food processing fund of 2000 crore was set up with NABARD to provide affordable credit for investment in setting up mega food parks as well as processing units in Mega food parks.
  - PMKSY: It has been launched for agro-marine processing and development agro-marine clusters with Rs 6000 crore allocated for the period 2016 to 2020.
  - **PMKSY** is under the Ministry of Food Processing and it is a comprehensive package that aims to create modern infrastructure with efficient supply chain management from the farm gate to the retail outlet.
  - **Scheme integrated into this:** ← i.e. into PMKSY
    - Mega food park scheme.
    - Food safety and quality assurance infrastructure.
    - Infrastructure for agro-processing clusters.
    - Integrated cold chain and value addition infrastructure.
    - Focus on human resources and institutions,
    - Creation of backward and forward linkage.
  - **Production linked incentive scheme** for the food processing sector with an outlay of 10900 crores to support the creation of global food manufacturing champions.
  - And support Indian brands of food products in the ~~int~~ market. → international
  - The Ministry of food processing established a dedicated grievance cell and task force during the initial phase of the outbreak of COVID (580 industry-related issues were resolved).
  - Government has come up with PM formalisation of micro food processing enterprise scheme for providing financial, technical and business support for setting up 2 lakh micro food processing enterprises across the country within 5 years. (2021 to 24-25).
  - ~~Based~~ on one district one product approach with an outlay of 10000 crores.  
Based

National Bank For Agriculture And Rural Development.

## MONEY AND BANKING (11:04 AM)

- **Topics to be covered:**

- RBI. NBFCs: Non-Banking Financial Companies
- Types of Banks. RRBs: Regional Rural Banks
- NBFCs vs. banks. MFI: Micro Finance Institution
- Nationalisation of Banks. SDRs: Strategic Debt Restructuring
- RRBs/MFI, etc. ARCs: Asset Reconstruction Companies
- Problems (NPAs). S4A: Scheme for Sustainable Structuring of Stressed Assets
- Classification of NPAs. AQR: Asset Quality Review
- Measures taken by RBI and Govt. WRT to NPAs. SMAs: Special Mention Accounts
- SDRs/ARCs/S4A/AQR/SMAs. IBC: Insolvency and Bankruptcy Code
- IBC-2016.
- Basel Norms (1, 2, 3)
- Measurement of money supply.(M1, M2, M3).
- Concept of reserve money (M0)
- Concept of money multiplier.
- Different types of ratios.



### **SHADOW BANKING (11:35 AM)**

- It comprises a set of markets and institutions that operate partially (or fully) outside the traditional commercial banking and are either lightly regulated or unregulated.
- Simply, it is not illegal. It is just not strictly monitored as Commercial Banks are monitored by the RBI.
- Examples include Housing Finance Companies (HFCs), Retail-NBFCs and Liquid Debt Mutual Funds (LDMFs)
- Shadow Banks do not have direct access to central bank liquidity. The shadow banking system is highly leveraged with risky and illiquid assets, whereas its liabilities are disposed to 'bank run'.
- Note: A Bank Run occurs when many clients withdraw their money from a bank because they believe the bank may become insolvent or cease to function shortly.
- **Difference between banks and NBFCs:**
- Unlike Banks, NBFCs cannot accept demand deposits.
- Unlike Banks, NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on themselves.
- Deposit Insurance Facility is not available to investors/depositors of NBFCs. NBFCs are not required to maintain Reserve Ratios prescribed by RBI (CRR, SLR, etc.).
- Banks are regulated under the Banking Regulation Act, of 1949 whereas NBFCs are regulated under the Companies Act, of 1956 or The Companies (Amendment) Act, 2019.
- Foreign investment allowed is up to 74 per cent for private sector Banks but this limit for NBFCs is up to 100 per cent.

**(THE TOPIC FOR THE NEXT CLASS: CONTINUATION OF 'MONEY AND BANKING')**