

COVID-19 | “ATMANIRBHAR” PACKAGE | Day #3

Summary of announcements impacting the Agricultural Sector

BACKGROUND

In his nation-wide address on May 12, 2020, Prime Minister Narendra Modi announced a Rs. 20 lakh crore stimulus package to tackle the impact of coronavirus. In his address, the Prime Minister announced that the Ministry of Finance will be holding a series of press conferences in the coming days to provide details of the package. On May 13, the Ministry of Finance announced the first measures to support the ailing economy, especially Micro, Small and Medium Enterprises and Non-Banking Financial Companies. On May 14, the Government announced the second set of announcements, specifically targeting the economically weaker and ‘base of the pyramid’ sections of the society such as street vendors, migrant workers, farmers, etc. On May 15, the announcements included a number of measures being taken to support the agricultural and agri-allied sector.

DAY #3 ANNOUNCEMENTS: EMPOWERING THE AGRICULTURAL AND AGRI-ALLIED SECTOR

The third tranche of the “Atmanirbhar” package focussed on the agricultural and agri-allied sector. The Finance Minister Nirmala Seetharaman also provided an update on relief measures provided by the Government to the agricultural and agricultural allied activities during the lock-down period. The government had disbursed INR 18,700 crore of funds under PM Kisan Yojana until May 15, 2020 and procured agricultural produce worth INR 74,300 crore at the minimum support price (MSP). While the lockdown led to a 20-25% drop in the demand for milk, the dairy cooperatives procured 560 lakh litres of milk per day as compared to demand 360 lakh litres of milk per day. A total of INR 111 lakh litres of extra milk procurement provided an additional liquidity of INR 4,100 crore to the dairy sector.

These updates correlate well with our learnings from our portfolio companies that microfinance borrowers engaged in the agriculture and allied activities did not face much cashflow disruption during the lockdown and most parties opted out of moratorium to avoid paying extra interest. The NABARD Financial Inclusion Survey, 2016-17 had reported that **agricultural and allied activities comprise 43% of the total household income** of agricultural households in rural India.

The announcement comprised 11 measures of which 8 focussed on infrastructure and capacity building and 3 focused on reforms in the agricultural sector. While the measures did not provide immediate relief to the farmers, they laid down enablers to strengthen the agricultural supply chain over the medium to long term. We briefly discuss the points and its medium to long term impact on the sector below:

- **Measures announced for strengthening infrastructure & capacity building:** Funds allocated for the empowering the sector augur well as it would provide the much needed risk capital required to start and expand micro-businesses in the rural sector. We expect these funds to increase the demand for working capital loans for running micro businesses in the agriculture and allied sectors. Measures to provide market linkages will also improve realizations and debt repayment capabilities.

- Reforms announced in agriculture sector:** Reforms announced in the sector are not only expected to directly benefit the farmer in terms of better realization for his produce but also are also expected to create opportunities to increase access to formal financing. Banks are the primary source of pre-harvest financing in the form of Kisan Credit Card (KCC) loans which are collateralized against farmland. However, penetration of unsecured formal financing is low due to higher uncertainty related to the crop yield which results in farmers taking loans from informal channels. The proposal to provide legal framework in order to enter into a contract to sell the produce at an assured return will mitigate the price, quantity and quality risk and enable access to unsecured credit to farmers. Further, deregulation of Essential Commodities Act and removing the restriction on selling agricultural produce only to licensees of APMC will create access to post-harvest financing and open market for agricultural supply chain financing to formal financiers, which currently remains largely catered to by informal lenders.

ANNEXURE A

Summary of Announcements targeting the Agricultural and Agri-allied sector

Source: Press Bureau of India

ANNOUNCEMENTS ON INFRASTRUCTURE & CAPACITY BUILDING

NO.	SCHEME*	PARTICULARS
1)	Agri Infrastructure fund for farm-gate infrastructure for farmers (INR 1 lakh crore)	<ul style="list-style-type: none"> Financing facility will be provided for funding Agriculture Infrastructure Projects at farm-gate & aggregation points (Primary Agricultural Cooperative Societies, Farmers Producer Organisations, Agriculture entrepreneurs, Start-ups, etc.) Impetus for development of farm-gate & aggregation point, affordable and financially viable post harvest management infrastructure
2)	Formalisation of Micro Food Enterprise (MFE) (INR 10,000 crore)	<ul style="list-style-type: none"> Existing micro food enterprises, Farmer Producer Organisations, Self Help Groups and Cooperatives to be supported Cluster based approach
3)	Pradhan Mantri Matsya Sampada Yojana (INR 20,000 crore)	<ul style="list-style-type: none"> INR 11,000 crore for activities in Marine, Inland fisheries and Aquaculture INR 9,000 crore for Infrastructure: fishing harbours, cold chain, markets, etc. Cage Culture, Seaweed farming, Ornamental Fisheries as well as New Fishing Vessels, Traceability, Laboratory Network etc. will be key activities. Provisions of Ban Period Support to fishermen (during the period fishing is not permitted), Personal & Boat Insurance
4)	National Animal Disease Control Programme (INR 13,343 crore)	<ul style="list-style-type: none"> To ensures 100% vaccination of cattle, buffalo, sheep, goat and pig population (total 53 crore animals) for Foot and Mouth Disease (FMD) and for brucellosis.

NO.	SCHEME*	PARTICULARS
5)	Animal Husbandry Infrastructure Development Fund (INR 15,000 crore)	<ul style="list-style-type: none"> To support private investment in Dairy Processing, value addition and cattle feed Incentives to be given for establishing plants for export of niche products.
6)	Promotion of Herbal Cultivation (INR 4000 crore)	<ul style="list-style-type: none"> NMPB will bring 800-hectare area by developing a corridor of medicinal plants along the banks of Ganga.
7)	Bee Keeping Initiatives (INR 500 crore)	<ul style="list-style-type: none"> Implement scheme for Infrastructure development related to Integrated Beekeeping Development Centres, Collection, Marketing and Storage Centres, post-harvest & value Addition facilities etc; Implementation of standards & Developing traceability system Capacity building with thrust on women; Development of quality nucleus stock and bee breeders.
8)	Operations Green (INR 500 crore)	<ul style="list-style-type: none"> 50% subsidy on transportation from surplus to deficient markets. 50% subsidy on storage, including cold storages.

* figures within brackets indicate quantum of funds allocated

ANNOUNCEMENTS COVERING REFORMS PROPOSED IN THE AGRICULTURAL SECTOR

NO.	SCHEME*	PARTICULARS
1)	Amendment to Essential Commodity Act	<ul style="list-style-type: none"> Agriculture food stuffs including cereals, edible oils, oilseeds, pulses, onions and potato to be deregulated. Stock limit to be imposed under very exceptional circumstances like national calamities, famine with surge in prices. No such stock limit shall apply to processors or value chain participant, subject to their installed capacity or to any exporter subject to the export demand.
2)	Reforms in Agriculture Marketing Reforms	<ul style="list-style-type: none"> Restriction on farmers to sell agriculture produce only to Licensees in APMCs will be lifted
3)	Agricultural Produce Price & Quality Assurance	<ul style="list-style-type: none"> Facilitative legal framework will be created to enable farmers for engaging with processors, aggregators, large retailers, exporters etc. in a fair and transparent manner. Risk mitigation for farmers, assured returns and quality standardisation shall form integral part of the framework.

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