

## Role of Value Chains in Enhancing Agricultural Profitability: An Analysis in the Context of Union Budget 2026–27

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Agriculture is the backbone of rural economy in India that supports almost 45 per cent of workers, but it contributes only about 15–16% to the national GDP. This structural disequilibrium is manifested through low productivity, fragmented land holdings, inadequate market linkage, poor post-harvest management and low participation in the higher-value component of the value chain. It is an interesting dimension that in the past policy interventions were largely geared for increasing production through incentivising input use, expanding irrigation positive procurement and credit<sup>12</sup>. But even as output has grown, farm incomes have not risen in proportion because of the failure to build viable linkages with urban markets. The Union Budget 2026–27 embodies a strategic reorientation towards income-centric agricultural development with focus on value chain strengthening as the key driver of change.

Value chain spans the complete economic chain:

Production → Aggregation → Storage → Processing → Transportation → Marketing → Retail Profitability depends not only on the yield but on efficiency, coordination and value capture throughout all stages.

### Increasing the Farmer Price Share

Farmers frequently only obtain 30–40% of the final consumer price for fruits and vegetables in traditional agricultural marketplaces. Retailers, wholesalers, transporters, merchants, and intermediates take up the remaining portion. Not just intermediation is the problem, but ineffective intermediation, which is defined by:

- Production that is fragmented.
- Poor standardization and grading.
- Limited ability to negotiate.
- No real-time price discovery is available.

### Budget Interventions for 2026–2027

- The 10,000 Farmer Producer Organizations (FPO) Scheme's ongoing growth
- The Integrated Scheme for Agriculture Marketing (ISAM) is being strengthened.
- Growth of digital platforms under Bharat-VISTAAR and AgriStack

### Structural Implications

Aggregation based on FPO increases negotiating leverage, lowers transaction costs per unit, and promotes economies of scale. When farmers sell in bulk: • An 8–12% boost in bargaining power

- Direct connections to retailers and processors cut down on intermediation levels.
- In coordinated value chains, the farmer share can increase to 45–55%.

Economically speaking, this is a shift from atomistic price-taking to collective price-negotiating behavior, which improves allocative efficiency and income realization.

## Lowering Losses After Harvest

Due to inadequate storage, poor transportation, and a weak cold-chain infrastructure, India suffers large post-harvest losses:

- 6–10% in cereals.
  - A 15% to 20% intake of fruits and vegetables
  - The estimated yearly financial loss ranges from ₹90,000 to ₹1,00,000 crore.
- Farm revenues are significantly impacted by these losses, which also lower effective marketable surplus.

### Budgetary Provisions for 2026–2027

- The ₹1 lakh crore Agriculture Infrastructure Fund is still being operationalized.
- Assistance at the district level through PM Dhan-Dhaanya Krishi Yojana (PM-DDKY)
- Credit-linked grants for infrastructure in remote areas

### Economic Results

- Reducing losses by even five percentage points can:
- Boost the amount of saleable surplus
- Increase total agricultural revenue by thousands of crores every year.

Reducing post-harvest loss improves overall value capture and technical efficiency without raising production costs, according to a value-chain perspective.

## Promoting Value Addition and Agro-Processing

India solely handles: 10% or so of fruits and veggies. Approximately 5–7% of all agricultural products (milk excluded). In contrast, 40–70% of agricultural produce is processed in developed economies.

### Measures of the Budget

- Finance for infrastructure under AIF
- Establishment of plantation crop clusters (coconut, cashew, and cocoa)
- Facilitation of credit for processing units connected to farms

### Effects of Income

Value is increased by processing in the following ways:

- Labeling, packing, and grading
- A prolongation of shelf life
- Transformation into more expensive goods

Value addition can raise a product's worth by at least 15% to 25%. As a result, farmers become participants in agro-industrial chains rather than sellers of raw commodities. The shift is consistent with structural economic theory, which holds that agricultural development shifts from primary production to agro-based industries and agro-processing.

## Expanding Storage and Market Timing Capacity

Farmers are forced to sell right after harvest because of storage and liquidity constraints, which leads to seasonal price drops. During periods of high arrival, prices may drop by 10% to 20%.

### Budgetary Provisions for 2026–2027

- The growth of warehousing under AIF.
- Godowns in rural areas under PM-DDKY
- Ongoing interest subsidies for short-term agricultural loans

### Improved storage

- The sale can be postponed by two to three months.
- Allows for the capture of 8–12% seasonal pricing increases.
- Decreases distressed sales
- Maintains steady revenue flows

In terms of economics, storage transforms farmers from forced sellers into strategic market participants by increasing their intertemporal option power.

## Digital Integration and Market Transparency

Agricultural markets have been undermined by information asymmetry.

Farmers frequently do not have access to:

- Real-time price information
- Crop advisories from scientists
- Predicted weather • Signals of market demand
- Interventions in the Budget • Bharat-VISTAAR (an AI-based advisory) expansion
- AgriStack (the digital farmer register) is being strengthened.
- Weather and price intelligence distributed digitally.

Integration of digital

- Increases yields by 5-8 percent
- Cuts transaction expenses by three to five percent.

Increases the accessibility of institutional loans and crop insurance Digitally integrated value chains reduce uncertainty, boost efficiency, and enhance market coordination, strengthening the production and commercialization stages.

## Diversification into High-Value Crops and Allied Sectors

A strong reliance on cereals (rice and wheat) limits income development because of lower price realization per acre.

In Contrast:

- Every year, more than 350 million tonnes are produced in horticulture.
- The returns per hectare of high-value crops are 1.5–3 times greater.

Focus on Budget 2026–2027 • Plantation crop promotion

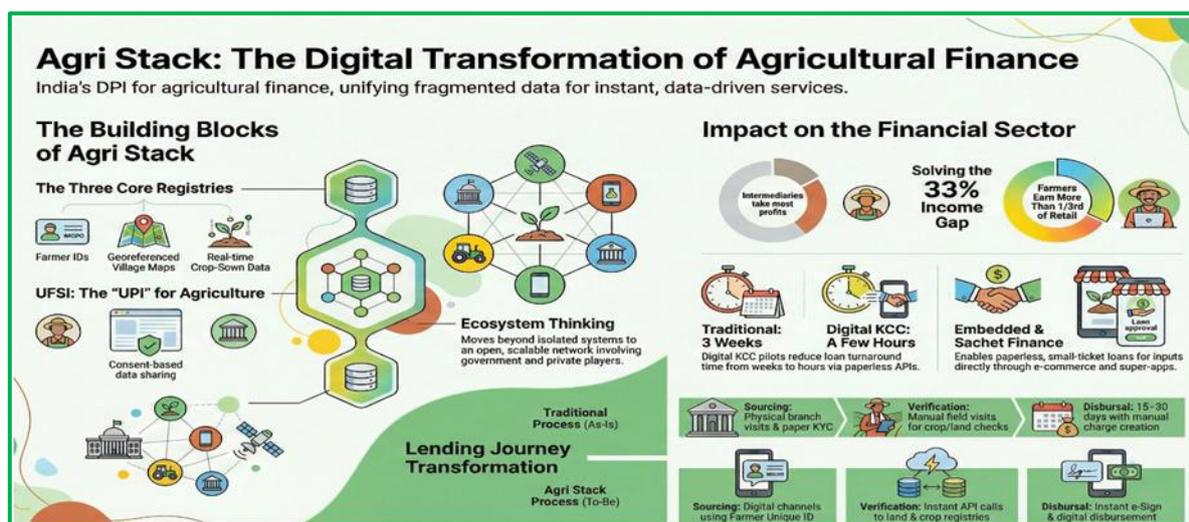
- Development of allied sectors (fisheries, dairy)
- Specialization at the district level under PM-DDKY

## Changes in Structure

Diversification makes things better:

- Per-hectare income
- The intensity of employment
- Potential for exports

Converting even 10–15% of farmed land to high-value crops can greatly boost rural incomes if supported by strong value chains.



## Conclusion

Agricultural value chains are strengthened by the Union Budget 2026–2027 in the following ways:

- The Agriculture Infrastructure Fund (₹1 lakh crore)
- The Krishi Yojana of PM Dhan-Dhaanya

- Strengthening of FPO • The growth of digital agriculture
- Encouragement of high-value and processing crops

But building infrastructure by itself won't guarantee income growth. For quantifiable increases in profitability:

- Infrastructure and guaranteed markets need to be integrated.
- Farmers must be connected to procurement networks via digital platforms.
- Export connections, certification, and branding must all be used to enhance diversification.

Moving past output expansion and toward a value-chain driven agricultural economy, where farmers earn a greater portion of consumer spending, is now crucial to India's agricultural transformation. As a result, strengthening value chains is more than just a financial tactic; it is the structural basis for inclusive economic growth, rural stability, and sustainable agricultural profitability.

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