

## Food Processing Sector in India: Constraints, Challenges and Incentives



### Economics

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### ABSTRACT

*The food processing sector is critical to India's development, for it establishes a vital linkage and synergy between the two pillars of the economy—Industry and Agriculture. India is the world's second largest producer of food and holds the potential to acquire the numero Uno status with sustained efforts. There has been diversification of Indian diets away from food grains to high value products like milk, meat products, vegetables and fruits. Food-processing industry has been registering good growth since the past few decades and particularly after nineties. The conditions are now ideal for the growth of this industry. The central government has taken some steps to deregulate and encourage the sector after 1991. However, the role of states is vital. The government of Andhra Pradesh released a policy in November 2003. There are no major initiatives in the policy and still can be called a good beginning. As against the robust growth at the All-India level, the growth rate in net value - added in the nineties was almost the same as that in the eighties in the state.*

### INTRODUCTION

The food processing sector is critical to India's development, for it establishes a vital linkage and synergy between the two pillars of the economy—Industry and Agriculture. India is the world's second largest producer of food and holds the potential to acquire the numero Uno status with sustained efforts. The enormous growth potential of this sector can be understood

from the fact that food production in the country is expected to double in the next 10 years, while the consumption of value-added food products will also correspondingly grow. The growth of this industry will bring immense benefits to the economy, raising agricultural yields, enhancing productivity, creating employment and raising life-standards of a large number of people across the country, especially those in rural areas.

The liberalisation of the Indian economy and world trade and rising consumer prosperity has thrown up new opportunities for diversification in the food-processing sector and opened new vistas for growth. A recent study has revealed that there is tremendous potential in India to build a profitable business in the sector. This industry ranks fifth in the country and employs 16 lakh workers, comprising 19% of the country's industrial labour force. It accounts for 14% of the total industry output with 5.5% of the GDP. Its turnover is estimated at Rs.1,44,000 crore, of which Rs.1,11,200 crore is in the unorganised sector. The industry has started producing many new items like ready-to-eat food, beverages, processed and frozen fruit and vegetable products, marine and meat products, IQF products, etc. The Indian consumer is being fast introduced to newer high quality food products made by using the latest state-of-the-art technology that is also giving the industry a competitive edge.

Food processing industries have a crucial role to play in reduction of post harvest losses. The most important point in the food industry is that a substantial portion being rural based has a very high employment potential with significantly lower investment. The fruits and vegetable farming for processing is not only employment intensive, but also enhances the gross as well as net returns of the farmers. Further, agro-industry generates new demand on the farm sector for more and different agricultural output, which are more suitable for processing. On the other hand, the development of these industries would relax wage goods constraint to economic growth by enhancing the supply of their products.

### 2. OBJECTIVES

- To study the structure of food processing in organized sector
- To study the challenges, constraints and concerns of food processing sector
- To study the human resource development
- To discuss the creating enable environment

### 3. INFRASTRUCTURE DEVELOPMENT IN FOOD PROCESSING SECTOR

There is a locked Suitable Infrastructure in the shape of cold chain, Packaging Centre, Modernized abattoirs etc., Improvement in general Infrastructure is also an aid for engineering of Sector. A government attaches highest Priority to Development and Expansion of Physical Infrastructure for Facilitating prompt Growth of Industries. In order to address the Problem of Infrastructure in Food Processing Sector, the Government has Implemented the Scheme for Infrastructure Development Comprising the Following Three Components:

#### Mega Food Parks

- Cold Chain, Value Added Centre and Preservation Infrastructure
- Setting up/Modernization of Abattoirs.

### 4. CATEGORIES OF FOOD PROCESSING INDUSTRY

*Food processing industry can be divided into 7 categories as listed below:*

1. Grains and cereals including rice, maize, pulses etc.
2. Oils and oil seeds
3. Fruits and vegetables
4. Dairy products including milk and milk products
5. Meat, poultry and marine products
6. Commercial crop produce including spices like chillies, turmeric etc.
7. Plantation crop produce coconut cashew etc.

### 5. ISSUES OF FOOD PROCESSING

There are other issues to consider with regard to trends in procurement vis-à-vis production of food grains. As recent data show, the central government procures about a third of the quantity of cereals produced domestically. However, the amount slated for procurement is expected to increase under the Act, raising concerns regarding the sustainability of such a food delivery mechanism. There are also concerns regarding the financial feasibility of such a system. The centre bears a large fi-

nancial burden, the food subsidy, because the cost of procuring and delivering food grains is about six times its sale price. It is anticipated that the food subsidy will rise steadily due to the increased procurement of grains under the Act, related costs and other factors. Furthermore, a performance audit by the Comptroller and Auditor General has revealed a serious shortfall in the government's storage capacity. Given the increasing procurement and incidents of rotting food grains, the lack of adequate covered storage is bound to be a cause for concern.

## 6. MODERNIZATION OF FOOD PROCESSING INDUSTRIES

Modernization of Food Processing Industries has been Subsumed in the newly Launched Centrally Sponsored Scheme-National Mission Food Processing. The Applications Under the above scheme are Received /Sanctioned and Funds are Released, as per guidelines, by the Respective State/UT Government, for Setting up of Food Processing Units in Various Subsectors like Consumers, Dairy, Fish, Fruits and Vegetables, Wine and Beer, Oil, Pulses, Rice and Flour Milling Under the above scheme.

### Financial Assistance provided to the Food Processing Unit during 2013-2014 Subsector wise under the Scheme of Technology Up gradation /Establishment/Modernization of Food Processing Industries

S.NO	Sector	Sanctioned Cases of 1 <sup>st</sup> Instalments		Sanctioned Cases of 2 <sup>nd</sup> Instalments		TheTotal Sanctioned Cases	
		No's	Amount	No's	Amount	No's	Amount.
1.	Consumer Food	124	22.24	67	9.74	91	31.98
2.	Dairy	48	8.61	36	6.68	84	15.29
3.	Fish	17	3.78	8	2.00	25	5.78
4.	Flour	11	1.89	1	0.21	12	2.10
5.	Fruits & Vegetables	126	18.70	105	17.88	231	36.33
6.	Meat	16	3.14	6	1.49	22	4.89
7.	Oil	40	6.24	29	4.40	69	10.64
8.	Pulses	20	2.35	5	0.86	25	3.20
9.	Rice	252	38.40	70	9.17	322	47.57
10.	Wine & Beer	2	0.50	7	1.19	9	1.69
11.	MM-IV	3	1.96	3	0.78	6	2.74
	Total	659	107.81	337	54.40	996	162.21

## 7. CHALLENGES, CONSTRAINTS AND CONCERNS

Despite policy initiatives, growth potential and significant achievements, there are several disturbing trends as delineated here:

1. In India, the value addition to food fortification is only 7% compared to as much as 23% in China, 45% in Philippines and 188%in the UK. Further, there are few large or medium sized companies in the organised sector against many small ones. The small-scale and unorganised sectors account for 75% of the total industry.

2 .Despite its importance to India's well-being, the food industry has in the past been neglected. Food is usually the first industry to develop and has importance in most economies. In India, it is still relatively small and not regarded attractive.

3. Advances in bio-technology have enabled production of Genetically Modified (GM) foods. These have already appeared in some countries. GM foods need be critically examined on their good and adverse impacts on human health.

4. Food processing enterprises in organised and unorganised sectors are in private hands. Though there has been certain growth in the food industry because of domestic demand, the demand itself remained low due to policies pursued earlier. Majority of the food units are in primary processing and since production base of secondary and tertiary processed foods is low, there is lower value addition.

5 .Commercial R&D activities in the food industry have remained confined to only a few areas. R&D activities have scarcely emerged from the laboratory to be extensively adopted on the field.

6. Indian brands have yet to acquire an image in the international markets because of poor global marketing. Poor awareness of most of Indian agri produce, seed constraints and India's image and identity of a low quality, unreachable producer of food items ensure that Indian food items are not the most preferred ones.

7. Financial institutions do not have the capacity to appraise hi-tech export-oriented projects. There are no suitable insurance schemes for such projects, most of which deal in export of perishables. In financing projects like high density farming, greenhouse floriculture, controlled environment livestock farming, bio-technology, tissue culture, embryo transfer technology, bio-pesticides and bio-fertilizer, etc., the banks face considerable risk like credit risks. With new technology, the risk perception is higher than the existing one. Since it has not been tested in actual situations, the chances of failure of new technology are higher. For risk of rejection by consumer or by sovereign intervention foreign exchange risks, ECGC cover is available only in cases of insolvency/default of importers.

8. Branded food items attract higher sales tax and excise duty as against the unbranded ones. It is reasonable to expect that any meaningful investment in this sector will necessitate branding of products. It is noteworthy that no country treats branded food differently for levying duties. The exemption to unbranded and unorganised sector from excise and sales tax leads to low quality consciousness among manufacturers and consumers.

9. The sector is capital starved. Investments in infrastructure and research have been far from adequate.

10. The sector has been characterised by poor marketing, transport and Communication infrastructure. The market density of fruits and vegetables is low and facilities for storage and cold chains in the hinterlands are woefully inadequate. Erratic and inadequate power supply, lack of roads, education and health facilities and no or low rural industrialisations accentuate the problems. There is lack of integration of local markets with national and global ones to support faster and more diversified growth. Lack of maintenance of infrastructure because of limited and declining public resources and the absence of community involvement in the protection of community assets and poor cargo facilities at airports and ports are other bottlenecks. Infrastructure for extension of food technology is hampered. Moreover, there is lack of organised marketing system in meat and poultry products. The system is obsolete, with primitive methods of sale of live birds or unhygienic slaughtered birds. A similar poor system exists in towns and small cities in the case of pork and pork products.

11. Cooperatives and other semi-government organisations are weak and people's participation, either through Panchayat Raj institutions, NGOs, farmer organisations or industries' associations in food sector remains extremely inadequate.

12. Multiple and complicated tax regimes have rendered the food industry uncompetitive. Regulations on the entry operations of private sector in trade, post-harvest facilities and food processing have restricted private sector investment in the agricultural sector. Then, the current land tenancy regulations have frozen the land-lease market and discouraged tenant farmers and share-croppers from investing in the land they till. With the signing of the GATT and the coming up of World Trade Organisation, this sector is facing internal and external pressures stemming from policies of economic liberalisation.

## 8. CONTRACT FARMING IN FOOD PROCESSING

The procurement of raw materials with right quantity and quality, minimum

Cost and time poses a serious problem for the food processing industries. On the other hand, the small and marginal farmers find it difficult to cultivate lucrative and new process able crops because of the marketing problems and price risks involved. Contract farming can be a possible solution for this. The procurement by contract farming is a better option than open

Market or corporate farming for processors. Contract farming can be defined as an agreement between farmers and processing and or marketing firms for the production and supply of agricultural products under forward agreements, frequently at pre-determined prices. It reduces production risk to the processors and price risk to the farmers. However, it is essentially an agreement between unequal parties and caution is needed. There is also a danger of violation of contracts by both parties. In this connection, the state should enact legal provisions for enforcing contracts easily and provide an effective and trustworthy arbitration.

In India, contract farming can be traced back to the 19th century, when farmers produced commodities like cotton, indigo, tobacco etc on contracts. Seed production has been carried out through contract farming by the seed companies quite successfully in the state over the past two to three decades. Contract farming is evolving during the past decade in different forms in India to take care of the processing industry needs and farmers, for whom negotiating the price risk in open trade regime became a prime task<sup>30</sup>. However, the available evidence shows that the processing companies are favouring large farmers mainly for undertaking contract farming. Contract farming practices are so diverse in different countries that no generalization can be made on the positive or negative effects. The impact depends on the physical, social, economic and political background of the country in which contract farming is practiced. Therefore, it has to be studied for each particular case.

## 9. INCENTIVES AND CONCESSIONS

To declare food processing as seasonal industry, where ever necessary and eligible to enable the industry to get relief from minimum electricity charges during the closure (non –seasonal) period.

To extend 25% cost of external infrastructure for power ,water, approach Roads and other infrastructures limited to Rs 2.00 Crores.

To provide VAT/ State Goods & Services Tax Reimbursement for Mega Food Parks during the construction period for a period of 2 years limited to A maximum Rs 2.00 Crores.

The food parks sanctioned under Mega Food parks scheme of Government of India would be considered for Tailor –made benefits on case to case basis.

All eligible industries / enterprise under food processing will also eligible for other benefits as per the Investment Promotion Policy 2010-2015.

## 10. SCHEMES FOR HUMAN RESOURCE DEVELOPMENT

Food Processing Industries has been implementing the scheme for Human Resource Development Since 9<sup>th</sup> Plan and onwards to augment the Supply of Trained Manpower/Personnel at all levels for Food Processing Sector Namely Entrepreneurs, Managers, Sales Persons, Floor Workers etc.. The Human Resource Development Scheme has been subsumed under the National Mission On Food Processing (NMFP), Which is being Implemented

Through State/UT Governments.

## The Following are the Components in the Human Resource Development Scheme;

- a. Creation of Infrastructure Facilities in Academic Institutions
- b. Food Processing and Training Centres (FPTC)
- c. Entrepreneurship Development Programme (GDP).

## 11. CREATING AN ENABLING ENVIRONMENT

a. The Central and State Governments will work closely and evolve joint efforts to provide an enabling environment to entrepreneurs to set up food processing enterprises.

b. Fiscal initiatives/interventions like rationalisation of tax structure on fresh food as also processed foods and machinery are a must. This is necessary to provide processed food at reasonable prices as well as to stimulate domestic demand. The aims of the National Policy on food enterprises are sought to be achieved by adopting initiatives and practices congenial to industrial development in the processed food sector. A concentrated promotion campaign

is vital to create market for processed foods. Multinational companies can take care of their products for they have large funds for promotional campaigns. The Department will continue to provide financial assistance to industry associations, NGOs/Co-operatives, private sector units, state government organisation for market promotion and brand formation.

c. Going by projections of the Working Group on Food Processing Industries for the 9th Plan, investment requirement of Rs.24,315 crore from the private sector, Rs.2,275 crore from the Central Government, Rs.1,660 crore from the State Government, totalling upto Rs.28,250 crore, have been identified for the entire food processing sector in a five-year plan period.

d. Efforts will be made to expand the availability of raw material and improve their quality for agro-based processing activities round the year by increasing production, improving productivity and yield.

## 12. CONCLUSION

Indian food industry is making an important mark in the global food arena as a large producer and exporter of agro food products. At present small players dominate the Indian food processing industry. The industry needs larger companies, which have financial muscle for establishing a large market network and also to invest in technology. The favourable policy environment and increasing interest of corporate in agro food processing sector, augurs well for India, which is well on track to become one of the leading food nations of the world. The Indian economy and world trade and rising consumer prosperity has thrown up new opportunities for diversification in the food-processing sector and opened new vistas for growth. A recent study has revealed that there is tremendous potential in India to build a profitable business in the sector.

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