

Problems of Food Processing Industry

UMESH PRATAP SINGH

Associate Professor

Department of Economics, Ewing Christian College (University of Allahabad), Allahabad (U.P.) India

ABSTRACT

Food-processing is regarded as the sunrise sector and is one of the focus sectors in Make in India initiative and is considered as one of the fastest growing sectors of the Indian economy in view of its large potential for growth and likely socio economic impact specifically on employment and income generation. With a number of fiscal relief and incentives, to encourage commercialisation and value addition, Government of India has accorded 'high priority' status to the food processing industry. Even after more than two decades of liberalisation it is very astonishing fact that the biggest problem faced by food processing units is government intervention *i.e.* Inspector Raj in all types of industries irrespective of their production volume, investment size, items they produced or location. Labour laws, Infrastructural bottlenecks, lack of electricity and high rate of electricity are the other major problems faced by these industries.

Key Words : Food-processing industry, Agro-based industry, Fruits and vegetable based processing industries, Horticulture, Fiscal incentive, Government intervention, Government initiatives, Inspector Raj, Liberalisation

INTRODUCTION

Food processing industry plays a vital role in India's development especially rural economy because of the vital linkages and synergies it promotes between industry and agriculture. India is the world's second largest producer of food after China. The arable land area of 159.7 mn hectares is the second largest in the world after the US and has a strong raw material base for the food processing industry. India is one of the largest producers of certain fruits, vegetables, pulses, cereals and dairy products but only 7 per cent of the total Indian perishable produce is processed (Assocham). Thus in India, the food sector has emerged as a high-growth and high-profit sector due to its immense potential for value addition; particularly within the food processing industry, increasing its contribution to world food trade every year. In terms of market size, the Indian food market was worth US\$ 193 billion in 2016 and is expected to cross US\$ 540 billion by 2020. The sector has been growing at the rate of 12 per cent annually, which is almost double the growth rate of

GDP. To achieve favourable terms of trade for Indian agriculture both in the domestic and the international markets fast growth in the food processing sector and simultaneous improvement in the development of value chain is of great importance.

In the context of Uttar Pradesh the Horticulture and Food Processing sector has vast prospects for capital investment, employment generation and augmenting rural income. In 2014-15 the contribution of agriculture and allied activities was 23% to the state's GSDP. The strategic location of UP, huge market, increased demand of processed products as a result of changing food habits, rapid urbanisation, increase in family income and busy life styles; low production cost, human resource, availability of raw material, diverse Agro climatic zones, well connected rail and road networks are the key investment enablers for the food processing sector in UP (UP Investor Summit, 2018).

In Allahabad division comprising of Fatehpur, Kaushambi, Pratapgarh and Allahabad total 67 units were in 2005, which have increased to 85 units in 2010. All the

districts of the division are rich production of horticulture crops. Basically Allahabad and Pratapgarh are very rich in horticultural products. Pratapgarh district is famous for Amala and also Kunda belt is famous for mango. Allahabad is famous for Guava while Kausambi is famous for banana.

This paper is an attempt to analyze the problems of the sector, especially fruits and vegetables food processing industries, based on survey done in fruits and vegetables processing units in Allahabad division. In view of the government measures taken in the last two and half decades after beginning of new economic reforms, it is interesting to see the problems faced by the industry.

Opportunities:

Agro-processing is now regarded as the sunrise sector of the Indian economy in view of its large potential for growth and likely socio economic impact specifically on employment and income generation. Some estimates suggest that in developed countries, up to 14 per cent of the total work force is engaged in agro-processing sector directly or indirectly. However, in India, only about 3 per cent of the work force finds employment in this sector revealing its underdeveloped state and vast untapped potential for employment. Properly developed, agro-processing sector can make India a major player at the global level for marketing and supply of processed food, feed and a wide range of other plant and animal products.

Agro food processing is one of the focus sectors in Make in India initiative and is considered as one of the fastest growing sectors in India. The major demand drivers for the sector include improved yield and resistance due to hybrid seeds, increasing mechanization of farming, rising disposable income, increasing awareness of health and wellness, growing population and expanding urbanization. With globalization and increasing trade across the borders, India has a great potential for global trade in agricultural and processed food products.

But the structure of the Global Food Industry is continuously changing and evolving as food suppliers, manufacturers and retailers adjust to meet the needs of the consumers, who are increasingly demanding a wider variety of higher quality products. But in India food processing industry is still at its nascent stage, at the same time, though India is a key producer of food products, having an adequate production base for inputs, productivity levels are very low in the country, post harvest losses

are around 25 to 30 per cent, even marginal reductions in these losses are bound to give us better returns and thereby improve the income level of the farmers.

The joint study by Indian industry body Assocham and Chicago-based professional services firm Grant Thornton said that there is a huge scope for large investments in food processing technologies, skill development and equipment as total food production in India is estimated to double in next 10 years.

Currently the Indian food processing industry accounts for 32 per cent of the country's total food market, one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. It contributes around 8.80 and 8.39 per cent of Gross Value Added (GVA) in Manufacturing and Agriculture, respectively, 13 per cent of India's exports and six per cent of total industrial investment.

The Indian packaged processed foods industry is estimated at US\$ 10.87 bn – US\$ 13.05 bn, including biscuits, chocolates, ice-cream, confectionery, snacks, cheese and butter. The online food ordering business in India is in its nascent stage, but witnessing exponential growth. The online food delivery industry grew at 150 per cent year-on-year with an estimated Gross Merchandise Value (GMV) of US\$ 300 million in 2016 (Ibef). As a result of a shift in consumption demand for fruits and vegetables has increased. Accordingly, Indian farmers are also shifting production towards horticulture crops to cash in on the growing demand. As of February 2017, horticulture exports from India have increased by 17.4 per cent and 20.95 per cent in terms of value and volume, respectively.

In 2016-17, Ministry of Food Processing Industries granted fund of US\$ 18.81 million for the ongoing Mega Food Park projects. In Union Budget 2017-18, the Government of India has set up a dairy processing infra fund worth Rs. 8,000 crore (US\$ 1.2 billion). India's organic food market too expected to increase by three times by 2020 (Ibef).

Food processing sector is a key contributor to employment generation in India and have been identified as a key sector in encouraging labour movement from agriculture to manufacturing and by 2024, food processing sector is expected to employ 9 mn people in India. The unorganised sector accounts for 42 per cent of India's food processing industry. Though the market falls under the unorganised sector in the country, the organised sector has a larger share in the secondary processing segment

than the primary one. In 2015-16, the organised sector estimated to account for 30 per cent of India's food processing industry (Assocham).

Government Initiatives:

With a number of fiscal relief and incentives, to encourage commercialisation and value addition, Government of India has accorded 'high priority' status to the food processing industry. The Ministry of Food Processing Industries (MOFPI) has been set up as a nodal agency for formulation and implementation of the policies and plans for the food processing industries. With an overall objective of positioning India as the 'Food Basket' to the world, several initiatives have been undertaken with the objective of promoting investments, innovation and bringing best practices. This vision is in line with the 'Make in India' initiative of the Government. (Onicra, 2014).

The government allowed 100% deduction of profit for first five years and 25% of profit in the next five years under the Income Tax Act in case of new agro processing industries set up to package and process fruits and vegetables. Excise duty on dairy machinery has been fully waived off and excise duty on meat, poultry and fish products has been reduced from 16% to 8%. Full exemption on duty is allowed for all imports by export oriented units.

FDI is permissible for all the processed food products up to 100% through automatic route except for items reserved for MSMEs. For MSMEs, the permissible FDI limit through automatic route is 24%. For any foreign investment more than 24%, the government route can be opted. In such a case, the enterprise will have to be licensed under Industrial License and Industries (Development and Regulation) Act, 1951.

The Food Safety and Standard Act (FSSA) was formulated in 2006. The Food Safety and Standard Authority (regulating body of FSSA) of India is aided by scientific panels and central advisory committee to lay down standards for food safety. These standards include specifications for ingredients, contaminants, pesticide residue, biological hazards and labels. FSSAI plans to invest around Rs. 482 crore (US\$ 72.3 million) to strengthen the food testing infrastructure in India, by upgrading 59 existing food testing laboratories and setting up 62 new mobile testing labs across the country.

MOFPI commissioned a vision document for the industry in 2005, which aims to triple the size of the food

processing sector from 2005 to 2015. The tripling of size of the industry is estimated to generate a direct employment of 0.28 crore and an indirect employment of 0.74 crore persons. The national mission on food processing was approved by the Government of India with an outlay of Rs. 1600 crore during the period 2012-17. The share of the central and the state government was Rs 1250 crore and Rs 350 crore respectively. Various schemes are taken up under the mission (Onicra, 2014). The Government has also established 60 fully equipped Agri-Export Zones (AEZs), in addition to 42 mega food parks and 128 cold chains, to boost agricultural and food processing exports.

In a recent event, Union Minister for Commerce and Industry, Suresh Prabhu inaugurated Indus Food Festival. Indus Food is a platform of its kind exclusively devoted to enhance Indian exports in Food and Beverage sector. It enables B2B engagements of buyers and suppliers, after careful business match making, which takes care of precise business requirements of each participant, and enables him to pick and choose whom to meet. Indus Food 2018 was the largest of its kind food export promotion event organised in India. A total of US \$650 million business was generated in this event in form of spot orders. After the success of the first edition of Indus Food in 2018, Trade Promotion Council of India (TPCI) has scaled up the Reverse Buyers-Sellers Meet (RBSM) with the financial assistance under Market Access Initiative (MAI) scheme of Department of Commerce. Indus Food-II with the theme of 'World Food Supermarket' is aimed at promoting India as a strong and reliable exporter of food and beverage products to the world (Pib. NIC, 2019).

In Uttar Pradesh the state government gave capital investment subsidy of 25 to 35 per cent on cost of plant and machinery and technical civil works up to Rs. 50 lakhs; 50 per cent of project cost up to Rs. 1 lakh for small food processing units in rural areas, 50 per cent reimbursement for internationally accepted quality/environmental certification; 75 per cent reimbursement for patent/design registration, up to Rs. 1.5 lakhs in each case has also been given. Electricity duty has been exempted for 10 to 15 years (depending on new or pioneer units), stamp duty has been exempted fully for private sector (except under PPP) to set up warehouses, cold storages, wholesale markets. Exemption on mandi fee for purchase of raw materials for 5 to 10 years (5 years for units with investment of at least Rs 5 crore in plant

and machinery; 10 years for export oriented units) has been done (Ad. UP, 2013).

There is a need for policy intervention and field level changes for India to develop global competitiveness in many related sub-sectors and ensure that they are firmly entrenched in global value chains. Moreover the adoption of food safety and quality assurance mechanisms such as Total Quality Management (TQM) including ISO 9000, ISO 22000, Hazard Analysis and Critical Control Points (HACCP), Good Manufacturing Practices (GMP) and Good Hygienic Practices (GHP) by the food processing industry would enable adherence to stringent quality and hygiene norms and thereby protect consumer health, prepare the industry to face global competition (Ibef).

METHODOLOGY

This study is mainly based on primary data. But data regarding number of food processing units, their scale of production and locations are collected from government sources. I also verified these data in my survey. Primarily I visited all the locations and found that a large number of units are only on paper. Amongst all the working units I selected some sample from all the districts. I have been also taken care of representation of all the categories according to their population while selecting the samples.

Data about registered fruits and vegetables based food processing units in Allahabad division were collected from various sources namely Principal, Food Processing Training School, Mumfordganj, Allahabad; FPO office, Lucknow, MSME Development Institute, Allahabad.

The categorization of industries has been done on the basis of production done by industries as:

1. Large Scale Units- production more than 250MT
2. Medium Scale Units- production between 250-100MT
3. Small Scale Units- production between 100MT-50MT
4. Cottage and Household Units- production less than 50MT

In Allahabad division comprising of Fatehpur, Kaushambi, Pratapgarh and Allahabad total 67 units were in 2005, which have increased to 85 units in 2010. Based on the government reports and available data about the units an initial survey of 50 processing units has been conducted in the Allahabad division. Some of the units were only on papers. Finally I selected 30 industrial units by dividing them into four different classes constituting

one large industry, four medium industries, five small industries and twenty cottage industries to figure out the problems these industries are facing since 2005 till date.

RESULTS AND DISCUSSION

The Table 1 compares different problems, on 1 to 10 scales, faced by fruits and vegetables processing units in Allahabad division. The data has been taken for two different years *i.e.* 2005 and 2015 in order to see the improvement, if any, regarding problems faced by them. The average of the ratings given by different industry categories has been calculated by treating each class of industry as a single unit.

From the table it is very much clear that the biggest problem faced by food processing units, surveyed both in 2005 and 2015, is government intervention *i.e.* Inspector Raj, getting average rating of 9.25 in 2005 and 8.75 in 2015. Across the entire categories all are agreed that Inspector Raj is still working. Compared to 2005 there is no improvement at all in 2015 in all industries. In Allahabad one industry owner showed a list of 32 government offices whose officials visit the unit at least one time in a year to collect only their share (bribe) without any official concern.

The next major issue is of labour laws with average rating of 5.75 in 2005 showed no improvement at all even after a decade. The labour laws is not a problem for cottage industries as these units mainly involve family members, while other class of industries with 10 or more labour are required to define with sufficient precision the condition of employment and required to get it certified.

In contrast to large and medium industries, cottage and small industries do not face the problem of raw material availability and of quality raw material as they are generally located in areas where raw material is easily available, as quality is not an issue for small units. Among all the units large industries face the problem of raw material availability and of quality raw material the most. Even after a decade, compared to 2005 both these problems improved only marginally.

Infrastructural bottlenecks, lack of electricity and high rate of electricity with average rating of 6.5, 7.25 and 7.25, respectively in 2005 are the problems which needs to be addressed immediately. They act as a hindrance in the growth of industrial units, although the average rating of infrastructural facilities showed a improvement of 1.5 after a decade. But high electricity rate is still troubling the entrepreneurs as there is only

Table 1 : Problems of Fruits and Vegetables Based Food Processing Units in Allahabad Division (Average, on 1 to 10 scales)

Sr. No.	Problems	Large units		Medium units		Small units		Cottage units		Average	
		2005	2015	2005	2015	2005	2015	2005	2015	2005	2015
1.	Shortage of raw materials	6	5	3	2	1	0	00	00	2.5	1.75
2.	Low quality raw material	7	5	4	3	1	1	00	00	3	2.25
3.	Lack of capital	5	3	0	0	8	3	9	7	5.5	3.75
4.	Lack of electricity	6	4	7	6	8	7	8	7	7.25	6
5.	Lack of other infrastructural facilities	5	4	6	5	7	5	8	6	6.50	5
6.	Problems of marketing	2	1	4	2	8	6	8	7	5.50	4
7.	Taxes on processed food	6	4	5	4	7	5	6	4	6	4.25
8.	Taxes on machines	6	4	5	4	4	2	4	4	4.75	3.50
9.	Lack of demand of processed products	0	0	2	2	1	1	00	00	0.75	0.75
10.	Government intervention	9	8	10	9	9	9	9	9	9.25	8.75
11.	Labour laws	8	8	8	8	7	7	-	-	5.75	5.75
12.	Food laws	4	2	6	4	2	2	2	1	3.50	2.25
13.	Mandi tax	6	4	6	3	6	5	2	2	5	3.50
14.	High rate of electricity	5	5	8	7	8	8	8	8	7.25	7

marginal improvement of 0.25 in the rating in 2015 compared to 2005 even after providing power subsidies to industries. Large and medium scale industries also uses generator but other class of industries are still struggling for it, especially cottage and small industries.

But both the problems of high electricity rate and availability of electricity may be addressed greatly in the future as electrification in the country is increasing with the support of schemes like Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) and Integrated Power Development Scheme (IPDS), and aim of Indian government to achieve renewable installed capacity of 175GW by 2022.

The demand of processed product in market is not a concern at all for large and cottage industries. Even for medium and small industries it is a meagre issue. Due to increased demand of processed products after the liberalisation it is important to note that the measure concerns for industry are from supply side. Although supply from measure big players have increased tremendously in the market.

But product marketing is a major concern for small and cottage industries in contrast to large and medium units. With average rating of 5.5 in 2005 the problem has been addressed significantly for medium and small countries with nominal improvement in large and cottage industries getting an average rating of 4 in 2015. Small and cottage industries supply basically in the local market especially in small restaurants and dhabas. Large and medium units do the marketing of products from their own resources but small and cottage units are not able to

do the same because their cost concern. But all these units want the help of government authorities in marketing of the products as all of the processed products are good for health. Even medium scale units want a centrally sponsored marketing facility like egg, 'Sunday ho ya Monday, roj khayen ande'.

Among all the units availability of capital is a major concern for cottage industries and small scale industries but it is not a concern at all for medium industries. The problem has been addressed significantly for small industries over a decade and showed a marginal improvement in case of cottage industries. With an average rating of 5.5 in 2005, it ended getting 3.75 of average rating in 2015.

All the units gave almost equal rating to problems related to taxation whether on machines or processed products or mandi tax. However the rating improved marginally in 2015 compared to those in 2005, which shows that the government has taken various steps to address these issues and of all the tax related problems saw the maximum improvement. But taxes on the industry are still a measure concern for most of the entrepreneurs.

Food laws are mainly an issue for medium scale units only as a one of the source of intervention by the government officials but for other class of industries it is a meagre issue. But overall the average rating improved from 3.5 in 2005 to 2.25 in 2015.

Suggestions and Conclusion:

The main objective of this survey was to see the impact of liberal policies, after 1991, and improvement in

infrastructure, if any, on fruits and vegetable based industry especially on locally supplied raw materials based units. But it is surprising fact that even after the 25 years of liberalisation the 'visible hand' of the state is more powerful than 'invisible hand' of the market. Industries are facing and struggling with the 'Inspector Raj' which is promoting corruption. The biggest problem faced by industries is still government intervention! A medium scale unit owner, who was a one of the office bearer in the industry association, showed a list of 32 government departments which intervene in the functioning of industries in the name of law and harass entrepreneurs.

No doubt that tax reforms measures simplified the tax structure and improvement in infrastructure promoted investment in the sector, but fruits and vegetable industry needs more waivers on the taxes on the inputs, which are used in the processing, and on the processed products. Expansion and Improvement in the infrastructure needs to be addressed at regular basis to promote the real investment in the sector. More than 75 per cent units are using government subsidies, grants and facilities in the name of production but most of the units are only on the paper. Those units are functional and more successful in the market, which did not take any type of assistance from the government. When I asked a question to an entrepreneur, 'What type of assistance you need from the government', his answer was very surprising 'the biggest assistance of the government will be to do nothing'.

The recent major government initiatives like Make in India, Brand India, Start-Up India can suffer a huge setback if the problems of government intervention, infrastructure facilities, availability of electricity, issue of marketing, problem of labour reforms are not addressed immediately. The cottage and small industries play a significant role in the economies of developing countries in the national income, generating employment and promoting exports, but these units are facing financial issues, infrastructural bottleneck, marketing issues, technological improvement which acts as a hindrance in the growth of these industries.

In order to promote these industries, especially medium, small and cottage units, government need to focus on these specific issues because these industries are labour intensive in nature and play a great role in generation of employment, directly or indirectly, due to their strong forward and backward linkages.

FICCI survey on challenges in food processing

sector show that lack of adequate trained manpower, absence of Comprehensive national level policy on food processing sector, Food Safety Laws and Inconsistency between State and Central policies are also major hindrances to the growth of the sector. The growth of food processing companies has been sub-optimal because of high cost, low level of productivity, high wastage and lack of competitiveness of Indian food products in the global market. Therefore, to fully leverage the growth potential of the sector, current challenges that are being faced by the industry need to be properly addressed and steps need to be taken to remove the bottlenecks hampering the sectoral growth (FICCI, 2010).

This survey is identifying the challenges, which are faced by the industry in general, and fruits and vegetable processing units in Allahabad division in particular. This identification of the problems is thus providing a roadmap for all the stakeholders, specially the government, the policy makers and executors.

REFERENCES

- Advantage Uttar Pradesh, 7th Food World India; 23 September 2013
- Alagh, Y.K. (1995). 'Agro-Based Industrialisation in India' in Harish Nayyar and P Rama Swamy (eds), Globalisation and Agricultural Marketing, Rawat Publications, Jaipur.
- Ansari, Anis (2006). Status Of Food Processing In UP, Presented at : Work shop On Strengthening of Food Processing and Marketing Facilities in Uttar Pradesh, 28 – 29 July, 2006, Lucknow, U.P.
- Assocham India and Grant Thornton, Food Processing Sector: Challenges and Growth Enablers, 22 February 2017, New Delhi
- Bhalla, G.S. and Gumail Singh (2001). Indian Agriculture: Four Decades of Development, Sage Publications, New Delhi, 2001
- Bansal, R.K. (1998). Fruit and Vegetables Processing Industry in India. *Indian Food Packer*, **52** (5): 33-35.
- FICCI, FICCI survey on challenges in food processing sector, Bottlenecks In Indian Food Processing Industry, Survey 20100.
- GoI (2006a) . An Approach paper to the eleventh five year plan (2012) Government of India, Planning Commission, 2006
- GoI (2006b). Report of the working group on Food processing sector, Ministry of Food Processing Industries, Government of India, Nov 2006.

- Government of India, December 2004; Vision-2015: Strategy and Action plan for Food Processing Industries in India, Volume I and Volume II, Prepared by Robobank, India for the Ministry of Food Processing Industries, (Downloadable from <http://mofpi.nic.in/visdoc/visndoc.htm>)
- IBEF; <https://www.ibef.org/industry/indian-food-industry.aspx>,: August, 2017
- Mittal, Surabhi (2007). Can Horticulture be a success story for India - ICRIER, Working Pap.No. 197.
- N. Viswanadham, Can India be the food basket for the world? Indian School of Business, Hyderabad
- Nabard (2006). Master Action Plan For Food Processing Industries And Horticulture In Uttar Pradesh Final Report
- Vol - I, Nabard Consultancy Services (Nabcons), National Bank For Agriculture And Rural Development Regional Office, Lucknow
- Onicra Credit Rating Agency of India; Food Processing Industry in India, Adding Value by Creating Synergy Between Agriculture and Industry, 2014
- PIB.NIC; <http://pib.nic.in/newsite/PrintRelease.aspx?relid=187397>, 10JAN 2019
- Policies and Regulations -Fruits and Vegetable at [http://mofpi.nic.in/policies/fruits & vegetables/veg policy.htm](http://mofpi.nic.in/policies/fruits&vegetables/vegpolicy.htm).
- Scheme for promotion of Food Processing Industries at [http://mofpi.nic.in/ministrial schemes/schprofood.proces.htm](http://mofpi.nic.in/ministrial_schemes/schprofood.proces.htm)
- UP Investor Summit, Agro and Food Processing, 2018
