

Draft Report of Working Group

FOOD PROCESSING INDUSTRIES

For 12th Five Year Plan

Ministry of Food Processing Industries

Government of India

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Foreword

It is undeniable that the growth of the food processing sector would be critical for achieving 4 per cent average annual growth rate for Agriculture during the 12th Plan, which in turn may be considered pre-requisite for overall target for 9 per cent growth for Indian economy. The growth of food processing sector would further be essential to meet twin national objectives of “inclusive growth” and “food security”.

The 11th Plan marked a significant progress for the Ministry in terms of both approach and scale of its programmes, with sufficient stress on appropriate backward linkages and emphasis on synergy between production and processing. The approach to the 12th Plan takes into consideration learning and experiences during implementation of the 11th Plan programmes. While the emphasis on infrastructure development continues during this Plan, equal emphasis is given to institution building and skill development. Above all, decentralization may be considered the central theme of the 12th Plan, aimed at making food processing a truly national initiative. The proposed National Mission on Food Processing would be structured to ensure maximum participation from State Governments. Relevant Government of India institutions would also be involved in the design and implementation of the schemes and programmes.

This Working Group Report is culmination of Ministry’s intensive consultation with industry, academia, scientists and representatives of State Governments. Thus, the Report includes inputs from six separate Sub-Groups constituted by the Ministry and also deliberations during three Working Group meetings over this period.

I wish to place my appreciation to all the chairpersons of the Sub-Groups, the Members of the Sub-Groups and Working Group and the staff of IL&FS who have all contributed to finalization of this report.

New Delhi

12/09/2011

(Rakesh Kacker)

Secretary

Ministry of Food Processing Industries

Executive Summary

BACKGROUND AND APPROACH

This Working Group Report for the 12th Plan on food processing industries may be regarded as essentially driven by increased belief in the role of the food processing sector in addressing core national concerns of agricultural productivity and food inflation. The foundation of food processing industry is a procurement plan for agricultural produces which ensures market for farmers and eliminates their uncertainties. The ability of industry to elongate shelf-life of products not only reduces threat of “problem of plenty” for farmers but also provides consumers with more diversified options.

The 11th Plan marked a significant step forward for the sector in terms of both approach and scale of its programmes. While the programmes of the Ministry had various novel components during the 11th Plan, most significant of them may be considered adoption of Public-Private Partnership spirit and stress on appropriate backward linkages. The 11th Plan approach may also be said to be driven by the Vision 2015 for the sector, prepared by the Ministry, which laid down specific targets for growth of the sector. Thus, the total plan outlay of the Ministry rose from ₹ 650 crore during the 10th Plan to ₹ 4,031 crore during the 11th Plan.

The key drivers of the 12th Plan approach are alignment with national objectives and efforts to address critical challenges of the sector. Thus, the driving principles of the 12th Plan would be inclusiveness of growth, food security, innovation, food safety and quality, enterprise promotion and skill development. Further, the Working Group (WG) has been guided by the key objectives of proposed National Manufacturing Plan, with stress on productivity and creation of jobs.

KEY RECOMMENDATIONS

The recommendations of the Working Group for the 12th Plan may be considered continuation and further emphasis, albeit with appropriate learning, on 11th Plan strategy of infrastructure development and institution building. The elements of skill development and innovation would be significant additions for the 12th Plan strategy, with an overarching theme of decentralization. In brief, the strategy during the 12th Plan may be considered to be based on following three principles/recommendations:

1. Decentralization with Greater Involvement of State Governments

It has been realized that next leap forward in terms of ensuing requisite growth impetus and value addition (depth) to the sector can only be achieved through a process of effective decentralization. This would mean entrusting the state governments with responsibility of selection of beneficiaries

and implementation and monitoring of identified programmes. This has been designed as the central theme of the 12th Plan in form of National Mission on Food Processing (NMFP), considered essential to reach out to a much larger number of beneficiaries and facilitate necessary linkages between agricultural production and processing. Several of the programmes during the 12th Plan are thus proposed to be implemented through NMFP, as centrally sponsored schemes.

2. Focus on Policy Making and Coordination Instead of Project Implementation

The above decentralization process is also aimed at allowing the Ministry to focus on critical issues confronting the sector viz., lack of suitable variety for processing, need for innovation and product development, adherence to food safety and quality standards etc. To ensure progress on these issues, the Ministry would act in close coordination with Central Government agencies such as NHB, NCDC etc., and state governments. Further, the Ministry would have close collaboration with the Department of Scientific and Industrial Research of Ministry of Science and Technology for promoting innovations and product development. Above all, the Ministry would work with state governments on creation of enabling policy environment for promotion of the food processing industries. There would be continuing efforts at further strengthening of Institutions such as National Institute of Food Technology Entrepreneurship and Management (NIFTEM), National Meat and Poultry Processing Board (NMPPB) and Indian Grape Processing Board (IGPB), and Indian Institute of Crop Processing Technology (IICPT).

3. Infrastructure Development with Focus on Creation of Value Chains

The Working Group believes that infrastructure development initiatives of 11th Plan aimed at creating integrated value chains, especially for perishables, would need Ministry's continuing attention. This has been found necessary in view of the nascent stage of food processing infrastructure in the country. The fragmented and unreliable supply chain corrodes the profitability of the sector and makes it unattractive for large investments. The infrastructure development initiatives of the Ministry aimed at setting up Mega Food Parks, Integrated Cold Chains and Modernization of Abattoirs have received encouraging response from private investors/municipal bodies, and are expected to make a significant positive impact in this direction.

IMPLEMENTATION MECHANISM

As mentioned above, the Ministry has proposed to rely on state governments for implementation and monitoring of its large number of schemes, to be operated through NMFP. The draft note containing proposed structure and operation of NMFP has been shared with all the state governments and further discussed with their representatives through arrangement of video conference. The response from the state governments has been very encouraging and this engagement would continue with them for finalization of NMFP structure. The implementation mechanism for infrastructure development schemes is already in place with provision of Programme/Project Management Agencies and such arrangements are also being recommended now for Schemes for Quality Assurance, Codex, R&D etc. The relevant organization of Central Government such as NHB and NCDC etc will also be suitably associated in implementation. They have shown their willingness during stakeholder consultation.

It is expected that the proposed institutional structure for implementation of NMFP would be ready by the middle of the first year of the 12th Plan. The WG proposes to provide adequate support to the state governments in creating and strengthening of appropriate institutional structures for

this purpose. In addition, the WG has also suggested for a transition mechanism in operation of its existing schemes, proposed to be shifted under NFPM, so as not to create any inconvenience to beneficiaries.

BUDGETARY REQUIREMENTS

The financial projections for the 12th Plan have to be looked at from the perspective of making growth of food processing sector truly a national goal and reflect both the potential of the sector and demand from the stakeholders.

S. No.	Schemes/Initiatives	2012-13	2013-14	2014-15	2015-16	2016-17	Total
1	Infrastructure Development Scheme	786.16	1074.50	1074	1114.75	1175	5224.41 (say, 5225)
2	National Mission on Food Processing	546	959	1506	1723	1799	6533
3	Strengthening of Institutions including Skill Development Programme	170	250	282	318	406	1426
4	Food Safety, R&D and Promotional Activities	112	132.5	160	183	203.5	791
5	Innovation Fund Scheme	10	50	50	50	30	190
6	Venture Capital Fund	50	100	125	125	100	500
7	Financial Commitments for 11th Plan projects, now proposed to be implemented under NFPM*	206	206	Nil	Nil	Nil	412
Grand Total		1880.16	2772	3197	3513.75	3713.5	15077

* These include ₹ 400 crore of grant funds committed under Scheme for Technology Upgradation/Setting up/Modernization/Expansion of Food Processing Industries and ₹ 12 crore under HRD initiatives.

LIKELY IMPACT

The proposed financial outlay of around ₹ 15,000 crore would have an aggregate component of around ₹ 10,300 crore towards providing part capital assistance to food processing projects. Based on design of the schemes and experience so far, this may be able to attract a total investment of around ₹ 35,000 crore in food processing sector. Considering an Incremental Capital Output ratio of around 4 for Indian Economy, though it may be less for food processing sector, an additional investment of ₹ 35,000 crore may lead to an additional output of ₹ 8,750 crore. This level of investment may also have potential of generating additional employment for at least one million people during 12th Plan, assuming creation of even 30 employment opportunities for each ₹ 1 crore invested.

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CONTEXT AND BACKGROUND

The continuing food inflation in the country has brought in sharp focus “supply side” constraints, especially in case of perishables. There is thus an increasing realization about the need to increase agricultural production in the country and a strategy to usher in second green revolution is under preparation. At the same time, it needs to be understood that it will not be enough only to produce more, but it is equally important to save each grain produced by reducing wastages. This would improve farmers’ income and economic viability of agricultural operations. Such a strategy would also be essential to meet the twin national objectives of “inclusive growth” and “food security”.

The growth of food processing sector would need to be a significant component of this strategy, considering its possible role in achieving increased agricultural production by ensuring better remuneration for Farmers. The food processing sector makes it possible by not only ensuring better market access to farmers but also reducing high level of wastages. A developed food processing industry will reduce wastages, ensure value addition, generate additional employment opportunities as well as export earnings and thus lead to better socio-economic condition of millions of farm families.

The Mid-Term Appraisal Report of the 11th Five Year Plan has also recommended accelerating agricultural growth through high value segment (horticulture, livestock and fisheries). To achieve this, it has suggested, inter-alia, the following:

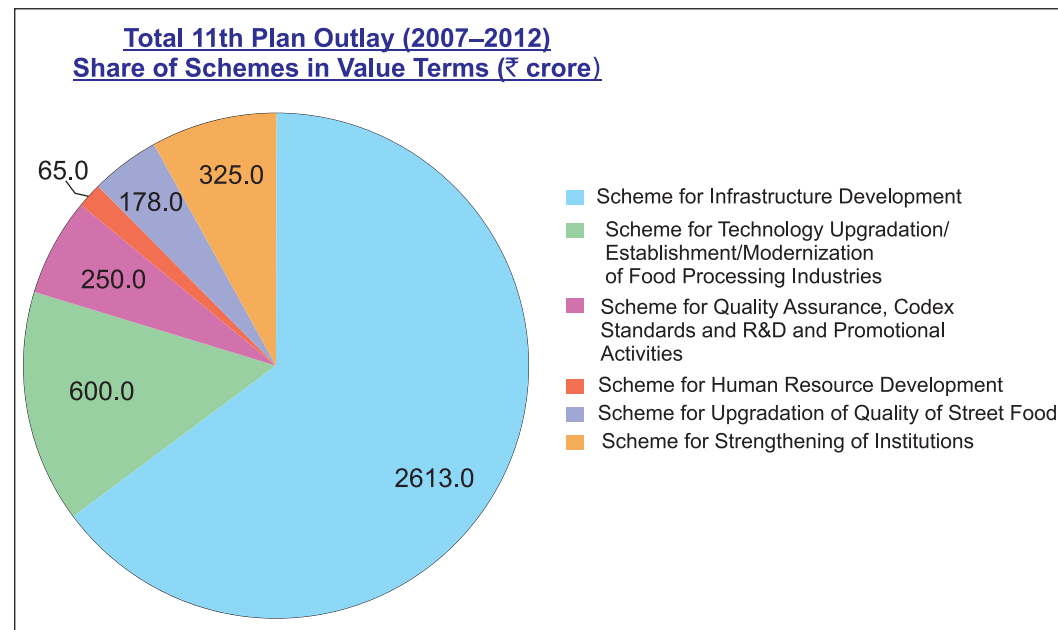
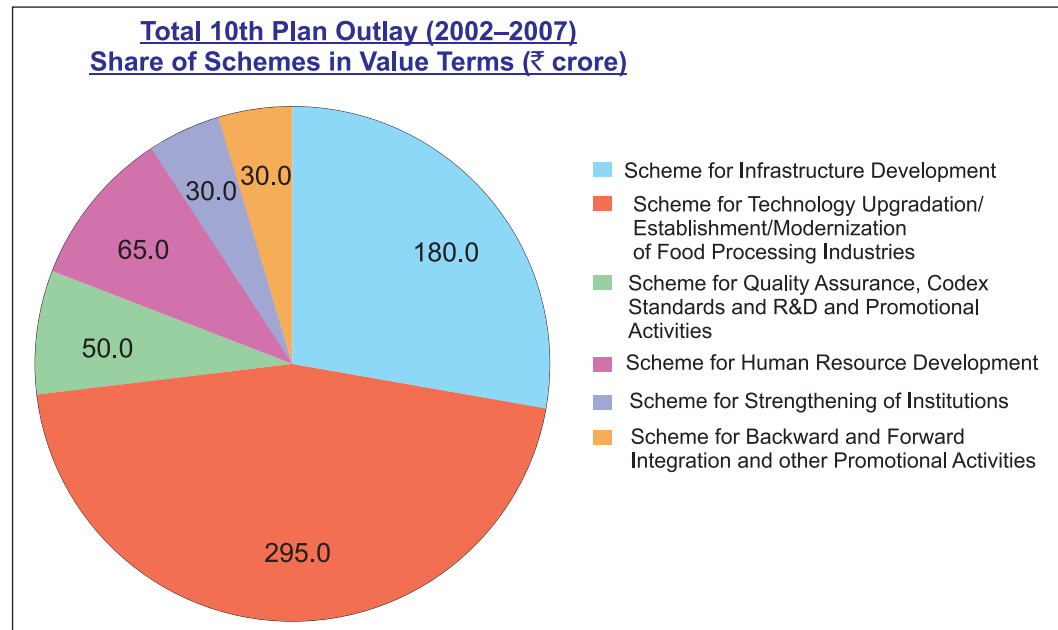
- i. To encourage “clustering” of farmers in groups through NGOs, be it in the form of “cooperatives”, farmer clubs, or contract farming, etc.
- ii. To encourage organized logistics players, processors and modern retailers (both domestic and foreign) by freeing them from restrictions, and supporting them to link directly with clusters of farmers.

This is a matter of great satisfaction for the Ministry of Food Processing Industries that the above suggestions have already been the guiding principles of its 11th Five Year Plan.

I. APPROACH DURING 11TH FIVE YEAR PLAN

The 11th Five Year Plan marked a significant step forward for the Ministry of Food Processing Industries in terms of both approach and scale of its programmes for the food processing sector. For the Ministry, the 11th Plan was also a concerted effort to seize the emerging opportunities of the food processing sector as the Indian economy came of age. The realization by the policy makers that the growth of the food processing sector would be key to growth of agriculture in the country allowed the Ministry to recast its programmes and schemes on a much wider scale and in an integrated manner, with stress on appropriate backward linkages to agricultural production.

The total plan outlay of the Ministry rose from ₹ 650 crore during the 10th Plan to ₹ 4,031 crore during the 11th Plan. The scheme-wise outlays for both the 10th Plan and the 11th Plan are given below:



As can be seen above, the maximum increase has been under Scheme for Infrastructure Development, where the plan outlay has increased from ₹ 180 crore to ₹ 2,613 crore. This was to emphasise the critical role of infrastructure development for food processing sector.

The 11th Plan approach may also be said to be driven by the Vision 2015 for the sector, prepared by the Ministry, which laid down specific targets in terms of increasing level of processing of perishables, value addition and share in global food trade. While the programmes of the Ministry had various novel components during the 11th Plan, most significant of them may be considered: (i) Spirit of Public-Private Partnership (PPP), and (ii) Integrated approach with stress on appropriate backward linkages.

The adoption of this approach by the Ministry, with requisite flexibility, led to its schemes and programmes entrusting greater responsibility to the private sector, even as efforts were made to ensure that schemes were demand driven and implemented in a transparent manner. Similarly, the stress on integration brought in features of “Hub and Spokes” and “Farm to Plate” in its various programmes and schemes.

The Mega Food Parks Scheme (MFPS), which may be regarded as the flagship programme of the Ministry during the 11th Plan, was characterized by both the above features. The Scheme, combining elements of both enabling infrastructure and core processing facilities, provides for mega food parks to be promoted by Special Purpose Vehicles (SPVs), with majority ownership by private sector even as equity of up to 26% in SPVs by the government agencies is allowed. Further, MFPS envisages mega food parks to have a “Cluster approach”, which would have a Central Processing Centre (Hub) and Primary Processing Centres (Spokes) to ensure availability of raw materials for food processing units.

The Scheme for Cold Chain, Value Addition and Preservation Infrastructure is another significant initiative of the Ministry during the 11th Plan, which emerged out of the realization that any effort to promote food processing sector has to necessarily address the challenges of existing logistics constraints, specially for perishables, in the country. The Scheme, therefore, aims at enabling food processing units to create integrated and appropriate cold chain facilities for their needs, which would also lead to significant reduction in wastages of meat, dairy products, fish and agricultural perishables, specially fruits and vegetables.

The Scheme for Modernization of Abattoirs was the third important component of the Infrastructure Development Scheme of the Ministry. This Scheme aimed at creating infrastructure for hygienic and more humane slaughtering of animals leading to availability of spirit hygienic meat to the domestic consumers as well as exports. This Scheme also has the flexibility for spirit of Public-Private Partnership. The Scheme has generated huge demand from the states. The 11th Plan approach of the Ministry also gave special stress on creation of institutional structures to guide the growth of the sector in the desired direction. The establishment of National Meat and Poultry Processing Board and Indian Grape Processing Board may be considered as significant milestones during this period. The Indian Institute of Crop Processing Technology was also upgraded to a National Centre of Excellence in the country. Above all, a National Institute of Food Technology Entrepreneurship & Management (NIFTEM) has been established by the Ministry as a Centre of Excellence to cater to all aspects of technology, entrepreneurship, research, skill development and management for the sector at the apex level.

The significance of project development and management also received special focus during 11th Plan. During this period, the Ministry has engaged private sector agencies as Programme Management Agency/Project Management Agency for requisite assistance in implementation of various schemes. This has been done with objectives of ensuring effective monitoring and greater transparency in implementation of schemes.

The above initiatives by the Ministry have yielded some encouraging results and appreciation from various stakeholders. The response to various schemes though has been a mixed experience, with infrastructure development schemes for setting up mega food parks and modern abattoirs throwing up initial challenges in implementation. On the other hand, response of the industry to scheme for promoting integrated cold chains has been truly satisfactory.

II. APPROACH TO 12TH FIVE YEAR PLAN

The approach to 12th Five Year Plan for the Ministry is to be prepared in the backdrop of recognized need to significantly increase agricultural productivity and promote investments in storage and processing facilities. The key drivers of the 12th Plan approach need to be therefore aligned with the following national objectives:

- (a) Inclusiveness of growth
- (b) Ensuring food security
- (c) Innovation, enterprise promotion and skill development
- (d) Food safety & quality

Further, the Ministry would be guided by the key objectives of proposed National Manufacturing Plan, enunciated by the Steering Committee on Industry, Planning Commission, as follows:

1. Increase growth of manufacturing sector to 2–4% more than GDP growth to make it the engine of growth for the economy and increase its share to 25% of overall GDP by 2025.
2. Increase the rate of job creation in manufacturing to create 100 Million additional jobs by 2025.
3. Increase “depth” in manufacturing, with focus on the level of domestic value addition
4. Enhance global competitiveness of Indian manufacturing through appropriate policy support.
5. Ensure sustainability of growth, particularly with regard to the environment.

The Ministry believes that food processing sector has a significant role to play in achieving the above objectives of the Manufacturing Plan. It is widely accepted that the food processing sector is the most appropriate sector for creating jobs for rural poor, and thus reduce the burden on agricultural sector for creation of their livelihood. This is due to their familiarity with the agricultural sector which would make it easier to train and place them in food processing enterprises. The multiplier effect of investment in food processing industry on employment generation is also believed to higher than any other sector. This would also address the concerns regarding lack of skilled manpower in food processing sector. Various studies suggest that the industry is grappling with the shortage of refrigeration mechanics, electricians and fitters and food safety professionals etc. There are a few institutions only that provide qualified manpower for food processing sector. Hence, one of the major emphasis of 12th Plan would be on mapping the skill gaps and identify priority areas for human resource development for increasing the productivity of workers/units in the sector.

The Ministry has also adopted the stress of the Manufacturing Plan on the need for joint ownership of plans by different stakeholders and linking recommendations to the underlying objectives and strategies. The Ministry is committed to continue its efforts during 12th Plan to meet its targets of Vision 2015 and above all, would be using the learnings of the 11th Plan which would be reflected in programmes and schemes of 12th Five Year Plan.

In line with the above principles, the Ministry’s approach to the 12th Plan has been given a final shape over last 3 months based on extensive discussion with all stakeholders. The Working Group, while preparing the 12th Plan approach, had broadly focused on following areas:

1. Define the medium- and long-term goals to be achieved in the food processing sector and specify the milestones to be achieved in the 12th Plan period in order to achieve the long-term goals.

2. Assess the present situation, policies, programmes and achievements of the food processing sector, analyse the reasons for shortfall, if any and suggest appropriate measures. Also, suggest schemes that are to be terminated in the 11th Plan or initiated or continued in the 12th Plan period.
3. Examine constraints in food quality and safety issues and to suggest framework for addressing the same.
4. Suggest measures for human resource development and also review the working of existing R&D institutions and suggest measures for their re-organization/linkages.
5. Estimate the requirement of institutional finance/credit needs of the industry, analyse the impact of fiscal incentives provided by the government and suggest strategy for channelizing higher investments in the sector.
6. Examine infrastructure gaps in food processing sector and suggest strategy for augmentation including PPP models.
7. Suggest measures for strengthening and coordination of institutional network and recommend strategy for promoting value chain linkages in the food processing sector.
8. Review the existing coverage of food processing schemes for SC/ST/Minorities/Women/SHG/Farmer associations and suggest measures for inclusive growth.
9. Review the existing planning and monitoring mechanisms at Central/State/Local levels and suggest strategy for effective inter-departmental convergence and coordination.

The proposed 12th Plan approach given below is based on the above mentioned guiding principles and includes inputs from 6 separate Sub-Groups constituted by the Ministry and also deliberations of its own 4 meetings over this period.

III. DECENTRALIZED APPROACH: GREATER INVOLVEMENT OF STATES

It has been realized that Ministry's next leap forward in terms of ensuing requisite growth impetus and value addition (depth) to the sector can only be achieved through a process of "effective decentralization". This would mean greater involvement of state governments in implementation of various schemes and programmes of the Ministry. This may then be regarded as the central theme of 12th Plan approach of the Ministry which has suggested not only appropriate modifications in present central sector schemes but also proposed launching of a National Mission on Food Processing (NMFP). This is considered essential by the Ministry to reach out to a much larger number of beneficiaries through its various schemes. A judicious combination of central sector, centrally sponsored/additional central assisted schemes are being proposed to:

- i. Create better awareness for need and significance of food processing sector in rural areas.
- ii. Facilitate necessary linkages between initiatives in agricultural sector and promotion of food processing units.

Ensure greater participation of state governments and district administrations in various programmes. As the Food Safety and Standards Act, 2006, became effective from 5 August 2011, essentially an earlier initiative of the Ministry, the compliance with food safety regulations through better hygiene standards would be both an opportunity and challenge for the food processing sector in the country and adequate emphasis is thus being given to this aspect during

12th Plan. Similarly, the research and incubation facilities need to be demand driven and linked to the market to derive optimal advantages for the sector. There are significant measures being proposed to promote innovation, to ensure competitiveness of the sector, through proposed Innovation fund even as a dedicated Venture Capital Fund would be designed to provide adequate risk capital to entrepreneurs in the sector.

The following chapters would deal with major focus areas of the 12th Plan which would be facilitating creation of enabling infrastructure, development of human resources and provision of direct assistance in form of subsidy to increase viability of the sector for its rapid growth.