



Centre for Economic Policy Research
Working Paper on
Role of food processing industry in Indian economy

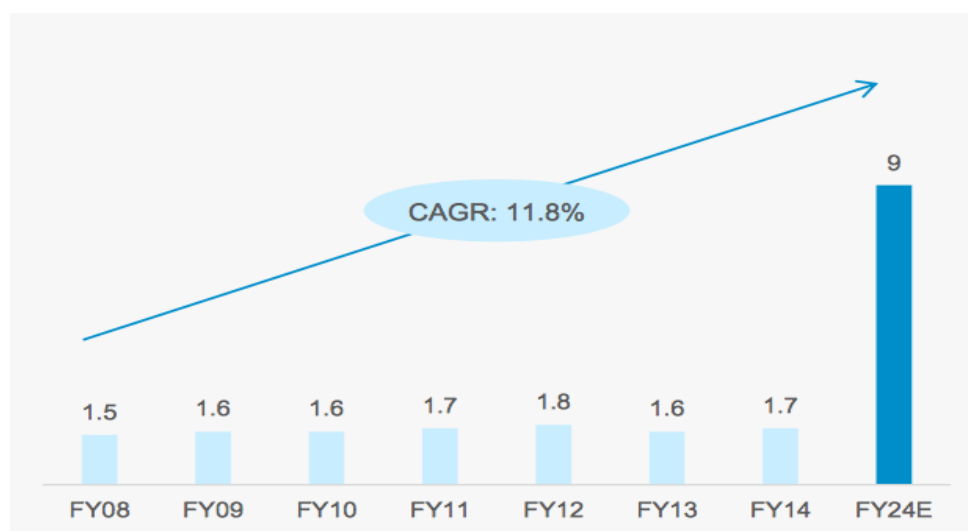
Food Processing industry has emerged as a vital part of Indian economy both in generating GDP and employment in past few years. According to the latest available data, the Indian food processing industry accounts for 32% of the country's total food market and is ranked 5th in terms of production, consumption, export and expected growth.

Apart from this, 13% of India's exports and 6% of total industrial investment accrues to food processing industry only. During FY11-16, India's exports of processes food and related products grew at a CAGR of 11.74%, reaching US\$ 16.2 billion. Moreover, if we will talk about investment, then according to the data provided by the Department of Industrial Policies and Promotion (DIPP), this industry has received around US\$ 7.54 billion worth of FDI during the period April 2000-March 2017.

Future Vision

According to the estimates of Confederation of Indian Industry (CII), food processing sector have the potential to attract as much as US\$ 33billion of investment over the next 10 years. Along with this they also estimated this sector to generate employment of nine million person-days. According to the ASSOCHAM-Grant Thornton joint study on "Food Retail: Investment: Infrastructure", this sector is expected to generate about 8,000 direct & 80,000 indirect jobs by 2024.

FIGURE 1: CONTRIBUTION MADE TO EMPLOYMENT GENERATION

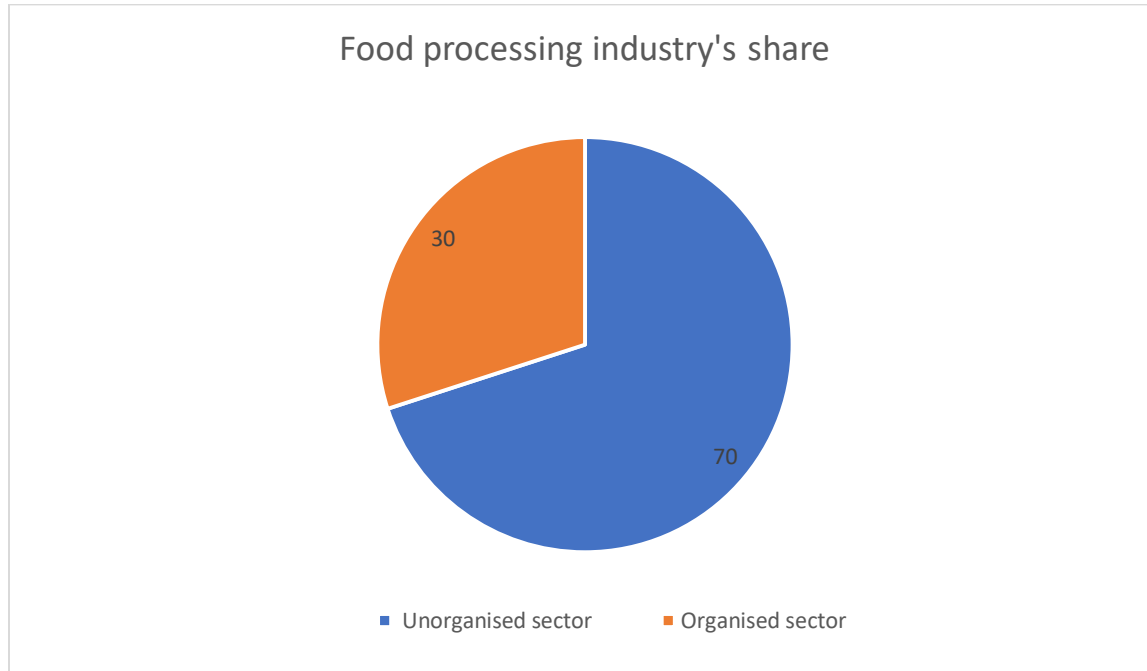


SOURCE: MINISTRY OF FOOD PROCESSING INDUSTRIES

Moreover, food processing is a major segment of unorganized sector, accruing around 42% of its total share. As the sector comprises of many small-scale industries which clearly shows a great potential for generating sizeable employment. Apart from this, organized sector also plays an important role in this industry as it owes a larger share in secondary processing segment as

compared to primary one. Rice mills accounts for the largest share in the processing units of organized sector.

FIGURE 2: SHARE OF FOOD PROCESSING INDUSTRY ACCRUED TO ORGANISED AND UNORGANISED SECTOR

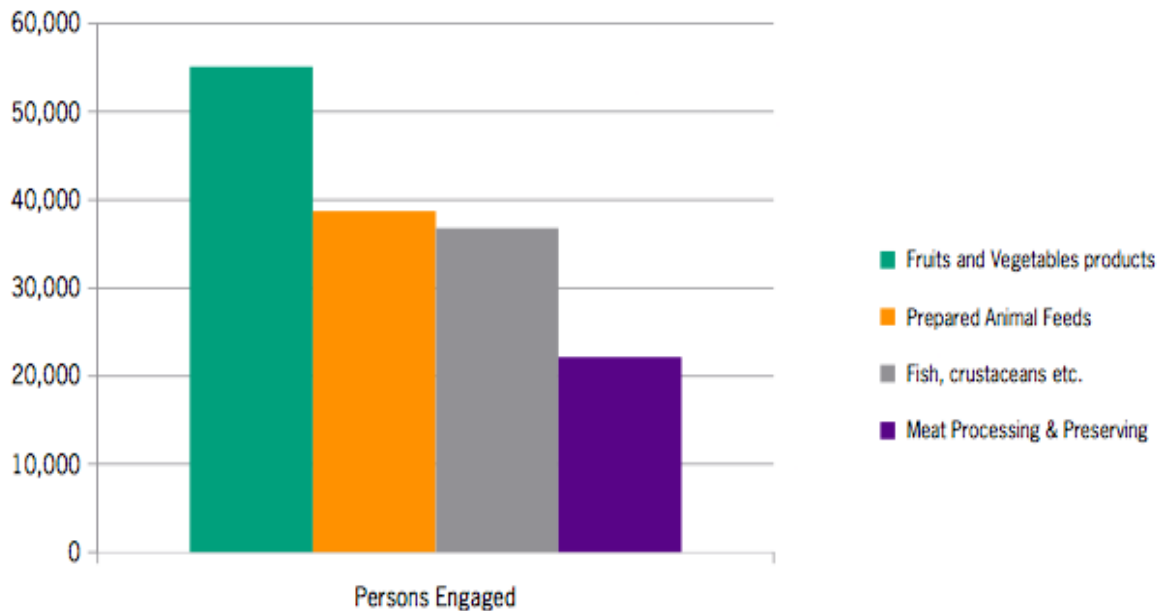


SOURCE: MINISTRY OF FOOD PROCESSING INDUSTRIES

EMPLOYMENT IN FOOD PROCESSING UNITS:

In order to have a close picture of employment status in this industry, it's important to observe the level of employment in different food processing units. An attempt has been made to show the status of employment in four major units of food processing based on the data available for the year 2014-15.

FIGURE 3: EMPLOYMENT STATUS IN FOOD PROCESSING UNITS

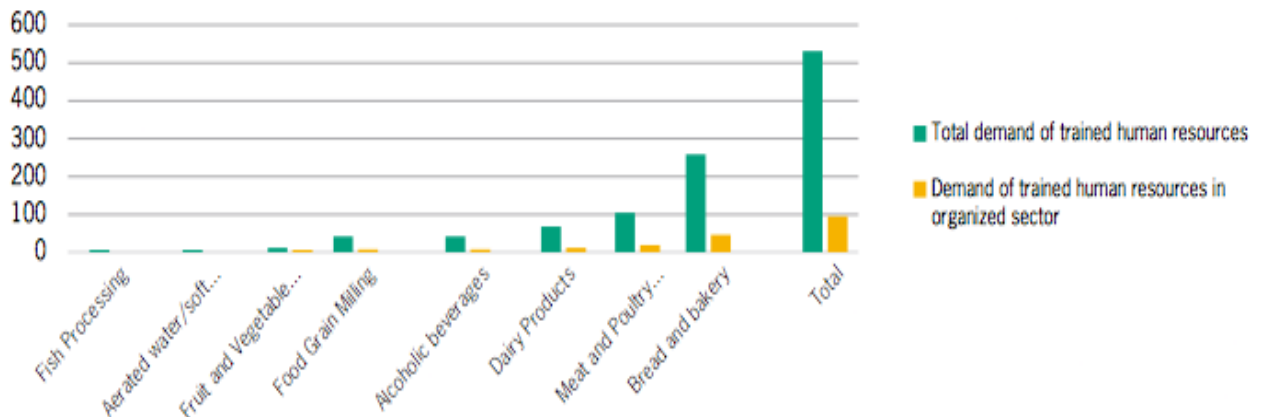


SOURCE: REPORT OF GRAND THORTON ASSOCHAM INDIA

The above figure clearly depicts the fact that fruit & vegetable processing units accrue maximum employment followed by prepared animal feed material, fish processing unit & meat processing & preserving unit.

Apart from this, there are few segments under this industry that require people with particular skill sets. Although government has launched various initiatives and policies to update people with the required skill sets, it's still lacking behind. The graph below depicts the level of trained human resources required in particular food processing units.

FIGURE 4: ANNUAL DEMAND OF HUMAN RESOURCES IN 000's



SOURCE: NATIONAL SKILL DEVELOPMENT COUNCIL

It can be easily observed from the figure above that there are few units which do not require particular skill sets making it easier for people to seek employment in these food processing units. But at the same time, there are units such as dairy products, bread and bakery, meat and poultry etc. which requires possession of particular level of skill sets making it difficult to seek employment in those units unless equipped with the skill sets required.

ADVANTAGEOUS FRONT:

One of the best thing about food industry is the fact that India has a favorable position in many fronts. This clears the fact that India has a lot of potential both for generating GDP and employment in this sector. Following are some of those positions that India holds worldwide:

- India is the world's 2nd largest producer of fruits and vegetables. The processing in this sector is expected to grow by 25% of the total produce by 2025.
- India is the largest producer of milk in the world.
- India is the largest producer of buffalo meat and 2nd largest producer of goat meat. Apart from this, India is also 2nd largest producer of eggs and 3rd largest producer of broiler meat.
- India has the 2nd largest arable land in the world.
- India produces more than 200 million tonne of different food grains every year.

Apart from these advantages, India also benefits from few other advantages that is only going to prosper its growth opportunities in future. These include:

- Demand for processed food is increasing with an increase in disposable income. Household consumption is set to be double by 2020 i.e., to reach US\$ 3.6 trillion from US\$ 1.46 trillion in 2015.
- Strategic geographic location & proximity to food importing nations favor India in terms of exporting processed foods. Apart from this, continuous increase in raw material production help India to supply cheaper products to other countries.

CHALLENGES:

Although this sector is having a lot of potential, but beside that there are several challenges that are hindering its growth level. Some of the major ones are:

- When it comes to infrastructure, this sector lacks cold chain infrastructure, proper government certified labs and proper mechanized handling.

- With the increasing demand, it's important to match the required level. But unfortunately, not same has been observed in this sector. Demand based innovations were not observed in this sector lacking it to create further growth opportunities.
- The skill sets required at different levels in food processing industry are inadequate. No proper training infrastructure is made available that will help enhance employment level in this sector.
- This sector lacks proper marketing networks both nationally and internationally. With inefficient and unreliable marketing networks, it's difficult for this sector to aware the public about their products.
- This sector also lacks proper access to credit. Being a capital-intensive sector, this sector requires funds at cheap credit rates. The non-availability of working capital at affordable interest rate makes it difficult for the people engaged in it to carry out their business properly.

INITIATIVES LAUNCHED BY GOVERNMENT:

In order to enhance the efficiency of this sector and in order to help this sector to further support a higher level of employment, several initiatives have been launched by the government. Some of the major ones are:

- Export earnings have been exempted from corporate taxes. Apart from this, 100% export oriented units allowed to sell up to 50% of their produce in the domestic market. Moreover, import duty has been scrapped on capital goods & raw materials for 100% export oriented units.
- A scheme based on cluster approach was initiated which helped in creating a well-defined agri/horticultural processing zone with better support of infrastructure & well established supply chain.
- This sector has been assigned priority status for bank credit. Apart from this, 60 Agri Export Zones have been set up across the country.
- Investment linked tax incentive of 100% deduction of capital expenditure for setting up & operating cold chain facilities & warehouse facilities has been offered by the government.
- In November 2016, Food Safety & Standards Authority of India (FSSAI) launched a major scheme to address the urgent needs to upgrade food testing laboratories in India.

- Programme named 'SAMPADA' with an allocation of Rs 6,000 crore has been approved. It is expected to leverage investment of Rs 31,400 crore, handling of 334 lakh MT agro-produce which will benefit 20 lakh farmers and generate 5,30,500 direct/indirect employment in the country by 2020.
- The government has also set up a Special Fund of Rs 2,000 crore in NABARD to make available affordable credit at concessional rate of interest to designated food parks and agro-processing units in the designated food parks.
- Government also implemented the scheme of Mega Food Parks in order to set up modern food processing units along with a well-established supply chain. Based on the latest data available, so far 41 Mega food parks have been sanctioned, out of which 9 have been operationalized, with 3 more to be operationalized soon.

WORLDWIDE RANKING:

Looking at domestic figures and status of food processing industry will only depict its partial story. In order to figure out the actual capability of this industry, it's important to look data at a much wider level. India no doubt, has an upper hand in most of the food processing units and some of the major ones have been mentioned below:

- 52% cultivable land compared to 11% world average.
- 2nd ranking in terms of largest arable land.
- 46 soil types out of 60, exist in India.
- 1st ranking in terms of largest livestock population.
- 1st ranking in terms of largest producer of milk (17% global share of milk).
- 2nd ranking in terms of fisheries, fruit & vegetable & cereals.
- One of the top 5 producers worldwide of rice, wheat, groundnuts, tea, coffee, tobacco, spices, sugar & oilseeds.

COMPARATIVE ANALYSIS WORLDWIDE:

India ranks second after China in the world in terms of largest food producer. Although earlier, due to insufficiency of food within our country hindered the growth of this sector globally, but now by attaining condition of self-sufficiency in food, Indian food processing industry is gaining popularity globally as well.

There are several aspects related to this industry when compared worldwide. Some are positive enhancing the its level of growth and the employment level it supports and some are negative hindering its level of growth.

Positive aspects:

- The Indian food & grocery market is the world's sixth largest. Under this retail alone contributes 70% of the total sales. On an average India spends 31% of their total earnings on food & grocery as compared to 9% in US, 17% in Brazil & 25% in China.
- With growing awareness, and health consciousness, the demand for processed food is increasing not only domestically but globally as well. According to the government's estimates, Indian exports of processed food and related items rose at a compound annual growth rate of 11.74% during 2011-16.
- India also has an upper hand in terms of having cheap workforce as compared to other developing economies. This can be effectively utilized to set up a low production base for both domestic and export market. Production costs are estimated to be lower on an average about 40% in comparison to most of the developed and developing countries.

Negative aspects:

- Although India is having a strong agricultural production base, still a significant amount is wasted due to inadequate infrastructure such as storage facilities, transportation, cold-chain & packaging facilities. According to the data available with Ministry of Food Processing Industry, post-harvest losses account for US\$ 1.5 billion annually.
- When compared globally, India accounts for less than 10% of the total food produced into value added products. Whereas US accounts for 65%, China 23%, Thailand 30%, Philippines 78% & Brazil 70% in this respect.

CONCLUSION:

Food industry is one of the major industry that is gaining popularity worldwide. India having an upper hand in the production of many food commodities is enhancing its food processing industry year by year. Food processing industry has emerged as one of the growth driver of Indian economy by not only contributing high share in GDP but also in delivering a higher level of employment. Although like all other sectors it suffers from few bottlenecks, but with more and more policies coming in this respect these issues will be scratched out soon. With proper initiatives and policy

framework, this sector will be able to enhance further opportunities of growth and employment in all other sectors interrelated to it.

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