CHAPTER-VII  GOVERNMENT POLICIES IN PROMOTING AGRO-BASED INDUSTRIES

A strong and dynamic agro industry sector plays a significant role in diversification of agricultural activities, improving value-addition opportunities and creating surplus for export of agro-food products.

This requires policies and plans for improvement of food processing infrastructure including up-gradation of technology and enforcement of quality standards, promoting investment in food processing, thus assisting in domestic market and export growth. Food Processing adds value, enhances shelf-life and reduces wastage. It provides remunerative prices to the farmers, generates employment opportunities and provides convenience to consumers. Food Processing has tremendous export potential, enabling the farmer to add value to his produce both in terms of quantity and quality so that he can meet the requirements and standards of the market at all stages of value chain, processing and retail, would be critical for improving his economic sustainability and bargaining capacity. Considerable investments are required in rural infrastructure and components of the supply chain by way of grading and packing centers, controlled atmosphere facilities, reefer vans, cold storage for perishable cargo at port/airport/ railway stations, a chain of testing laboratories to meet international quality standards, etc., which are not likely to come from private sources. Significant public investments would, therefore, be required to create suitable infrastructural facilities to develop a sustainable supply chain linking farmers to processing centers and markets both domestic and foreign.

The Government of India has been supporting a range of initiatives for the growth of agro processing industry. It is increasingly becoming evident that only a vibrant food processing sector can lead to increasing farm gate price and thus increase the income levels of farmers, reduce wastages and increase employment opportunities.

The Ministry of Food Processing Industries implemented following schemes during the 11th Plan:

- Scheme for Infrastructure Development.
• Scheme for Technology Upgradation, Establishment and Modernisation of Food Processing Industries.
• Scheme for Human Resources Development.
• Scheme for Quality Assurance, Codex Standard and Research & Development.
• Scheme for Strengthening of Institutions.
• Scheme for Upgradation of Quality of Foods.

**Infrastructure Development Policy**
The scheme has 3 components, namely Mega Food Parks, Integrated Cold Chain and Setting up /Modernisation of Abattoirs.

**Mega Food Park Scheme**
Mega Food Park components aims to provide a mechanism to bring together farmers, processors and retailers and link agricultural production to the market so as to ensure maximization of value addition, minimization of wastages and improving farmers’ income. The primary objective of the scheme is to facilitate establishment of an integrated value chain, with processing at the core and supported by requisite forward and backward linkages. The Scheme envisages financial assistance in the form of grant-in-aid @ 50% of the project cost excluding land component in general areas and @ 75% in NER and difficult areas subject to a maximum of Rs. 50.00 Cr. per project. The Cabinet in its meeting held on 11.09.08 had approved establishment of 10 Mega Food Parks (MFP) in the 1st phase out of 30 such projects envisaged in the 11th Plan under the Infrastructure Development Scheme for Mega Food Parks. Out of 10 projects of 1st phase, 8 projects have been given final approval and “in-principle” approval has been accorded in case of remaining 2 projects.

During second phase of scheme implementation, 5 more Mega Food Parks have been approved and in principle approval has been accorded to all the 5 projects. In the Budget Speech of 2011-12, Hon’ble Finance Minister has announced for setting up of 15 new Mega Food Parks. Based on the CCEA approval accorded on 25.10.2011, Expression of Interest for inviting proposals for newly approved 15 Mega Food Parks has been issued. As per discussion held in EFC, necessary modifications in the guidelines for Mega Food Park Scheme have been done and the same has been
posted on the website of the Ministry after approval of the competent authority. The revised guidelines have come into effect from 17.11.2011.

**Scheme for Cold Chain, Value Addition and Preservation Infrastructure**

To encourage setting up of cold chain facilities and backward linkages in the country and to provide integrated and complete cold chain and preservation infrastructure facilities without any break, from the farm gate to the consumer, Ministry of Food Processing Industries (MFPI) has launched a Plan Scheme during 11th Plan to provide financial assistance to project proposals received from public / private organizations for integrated cold chain infrastructure development. The initiatives are aimed at filling the gaps in the supply chain, strengthening of cold chain infrastructure, establishing value addition with infrastructural facilities like sorting, grading, packaging and processing for horticulture including organic produce, marine, dairy, poultry, etc.

The scheme envisages financial assistance in the form of grant-in-aid @ 50% of the total cost of plant and machinery and technical civil works in general areas and 75% for North Eastern Region and difficult areas subject to a maximum of Rs.10.00 crore. 11th Plan outlay for Cold Chain component has been enhanced from Rs. 210 crore to Rs. 610 crore during the year. The implementation will spill over into XII plan.

Up-scaling of the scheme has since been approved by Competent Authority for remaining period of 11th Plan. Ministry has approved seing up of 39 new projects during the year. Ministry would be taking new projects against balance approved outlay of 11th Plan for assistance against envisaged approved target during the remaining period of 11th Plan.

During the financial year 2011-12, Ministry has released grant- in-aid of Rs. 44.00 crore (upto 31.12.2011) to 14 integrated cold chain projects in the country which were approved during 2011-12.

**Scheme for Setting up/Modernization of Abattoir**

During 11th Plan, this Ministry launched a comprehensive scheme for modernization of abattoirs across the country. Based on detailed discussion with stakeholders, industries and State Governments, the Scheme has been modified to induct private capital, bee technology, backward and forward linkages.
The financial assistance will be provided, subject to necessary approval, 50% and 75% of the cost of plant & machineries and technical civil work in general and difficult areas respectively subject to a maximum of Rs. 15 crores for each project.

The scheme will be implemented preferably under PPP mode with the involvement of local bodies (Municipal Corporations and Panchayats) and will have flexibility for involvement of private investors/ Exporters/ FDI on a BOO/ BOT/JV. Regulatory functions will continue to be discharged through local bodies. This will enable the local bodies to participate in the venture and also be assured of a stream of income. 10 project have been approved out of which two have been completed.

**Public Private Partnership (PPP) Policy**

Governments in most developing countries face the challenge to meet the growing demand for new and better infrastructure services. As available funding from the traditional sources and capacity in the public sector to implement many projects at one time remain limited, governments have found that partnership with the private sector is an attractive alternative to increase and improve the supply of infrastructure services.

The partners in a PPP, usually through a legally binding contract or some other mechanism, agree to share responsibilities related to implementation and/or operation and management of an infrastructure project. This collaboration or partnership is built on the expertise of each partner that meets clearly defined public needs through the appropriate allocation of:

- Resources
- Risks
- Responsibilities, and
- Rewards

It is important to emphasize here that a PPP is not a solution option to an infrastructure service problem but it is a viable project implementation mechanism for a preferred solution option.

**Advantages of PPP Model**

Governments worldwide have increasingly turned to the private sector to provide infrastructure services in energy and power, communication, transport and water sectors that were once delivered by the public sector. There are several reasons for
the growing collaboration with the private sector in developing and providing infrastructure services, which include:

- Increased efficiency in project delivery, and operation and management;
- Availability of additional resources to meet the growing needs of investment in the sector; and
- Access to advanced technology (both hardware and software).

Properly executed planning and development of a project also allows better screening of options, and helps in deciding appropriate project structure and choice of technology considering cost over the whole life cycle of the project.

**PPP in Agriculture**

Agriculture in India is characterized by some of the following characteristics:-

- Very high dependence on the monsoon & high disguised unemployment.
- Small size of land-holdings & low productivity in comparison to other countries.
- Lack of technology and unscientific means of cultivation.
- Low levels of agro-processing of produce.
- Presence of rapacious middle-men & difficulty in availability of finance.
- Poor holding and transport facilities, with high spoilage and pilferage.

Governments in India both at the Centre and State have initiated many projects in the field of agriculture on the model of PPP. One of the initiatives is to develop the integrated agri-value-chain; linking various stack holders of agriculture market the Public Private Partnership approach can provide a better platform. In India the agriculture produce is distributed according to geographical proficiency. Such distribution can be termed as the production hubs for the particular crop. Successful replication of PPP models across various production hubs for key commodities can lead to the evolution of Indian agriculture from inefficient, supply driven, low value business scenario to an organized, high-tech, demand-led and high-value orientation.

The model would help the farmers to shorten the cost of cultivation by reducing the post-harvest losses, transportation costs, energy losses by maximizing the optimum use of available resource, enhancing environment quality and earning better profit from better quality product.
The higher returns can be ensured through high quality product, off-season availability, and through enhancing the productivity, which would help the government to meet the issue of food security to certain extent.

**Contract Farming Policy**  
The Government of India's National Agricultural Policy envisages that private participation will be promoted through contract farming and land leasing arrangements to allow accelerated technology transfer, capital inflow and assured market for crop production, especially of oil seeds, cotton and horticultural crops. National Agricultural Policy of GoI has also recognised contract farming as an important aspect of agri-business and its significance for small farmers. The Inter - Ministerial Task Force on Agricultural Marketing reforms observed that contract farming was becoming increasingly important.

**NABARD Study on the contract farming arrangements in various states**  
The study on contract farming arrangements in various states were taken up in 2004 covering 8 states. The salient features are as follows:

- Contract farming as an arrangement has been operational across the states and 15 companies – small and large have this arrangement in place.
- The arrangement encompasses a wide range of crops – Basmati rice, aromatic oils, seed production, potato to name a few.
- The arrangement is beneficial to both the farmer and the company.
- The major benefits accruing to the farmer are – quality inputs, technical guidance, assured market and price. There is an enhanced farm productivity & income.
- In many of the contract farming arrangements, the company enjoys twin advantages viz., assured availability of quality produce at pre-decided rates and assured market for company’s products reaching even the remote areas. This also facilitates building the image of the company and meets the social responsibility quotient.

The inference is that contract farming, as practiced by different companies, is serving the interest of both the parties, though in certain cases it is tilted more towards the company.
**Contract Farming: Some Examples**

The GOI has and continues to run the largest contract farming model in the country. The Green Revolution bought about a sea-change in yields and production. The government buys a number of crops at the Minimum Support Price through its agencies like FCI & distributes it through the PDS. However, this system suffers from some congenital defects and thus, needs some changes in order to reach potential.

Contract Farming then took off with the corporate sector, which essentially meant:

- The farmer is contracted to plant the corporate’s crop on his land
- He harvests and delivers a quantum of produce, based upon anticipated yield and contracted acreage to the company, usually at a pre-agreed price
- The company can and does supply the farmer with selected inputs

Legislation in India states that no company can hold land for agricultural purposes. This has furthered the case of Contract farming, leading to PPP’s in agriculture, resulting in control of the produce, as well as costs.

For example, in 2000, the Indian Tobacco Company initiated an e-Choupal (“gathering place” in Hindi) effort that placed computers with Internet access in rural farming villages. These e-Choupals were meant to serve both, as a social gathering place for exchange of information as well as an e-commerce hub.

ITC began this effort to re-engineer its procurement process for soy, tobacco, wheat and other crops. In the process, it has ended up creating a highly profitable distribution channel and an e-commerce platform which is low-cost and focuses on the needs of rural India. It has catalyzed rural transformation and is resulting in lowering rural isolation, creating a more transparent environment for farmers, and aiding in bettering their productivity and incomes, thus empowering them.

The company claims outputs by the farmers in this scheme have increased by 20%, prices by 2.5% and has increased value for its shareholders as well. This model has required ITC to make significant investments to create and maintain its own IT network in rural India and to identify and train a local farmer to manage each e-Choupal. The farmers can use the computer to track price movements, information on new farming techniques as well as purchasing inputs from ITC.
At harvest time, ITC offers to buy the crop directly from any farmer at the previous day’s closing price. The crop is weighed electronically and assessed for quality. The farmer is then paid for the crop and a transport fee. “Bonus points” are awarded for crops with quality above the norm which can be exchanged for ITC products. Thus, the system bypasses the government-mandated trading Mandis completely.

At the same time, ITC benefits from lower net procurement costs and simultaneously, has more direct control over the quality of what it buys.

Pepsi India has recently begun a pilot project of pineapple cultivation in Kerala, through contract farming. It is said that Kerala has tremendous potential in pineapple farming due to its vast rubber plantations, where pineapple is an ideal inter-crop in the first three years of the rubber plantlet.

Pepsi’s success in India began with the massive increase in the productivity it forged for farmers in Hoshiarpur, Punjab. In 1989, when it entered the market, it set up a state-of-the-art plant at a cost Rs. 22 crore to produce purees and pastes for the international market.

However, it soon realized to its dismay that yields and the quality standards were not even close to its requirements. Further, the quantities being produced were simply not sufficient to satisfy its needs. This is when it decided to form a backward linkage with the farmers. It started contract farming and provided inputs, new technology, supervisory and consultancy services to the farmers. It also tied up with the Punjab Agricultural University and the Punjab Agro Industries Corporation.

This model has been successfully replicated in the cultivation of Basmati, chillies and oilseeds, apart from potatoes. The company invested Rs.5 crore in setting up a Basmati processing unit in Sonepat, and provided the technology for optimizing production. The area under cultivation has gone up five-fold in order to meet its demands! Further, yield levels in chillies and tomatoes tripled since its foray into them.

Transplanter machines are used to plant tomato and chilli saplings and this finish sowing one acre in an hour and a half. Other machines used to sow peanuts take an hour to cover one acre. Both machines, based on imported models, are made locally, which are given by Pepsi free to its contract farmers, and are not for sale. The
company has spread its operations to other districts like Jalandhar, Amritsar, Patiala and Sangrur as well.

Appachi Cotton Company (ACC) is another name that has successfully integrated with the farmers in Coimbatore, Tamil Nadu. It is the only private ginner in the country that has created a value chain of the grower, the ginner and the textile units. ACC caters to quality-conscious clients in the Textile field, domestically and internationally. In 2002, when Public- the monsoons had failed for the third consecutive year, ACC integrated 600 farmers from various districts. These farmers gladly joined as they were woefully short of funds. This model ensured that the farmer had easy access to finance (at 12%) during the cropping cycle, availability of high quality seeds, and unadulterated fertilizers and pesticides.

Further, it promoted the concept of Self-Help groups (SHG’s), with all farmers in a village belonging to a group, which is responsible for disbursement of loans and various other activities. Further, ACC promised to buy all the cotton produce at market prices from the farmer, with the farmer groups having the option to organize open auctions in the case of a disagreement in price negotiations. With the phenomenal success of this model, the Government of Tamil Nadu plans to replicate it various other districts as well.

**Critique of PPP's undertaken**
According to a study carried out by Sukhpal Singh of IRMA in Punjab, a majority of the farmers want to continue with the contract system and other waiting to join. However, some operational problems were also identified for both parties including:

Grievances by the farmer are that of Poor technical assistance, delayed payments, outright cheating in dealings and manipulation of norms by the firms, lack of transparency regarding the contracts and a lop-sided distribution of bargaining power in favor of the companies. Further, there is a lack of a comprehensive crop insurance scheme to protect against natural calamities. No legal recourse available to farmers when faced with large scale contravention of contracts.

**Problems of the Private entity**
Small size of farmer landholdings, need to contract with a large number of farmers, no mechanism to discourage default.
The Road Ahead
In order to overcome these problems in the system, affirmative action need to be taken by the Government in order to secure the interests of the farmer as well as ensuring the ease of dealing with them for the private entity.

- Last mile water connectivity for farms can be funded by the Private entities. The farmer can be charged a nominal rate of power. This will ensure rational use of power and water, preventing wanton groundwater depletion.
- Introduce Insurance policies to provide comprehensive coverage of the crops including loss of profit to the farmers. This development is in the pipelines.
- Promotion of livestock maintenance in order to tide over bad seasons. This will lead to another source of income during difficult periods and also mitigate the number of suicide deaths we see during a bad monsoon. This could be channelised on lines of the Amul system across the country and increase rural development.
- Under the new Agricultural Marketing Produce Act, recently passed by Haryana, all contracts have to have details explicitly stated and need to be registered with the Government as well. This system has to be replicated through the country. The farmer must also be encouraged to set own targets, and assist with projects.
- Non-governmental and community organisations have to be involved in monitoring the working of contracts and encourage wide publicity of contract terms to stimulate competition among the companies.
- Ensure a speedy judicial system by setting up of arbitration panels.
- There is a need to encourage farmers to organize themselves as Cooperatives. This will increase their bargaining power and they will be able to deal as equals.
- One can also visualize a scenario with a number of farmers coming together, contributing their owned land as capital and starting a corporate venture. This would give result in benefits of scale, and a profit-oriented structure. Initially, these could be supported by the Government or a Private entity to which the produce could be sold or further processed by the farmers themselves.

There is a definite need for some kind of legal protection to be given to the farmer against exploitation like delayed payments or frivolous rejection. A single
legislation, like the one recently passed in Haryana, in order to ensure that the interests of farmers, the disadvantaged party, is priority is required.

India’s agriculture takes a beating simply because of a lack of infrastructure and technology. The private sector stands to benefit greatly from a more efficient and sustainable agro-system, in terms of cost savings as well as markets with its vast untapped potential. They can be given tax breaks and other concession for setting up proper distributions like cold storage and warehousing set-up’s for such produce. The amount lost by way of spoilage would come down substantially. Substantial savings accrue to a company by way of undertaking such integration activities. Giving back to the society and sharing the benefits of such ventures is what will ultimately increase purchasing power of the masses, spur growth in our economy and lead to sustainable development in the long run.

**Subsidy, Incentives & Tax Benefit Policy**

The Govt. has extended the following incentives and promotional measures for the promotion of agro industry sector:

**Income Tax Relief**

Under sub-section (11A) of section 80 IB of the Income Tax Act, 1961 a deduction from profits up to specified amounts [100% for the first 5 assessment years and thereafter, 25%(30% in the case of a company) for another 5 assessment years] is allowed in the case of an undertaking deriving profit from the business of processing, preservation and packaging of fruits or vegetables or from the integrated business of handling, storage and transportation of food grains subject to specified conditions, if such undertaking begins to operate such business on or after the 1st day of April, 2001.

With a view to encouraging preserving perishable food items like milk, poultry and meat, the Finance (No.2) Act, 2009 amended subsection (11A) of section 80 IB to also provide tax holiday in respect of the business of processing, preserving and packaging of meat and meat products and poultry, marine and dairy products for units which begin to operate such business on or after 01.04.2001.

Further, Finance (No.2) Act, 2009 also extended an investment-linked tax incentive by way of insertion of a new section 35AD in the income tax Act, 1961 to the business of setting up and operating cold chain facilities for specified products and to
the business of setting up and operating warehousing facilities for storage of agricultural produce, commencing operations on or after 01.04.2009. As per this section 100% deduction would be allowed in respect of the whole of any expenditure of capital nature (other than on land, goodwill or financial instruments) incurred, wholly and exclusively, for the purpose of the specified business during the previous year in which such expenditure is incurred subject to specified conditions in order to give an impetus to the setting up of food processing units.

To further encourage R & D across all sectors of the economy in the Union Budget 2011-12, weighted deduction on expenditure incurred on in house R&D has been enhanced from 150% to 200%. Further, weighted deduction on payments made to National Laboratories, Research Organisations, Colleges, Universities and other institutions for scientific research enhanced from 125% to 175%.

**Central Excise Duty and Customs Duty**

**Central Excise Duty**

While some processed foods items attract Nil Excise Duty such as condensed milk, Compounded asafoetida, soya protein etc., others attract a concessional rate of 1% subject to non-availment of Cenvat credit or 5% with Cenvat credit and 10% ad valorem.

Full exemption from excise duty has been extended to:-

- Specified goods intended to be used for the installation of a cold storage, cold room or refrigerated vehicle, for the preservation, storage, transport or processing of agriculture, apiary, horticulture, dairy poultry, aquatic and marine product and meat.
- Conveyer belt system used in cold storage facilities for the preservation, storage, transport or processing agriculture, apiary, horticulture, dairy, poultry, aquatic and marine produce and meat, Mandis and warehouses.
- Milking machines and dairy machinery.

The Central Excise duty is Nil by Tariff on the following goods:-

Machines for cleaning, sorting or grading seeds, grain or dried leguminous vegetables; machinery used in milling industry (flour milling, rice milling etc.) or for (CETH 8437)
Central excise exemption to specified equipment for preservation, storage and processing of agriculture and related sectors and exemption from service tax to the storage and warehousing of their product.

Full exemption from excise duty to trailers and semi-trailers used in agriculture.

**Customs Duty**
‘Project Imports’ benefits have been extended to the following projects:

Projects for the installation of mechanized food grain handling systems and pallet racking systems in ‘mandis’ and warehouses for food grains and sugar Cold storage, cold room (including for farm level precooling) or industrial projects for preservation, storage or processing of agricultural, apiary, horticultural, dairy, poultry, aquatic and marine produce and meat.

Consequently all goods imported as part of the project imports, irrespective of their tariff classification, would be entitled to uniform assessment at concessional basic customs duty of 5%.

Full exemption from customs duty to refrigeration units required for the manufacture of refrigerated vans or trucks.

Concessional customs duty of 5 per cent to specified agricultural machinery not manufactured in India.

**Service Tax**
Exemption from service tax has been provided to services relating to Erection, Commissioning or Installation of:-

- Mechanized Food Grain Handling Systems etc.
- Equipment for setting up or substantial expansion of cold storage; and
- Machinery/equipment for initial setting up or substantial expansion of units for processing of agricultural, dairy, poultry, aquatic, marine or meat products.

Exemption from service tax is available to transport of fruits, vegetables, eggs or milk by a goods transport agency. The scope of exemption has been expanded to include food grains and pulses.
Other Tax Relief
Central Sales Tax reduced from 4% to 3% from April 2007.

All services provided by Technology Business Incubators exempted from Service Tax. Similarly, such incubates whose annual business turnover does not exceed Rs.50 lakhs exempted from Service Tax for the first three years.

Human skill Development Policy
In an economy growing at the rate of 9% plus, skill development poses major challenges and also opens up unprecedented doors of opportunity. The magnitude of the skill development challenge can be estimated by the fact that the NSS 61st Round results show that among persons of age 15–29 years, only about 2% are reported to have received formal vocational training and another 8% reported to have received non-formal vocational training, indicating that very few young person’s actually enter the world of work with any kind of formal vocational training. This proportion of trained youth is one of the lowest in the world. Our Vocational Education and Training (VET) system needs to cover more trades.

Qualitatively it suffers from disabilities such as poor infrastructure, ill-equipped classrooms/laboratories/ workshops, below par faculty, absence of measurement of performance and outcomes, etc. Placements are not tracked, training institutions are not rated, and accreditation systems are archaic. End-of-the-training examinations and certification systems are either non-existent or flawed.

In addition to the existing basic problem with the skill development system in the country, the urgency of skill development is underscored by the demographic changes taking place. It is estimated that the ageing phenomenon globally will create a skilled manpower shortage of approximately 46 million by 2020 and if we can take effective action on skill development, we could have a skilled manpower surplus of approximately 47 million. In an increasingly connected world, where national frontiers are yielding to cross-border outsourcing, it is not inconceivable that within a decade we can become a global reservoir of skilled persons.

Taking cognizance of this challenge, the consequential endeavour to launch effective measures will require a paradigm change in our VET system and in other forms of skill development. It is, therefore, proposed to launch coordinated action for skill development which will be a major initiative for inclusive growth and development
and will consist of an agglomeration of programmes and appropriate structures. The coordinated action would aim at creating a pool skilled personnel in appropriate numbers with adequate skills in line with the employment requirements across the entire economy with particular emphasis on the twenty-one high growth high employment sectors (10 in manufacturing and 11 in services).

The coordinated action will aim to initiate and guide policy dialogue to energize, re-orient, and sustain Inclusive Growth the development of skills through private and public initiatives towards both self-employment and wage employment at various levels. As a part of coordinated action, a National Skill Development Coordination Board will be set up which will act as an instrument of implementation and make appropriate and practical solutions and strategies to address regional imbalances in skill development infrastructure, the socio-economic (SC/ST/OBC, Minorities, BPL, etc.), rural–urban, gender divides and ensure that each sectoral plan have built-in long terms measures with a self-corrective mechanism.

Furthermore, it is proposed to create a ‘Virtual Skill Development Resource Network’, which can be accessed by trainees at 50000 Skill Development Centres, to provide web-based learning. It is also proposed to create a ‘National Skills Inventory’ and another database for ‘Skills Deficiency Mapping’ for facilitating tracking of careers and placement and for exchange of information between employers and employment seekers. The Eleventh Plan will also see repositioning of Employment Exchanges as outreach points for storing and providing information on employment and skill development, and to encourage them to function as career counselling centres.

The National Skill Development Corporation India (NSDC) is a one of its kind, Public Private Partnership in India. It aims to promote skill development by catalyzing creation of large, quality, for-profit vocational institutions. It provides funding to build scalable, for-profit vocational training initiatives. Its mandate is also to enable support systems such as quality assurance, information systems and train the trainer academies either directly or through partnerships.

The NSDC was set up as part of a national skill development mission to fulfill the growing need in India for skilled manpower across sectors and narrow the existing gap between the demand and supply of skills.
The Finance Minister announced the formation of the National Skill Development Corporation (NSDC) in his Budget Speech (2008-09):

"...There is a compelling need to launch a world class skill development programme in Mission mode that will address the challenge of imparting the skills required by a growing economy. Both the structure and the leadership of the Mission must be such that the programme can be scaled up quickly to cover the whole country."

Objective of the NSDC is to contribute significantly (about 30 per cent) to the overall target of skilling / upskilling 500 million people in India by 2022, mainly by fostering private sector initiatives in skill development programmes and providing funding.

Mission of NSDC is to :-

- Upgrade skills to international standards through significant industry involvement and develop necessary frameworks for standards, curriculum and quality assurance.
- Enhance, support and coordinate private sector initiatives for skill development through appropriate Public-Private Partnership (PPP) models; strive for significant operational and financial involvement from the private sector.
- Focus on underprivileged sections of society and backward regions of the country thereby enabling a move out of poverty; similarly, focus significantly on the unorganized or informal sector workforce.
- Play the role of a "market-maker" by bringing financing, particularly in sectors where market mechanisms are ineffective or missing.
- Prioritize initiatives that can have a multiplier or catalytic effect as opposed to one-off impact.

**Schemes for agro processing sector**

The scheme envisages financial assistance by way of grant to four components namely,

- Creation of infrastructure for running Degree / Diploma courses in Food Processing.
- Entrepreneurship Development Programmes (EDPs).
• Food Processing Training Centres (FPTC).

In the 11th Plan, assistance under these components are proposed to be given at higher levels. It is also proposed to introduce synergy between various components, which are inter-dependent in order to maximize the intended results.

**Technology up-gradation Policy**
The Scheme for technology up-gradation/ expansion/modernization/ establishment of food processing industries is aimed at creating and up-gradation of existing processing capabilities. The Scheme provides 25% of the cost of plant & machinery and technical civil works subject to a maximum of Rs. 50 lakhs in general areas and 33.33% up to Rs. 75 lakhs in difficult areas.

This Scheme is continued from 10th Plan without any modifications in pattern of assistance. While in the 10th Plan, the applications for assistance were processed in the Ministry, in the 11th Plan period, the processing and disbursal of grant has been decentralised through banks/financial institutions to provide a thrust and wider coverage for food processing industries in the country and simultaneously decentralise the procedures for appraisal, grant of assistance and monitoring. Decentralisation has speeded up the disposal of cases, improve the viability of food processing units and facilitate better monitoring of implementation. It also aimed at bringing the services of the Government closer to the citizens, streamlining the existing procedures and increasing the reach and the availability of assistance to larger sections of society. It marks an important step towards implementation of e-governance initiative of the Government.

In the 11th Five Year Plan, a total allocation of Rs. 600 crores was made by Planning Commission for the scheme. Out of total allocation, an amount of Rs. 488.51 crores has been provided under scheme so far including Rs. 98.00 crores BE of 2011-12. The Ministry utilized the entire Budget provided for the current year except NER. Additional amount of Rs 50 crores have been provided and this has also been utilized.

Ministry has also engaged a professional agency to maintain the date and current status of proposals under the scheme. The details of all the pending application along with the present status has been kept in the public domain on the web site of the
Ministry. Any applicant can find the current status of his application by clicking on to status of the application in http://www.mofpi.nic.in or hp://www.cmisrc.com/mofpi.

**R&D Promotion Policy**
Research and development in agro industry sector is an important area where much focused attention is required as it is related to improvement of trade, production, quality, consumer safety and public health. There is a need for upgradation of processing, handling, packaging, storage and distribution technologies for all major processed food products so as to meet domestic & international standards. The other areas in which R&D is required to develop include new cost effective technologies for preservation and packaging of food products, development of processing technology of production of intermediate and finished products including design and building of proto-type equipment and pilot plants. In the 11th Plan, higher level of assistance for R&D is being given. Central / State Government organization / IITs / Universities etc. are being provided financial assistance of 100% of the equipment cost / consumables / JRD / SRF.

The present level of assistance to private institutions includes grant in aid of 50% for equipment cost only.

**Quality Assurance & Certification Policy**

**Setting Up/Upgradation of Quality Control/ Food Testing Laboratory**
The component relating to setting up/upgradation of food testing laboratories would benefit all stakeholders including domestic industry, exporters, entrepreneurs, small and medium enterprises, existing academic & research institutions, food standards setting bodies as the Government food testing laboratories are the only way to ensure safety and quality of food products by Regulatory Authorities, presently.

For a successful food processing sector in India, various aspects of Total Quality Management (TQM) such as quality control, quality system and quality assurance should function in a horizontal fashion for total success. These are vital today, if one has to reach the world market or avoid being swamped by imported food items. MFPI aims at setting up a network of laboratories to help in implementing quality regime for processed food. Further, to provide the common facilities to food processing industries and consumers for testing of articles of food, Ministry of Food
Processing Industries is operating a Plan Scheme for seing up/up-gradation of quality control laboratory. The major objectives are:-

- To establish a surveillance system for monitoring the quality and composition of food-
- To analyse the samples received from processing industries, and other stakeholders.
- To reduce the time of analysis of samples by reducing transportation time of samples.
- To ensure compliance of International standards on food in case of exports as well as imports.

Under the Plan Scheme approved for 11th Plan, the Central/State Govt. and its organizations/ Universities (including deemed universities) are eligible for grant in aid of entire cost of the laboratory equipment required for Labs. In addition, they would also be eligible for 25% of the cost of technical civil works to house the equipment and furniture and the fixtures associated with the equipments for general areas and 33% for difficult areas. All other implementing agencies/private sector organisations will be eligible for grant-in-aid of 50% of cost of laboratory equipments and 25% of the cost of technical civil works to house the equipments and furniture and fixtures associated with the equipments for general areas and 70% of cost of lab equipment and 33% of technical civil works for difficult areas. This includes 5% of the grant amount as professional fees for Programme Management Agency (PMA) engaged for providing advisory and implementation services to Food testing/ Quality Control Laboratories and follow up actions.

When the Ministry establishes/sponsors such food testing laboratories, there would be no ceiling to financial assistance and the amount to be approved will be decided on case to case basis with the approval of Competent Authority. The Ministry has so far funded 56 number of food testing labs. During 11th five year Plan, a programme to assist 74 Food Testing / Quality Control Labs has been finalized, with a financial outlay of Rs. 84 crore. During the year under review (upto 31.12.2011), the Ministry has provided a grant of Rs. 9.06 crores to the following 14 Food Testing Labs:-
Implementation of HACCP/ISO22000, ISO 14000/GHP/GMP etc.

The component on quality assurance such as Implementation of HACCP/ISO22000, ISO 14000/ GHP/GMP and other quality/safety management system would also benefit stakeholders, including domestic industry, small and medium enterprises, exporters, importers of food products, food standards setting bodies and Government. Implementation of Good Manufacturing Practices, HACCP, ISO Standards will help in improving the overall quality of food safety and hygiene in the country and to increase on share in global food trade.

Under the Plan Scheme approved for 11th Plan, assistance in the form of reimbursement of expenditure is provided to Central/State Government Organizations, IITs and Universities and private sector to the extent of 50% of the cost of consultant fee, fee charged by Certification Agency, plant and machinery, technical civil works and other expenditure towards implementation of Total Quality Management System including ISO 14000, ISO 22000, HACCP, GMP & GHP in general areas subject to maximum limit of Rs. 15 lakh and 75% in difficult areas subject to a maximum of Rs. 20 lakh.

The objectives of this Plan Scheme are as under:-

- To motivate the food processing industries for adoption of food safety and quality assurance mechanisms such as TQM including ISO 14000, ISO 22000, HACCP, GMP, GHP.
- To prepare them to face global competition in post WTO Regime.
- To enable adherence to stringent quality and hygiene norms.
- To enhance product acceptance by overseas buyers.
- To keep Indian industry technologically abreast of international best practices.

Investment Promotion Policy

Foreign Direct Investment (FDI) is permissible for all the processed food products under 100% automatic route (except for items reserved for Micro, Small & Medium Enterprises, where FDI is permissible under automatic route up to 24%), subject to applicable laws/ regulations/securities and other conditions.
FDI under automatic route is approved at Reserve Bank of India (RBI) level and it does not require approval of Foreign Investment Promotion Board (FIPB). Amount of FDI inflows in Food Processing Sector in the above table shows that the sector attracts only 1.78% of the total FDI inflow.

**Special Agro Economic Zones Policy**

SEZ is a geographical region that has economic laws that are more liberal than a country’s typical economic laws. An SEZ is a trade capacity development tool, with the goal to promote rapid economic growth by using tax and business incentives to attract foreign investment and technology. By offering privileged terms, SEZs attract investment and foreign exchange, spur employment and boost the development of improved technologies and infrastructure.

Moreover SEZ’s provide a medium wherein it not only attracts foreign companies looking for cheaper and efficient location to setup their offshore business, but it also allows the local industries to improve their export through a proper channel and with the help of the new foreign partners to the outside world at a very competitive price. SEZ’s offer relaxed tax and tariff policies which is different from the other economic areas in the country. Duty free import of raw materials for production is one example. Moreover the Free trade zones attract big players who want to setup business without any license hassles and the long process involved in it. Most of the allotment is done through a single window system and which is highly transparent system. The bottom-line therefore is increased export and FDI (Foreign Direct Investments) enabling increased Public-private partnership and ultimately resulting

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Table 66: Foreign Direct Investment in Food Processing Sector

<table>
<thead>
<tr>
<th>S.No.</th>
<th>SECTOR</th>
<th>Amount of FDI Inflows (In Rs Crore)</th>
<th>Amount of FDI Inflows (In US$ million)</th>
<th>% age with total FDI Inflows (+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>FOOD PROCESSING INDUSTRIES</td>
<td>5872.16</td>
<td>1,266.53</td>
<td>0.89</td>
</tr>
<tr>
<td>2</td>
<td>FERMENTATION INDUSTRIES</td>
<td>4269.92</td>
<td>979.74</td>
<td>0.63</td>
</tr>
<tr>
<td>3</td>
<td>VEGETABLE OILS AND VANASPATHI</td>
<td>1103.22</td>
<td>238.72</td>
<td>0.17</td>
</tr>
<tr>
<td>4</td>
<td>TEA AND COFFEE</td>
<td>440.54</td>
<td>99.38</td>
<td>Negligible</td>
</tr>
<tr>
<td></td>
<td>TOTAL FOOD PROCESSING SECTOR</td>
<td>14661.91</td>
<td>3684.37</td>
<td>1.78</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>658586.83</td>
<td>147088.13</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: DIPP, Ministry of Commerce
in a development of world class infrastructure, boost economic growth, exports and employment.

For undertaking any kind of massive development program the government requires huge amount of funds. So it looks out for potential partners to help the government carry out the program. Now say for setting up an SEZ, the government may tie up with a private partner whose willing to invest in that area, thus a win-win situation for both. As in the government gets the capital needed to establish the required infrastructure and also the expertise. The private player on the other hand gets the right to market and use the SEZ’s with relaxed tax laws, thereby increasing its revenue generating capacity and also carrying out the economic growth of the company in a more efficient way with the better tax policies. Actually SEZ’s with relaxed import tariffs help the Import dependent and export driven industries to flourish by helping them develop manufactured goods at competitive prices.

SEZ’s create immense employment opportunities. The setting up of SEZ’s creates lot of indirect employment in terms of labour required. Then after the completion it enables employment in the relevant industries operating in the SEZ. Then there are lots of indirect employments generated wherein people start investing around SEZ. For example SEZ’s are townships of their own; thereby there are shopping malls, restaurants, amusement parks setup around to attract people, thus resulting in more economic development in that area.

Moreover SEZ’s improve the country’s foreign export. Because of the increased FDI and Private Equity presence, the local manufacturers get to tie up with these big names and export their products which now carry a better brand value, therefore helping in creating a greater demand for the goods of local manufacturers. Moreover the massive capital required for expansion is brought in form of FDI resulting in increased economic activity.

The increased exports from the country bring in more revenue for the country which improves the economic growth.

SEZ’s help in creating a balanced economic growth in a country if they are properly located and implemented leading to tapping of local talent and contributing to increased economic activity in the area.
Drawbacks:

The biggest challenges faced by SEZ’s in today’s scenario are the taking away of agricultural land from the farmers. The farmers are being paid disproportionate money which is not in lieu of the current land prices. The best example could be seen in the case of farmers from Kalinganagar in Orissa where the money given was disproportionate to as high as 1:10 with respect to the market rates. Moreover SEZ’s are leading to decrease in crop production (arable Land Grabbing!) thus slowing down of agricultural activity in the country. (Though it may help boost it in other ways by increased export of local goods, both processed and non-processed). More and more farmers are moving towards the lucrative manufacturing side in search of greater economic security. Moreover the greatest problem that seems to be emerging out is that arable land is being used for non agricultural purpose which could lead to food crisis and loss of self sustenance in future. For example: Nadigram district of West Bengal. But FDI could also help in providing our farmers to gain access to technological better farming methods.

The SEZ’s if not properly located could lead to Supply Chain Management problems as well. Moreover improper planning could lead to unbalanced growth in the region giving an impression of pseudo-development. For example most of the SEZ’s in China are in proximity to the ports and also close to each other, while these have been at the helm of economic development most of the interior hinterland is vastly underdeveloped. SEZ’s could also lead to income disparities with divide between the rich and poor increasing if not properly planned.

SEZ’s mostly if setup for the manufacturing sector should be carefully planned to carry out proper pollution monitoring and control mechanism. Stringent measures may prove to be expensive but are also extremely important. Shenzhen in china has been the worst affected among SEZ’s in China where the sky is grey for most part of the day courtesy the polluting industries. The measures should be taken to make surroundings livable for multitude of people living in the SEZ’s. Moreover care should be taken to properly treat effluents from industries not to affect surrounding rivers. Also the SEZ’s should be carefully planned not to affect the natural habitat around (Gurgaon SEZ affecting the Bharatpur bird sanctuary).
India and SEZ

The SEZ policy was first introduced in India in April 2000, as a part of the Export-Import (“EXIM”) policy of India. Considering the need to enhance foreign investment and promote exports from the country and realizing the need that level playing field must be made available to the domestic enterprises and manufacturers to be competitive globally, the Government of India in April 2000 announced the introduction of Special Economic Zones policy in the country deemed to be foreign territory for the purposes of trade operations, duties and tariffs. To provide an internationally competitive and hassle free environment for exports, units were allowed be set up in SEZ for manufacture of goods and rendering of services. All the import/export operations of the SEZ units are on self-certification basis. The units in the Zone are required to be a net foreign exchange earner but they would not be subjected to any pre-determined value addition or minimum export performance requirements. Sales in the Domestic Tariff Area by SEZ units are subject to payment of full Custom Duty and as per import policy in force. Further Offshore banking units are being allowed to be set up in the SEZs.

India is one of the first countries in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports. Asia’s first EPZ was set up in Kandla in 1965. With a view to create an environment for achieving rapid growth in exports, a Special Economic Zone policy was announced in the Export and Import (EXIM) Policy 2000. Under this policy, one of the main features is that the designated duty free enclave to be treated as foreign territory only for trade operations and duties and tariffs. No license required for import. The manufacturing, trading or service activities are allowed. While EPZs are industrial estates, SEZs are virtually industrial townships that provide supportive infrastructure such as housing, roads, ports and telecommunication. The scope of activities that can be undertaken in the SEZs is much wider and their linkages with the domestic economy are stronger. Resultantly they have a diversified industrial base. Their role is not transient like the EPZs, as they are intended to be instruments of regional development as well as export promotion. As such, SEZs can have tremendous impact on exports, inflow of foreign investment and employment generation.
SEZ Act 2005: To provide a stable economic environment for the promotion of Export-import of goods in a quick, efficient and hassle-free manner, Government of India enacted the SEZ Act, which received the assent of the President of India on June 23, 2005. The SEZ Act and the SEZ Rules, 2006 (“SEZ Rules”) were notified
on February 10, 2006. The SEZ Act is expected to give a big thrust to exports and consequently to the foreign direct investment (“FDI”) inflows into India, and is considered to be one of the finest pieces of legislation that may well represent the future of the industrial development strategy in India. The new law is aimed at encouraging public-private partnership to develop world-class infrastructure and attract private investment (domestic and foreign), boosting economic growth, exports and employment.

The SEZs Rules, inter-alia, provide for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments. Investment of the order of Rs.100,000 crores over the next 3 years with an employment potential of over 5 lakh is expected from the new SEZs apart from indirect employment during the construction period of the SEZs. Heavy investments are expected in sectors like IT, Pharma, Bio-technology, Textiles, Petro-chemicals, Auto-components, etc. The SEZ Rules provides the simplification of procedures for development, operation, and maintenance of the Special Economic Zones and for setting up and conducting business in SEZs. This includes simplified compliance procedures and documentation with an emphasis on self-certification; single window clearance for setting up of an SEZ, setting up a unit in SEZs and clearance on matters relating to Central as well as State Governments; no requirement for providing bank guarantees; contract manufacturing for foreign principals with option to obtain sub-contracting permission at the initial approval stage; and Import-Export of all items through personal baggages.

With a view to augmenting infrastructure facilities for export production it has been decided to permit the setting up of Special Economic Zones (SEZs) in the public, private, joint sector or by the State Governments. The minimum size of the Special Economic Zone shall not be less than 1000 hectares. Minimum area requirement shall, however, not be applicable to product specific and port/airport based SEZ. This measure is expected to promote self-contained areas supported by world-class infrastructure oriented towards export production. Any private/public/joint sector or State Government or its agencies can set up Special Economic Zone (SEZ).

ADMINISTRATIVE SET UP FOR SEZS: SEZs is governed by a three tier administrative set up:-

a) The Board of Approval is the apex body in the Department,
b) The Unit Approval Committee at the Zonal level dealing with approval of units in the SEZs and other related issues, and
c) Each Zone is headed by a Development Commissioner, who also heads the Unit Approval Committee.

APPROVAL MECHANISM OF SEZS: Any proposal for setting up of SEZ in the Private/Joint/State Sector is routed through the concerned State government who in turn forwards the same to the Department of Commerce with its recommendations for consideration of the Board of Approval. On the other hand, any proposals for setting up of units in the SEZ are approved at the Zonal level by the Approval Committee consisting of Development Commissioner, Customs Authorities and representatives of State Government.

**Special Economic Zones – Agro & Food Processing**

There are 8 agro and food processing SEZs that have been notified as of April 2010 across India.

The location of the 8 SEZs are shown in Exhibit below:-

*Figure 32: Agro-processing SEZs*
Out of the 8 zones, 6 of the zones are located in Maharashtra and the Southern states. Currently, only the SEZ in Kakinada is operational; the SEZ at Tuticorin is expected to be operational by first quarter end of 2010.

In the Kakinada SEZ, a sugar refinery has been set up and in the Hassan SEZ, a unit for processing „Gherkin“ has been commissioned.

Apart from Food Processing specific SEZs, a multi-product SEZ at Dabra (being developed by Gwalior Agriculture Company) has identified Agro Products as one of the possible industries that can come up in the SEZ.