

# Small is the New Big

## Lessons in Food Processing from Meghalaya

**F**ood processing enterprises in mainland India have used scale as one of the key ingredients in their recipe for success. However, the Himalayan region and North-Eastern states have adopted an alternative approach, which might be a key growth driver for them in the upcoming years. Let us take the example of Meghalaya to understand the nuances of this approach.

'Small is big' seems to be the crux of this approach, which is being prioritised in this Himalayan state characterised by the prevalence of small landholdings and traditional practices of farming and food processing.

To offset the challenge of economies-of-scale, the state is focussing on economies-of-scope by confidently taking strides towards high-value low-volume growth, using food processing as a key driver. This approach prioritises the utilisation of diverse reserves of indigenous natural resources and targeting a niche market.

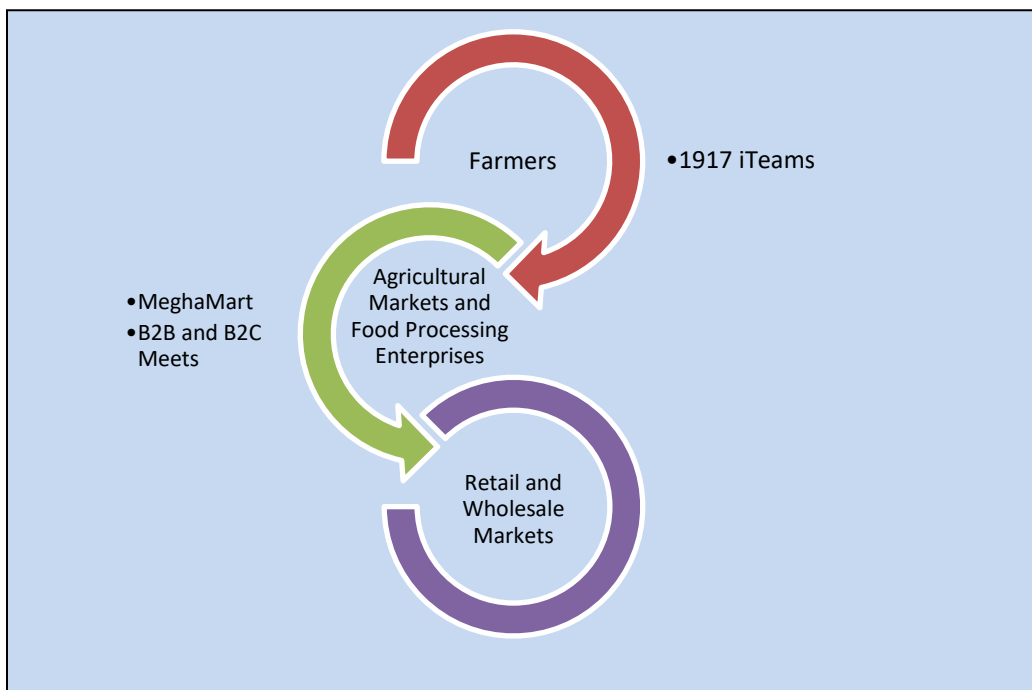
### Administrative Decentralisation as a Key Facilitator

The first strategy adopted by the state has been the establishment of nodal agencies for implementing its agenda. A couple of years ago Meghalaya became one of India's pioneers to have a separate Directorate for supporting and facilitating food processing activities. Since then, the Directorate of Food Processing has been making gradual but successful moves to strengthen the existing enterprises in the state and encourage new entrepreneurs to set-up their businesses.

The Directorate plans to adopt a bottom-up approach focussed on micro and nano enterprises through the Prime Minister's Formalisation of Micro Food Processing Enterprises (PMFME) Scheme. To further its agenda, the Directorate is also considering the implementation of a plug-and-play model, which will provide its small entrepreneurs with infrastructure support for packaging and marketing their products.

Another nodal agency guiding Meghalaya in this journey is the Meghalaya Institute of Entrepreneurship (MIE). Due to geographical remoteness and technological nascence, there are missing links in the food processing ecosystem in the region. However, conscious efforts are being made by the MIE team to bridge the existing gaps between farmers, entrepreneurs, infrastructure and markets.

MIE is channelising the efforts through a dedicated platform for agri-management (1917 iTeams), an online retail marketplace (MeghaMart), physical retail stores (Meg Store), buyer-seller meets and international food shows. They are also actively involved in training and workshops for ensuring that their network of entrepreneurs are equipped with necessary technical and procedural know-how.



## Leveraging Natural Capital for Product Differentiation and Market Creation

Similar to its strategic administrative set-up, the state is adopting a tactical approach for realising its objectives on the ground. This brings us to its second strategy, which is effective utilisation of natural capital and human capital for

catering to a global niche clientele while meeting local market demand.

Instead of adopting a strategy of procuring agro-produce from other states and processing them, Meghalaya has long adopted the 'Atmanirbhar' way.

Though this has its contradictions in the arguments for scale, it seems to be working for the Himalayan state, which is

a storehouse of diverse, indigenous agro-resources. Rising demand and value for its niche products in domestic and global markets are providing the necessary support to this sector.

A case in point would be Lakadong Turmeric, which is indigenous to the state and grows primarily in the Jaintia hills. This turmeric variety with high curcumin content is highly sought after in global markets for its therapeutic benefits. Simultaneously, it is a local staple, being a key spice used in indigenous cuisine.

Realising the potential of this unique turmeric variety, government institutions and food processing enterprises have leveraged it to create premium products, which fetch high returns, while the at same time ensuring its local availability.

Furthermore, going with the state's overall development approach, the processing and supply ecosystem in Meghalaya has

put women-led village level self help groups (SHGs)/cooperatives at its centre. The SHGs/cooperatives comprise of farmers who are the cultivators and the primary processors of the products.

For example, in case of Lakadong, they dry and slice the turmeric before selling it to traders or enterprises for powdering and packaging. The powdered turmeric is then sold in wholesale and retail markets or converted into high-value products like Turmeric Latte powder offered by Zizira, a medium-sized spice manufacturer. Though the primary processors' profit margins are narrow, this model seems to be working for spice enterprises due to high price that value-added turmeric products fetch in national and international markets.

Another strategy adopted by Meghalaya is its initiatives for legalising homemade fruit winemaking through licensing. An age-old tradition in the state, artisanal fruit wines





have been a home-based initiative, made in small batches using locally available seasonal fruits and sold amongst friends and family or neighbourhood shops. Along with jams, juices and pickles, this has been an effective way of processing surplus agricultural produce and reducing wastage.

Realising this potential of fruit-wine making industry, the Meghalaya government is taking steps towards promoting this activity. The fruit-wine entrepreneurs from the state see this as a welcome move for a profitable venture, given the easy availability of raw materials. Hence, they are keen on formalising and scaling up their operations.

Such is the appetite for this policy that a fruit-wine entrepreneur from Mawkyrwat has already started the groundwork for expanding his home-based wine making set-up to a unit that will produce

approximately 1 lakh bottles of wine annually.

If successfully implemented, this policy could also provide an alternative economic use for highly perishable fruits in a state where cold chain facilities are almost absent.

## **Skilled Human Capital and an Enabling Ecosystem for Enterprise Development**

Meghalaya's third strategy in its roadmap for food processing-driven growth is its strong focus on a robust support system. Training and incubation centres are ingrained in the food processing ecosystem of the state. Both government institutions and private enterprises are focussing on providing regular training on technical know-how and business development skills for the setting-up of agro, dairy, or meat processing units.

Research institutions such as the Indian Council for Agricultural Research are focussing on providing an initial push, in terms of physical, technical and financial support to fledgling entrepreneurs through their incubation centres. Institutional support to food processing enterprises is also being provided through government-led 'missions' on Lakadong, Jackfruit, Apiculture, etc. At the same time, financial support is being initiated through a mission-mode implementation of the PMFME Scheme.



However, there are challenges, some minor and some gaping, which are obstructing the sustainable growth of food processing in Meghalaya, irrespective of the innovative framework being adopted.

### **Challenges: Pitfalls of Food Processing in a Hill State**

A major challenge is that of packaging and marketing. Absence of locally available quality packaging material is forcing entrepreneurs to source them from Maharashtra or Delhi. This compels them to pay double freight, and results in rising production costs and final price of their products. This often puts products and entrepreneurs from the region at a competitive disadvantage compared to their mainland counterparts.

Similarly, the small size of individual enterprises makes it unviable to set up in-house packaging or bottling units.

Moreover, marketing at the entrepreneurial level is limited and is often conducted using traditional physical mode due to the scale of operations. Only a

handful of entrepreneurs are currently leveraging digital and social media for increasing their market access. Thus, though niche, the products of Meghalaya often remain unknown to the mainland India or global clientele.

Another challenge is with regard to storage and distribution infrastructure. Though the government is taking steps to provide institutional support to the food processing industry, absence of cold chain facilities disrupts the supply chain of highly perishable products. It reduces their scale and scope of market outreach.

Additionally, a limited presence of testing laboratories within the state leads to higher production costs for entrepreneurs. It may also compromise the quality of final products.

Given the criticality of such infrastructure for easing out the manufacturing processes and ensuring quality control, a pronounced absence remains a major challenge for Meghalaya.

Thirdly, even though the Directorate of Food Processing is on a mission mode to implement the PMFME Scheme, the

process also includes financing from banks. This is a critical issue amongst the small entrepreneurs. Their small scale of operations has been the precursor for banks' lack of confidence and a persisting trust gap between borrowers and the banks. This makes obtaining loans from banks a major challenge, prolongs the gestation period for enterprises and hinders operations.

## **Conclusion: Way Forward for Making it 'Big' with 'Small'**

This story of food processing in Meghalaya brings forth the triumphs and challenges of being small. While the approach and set-ups are innovative, the road ahead is challenging.

This is because it would involve a simultaneous fixing of internal shortcomings and fighting it out against the mainland incumbents who have an advantage of scale, networks and experience.

Therefore, going forward, it is critical to integrate a three-pronged strategy into the state's roadmap for the development of its food processing sector. First, it

should focus on effectively utilising its strengths - that is raw material base, entrepreneurial appetite for food processing and a robust support system.

The second is active efforts for overcoming the challenges of scale by introducing government-led aggregator or plug-and-play models for packaging and logistics including storage and distribution.

The third one is about increasing market outreach through aggressive marketing strategies and effective representation on national and international platforms.

Combining these with the current model will strengthen Meghalaya's strategy on encouraging the food processing sector and will sustain its efforts towards high-value-low-volume growth.

The field is set and the stakes are high. What remains to be seen is whether the match unfolds in favour of Meghalaya. In the meantime, the state's experiences and approach may be a useful benchmark for other hill states who would like to focus on growth that is both sustainable and exponential at the same time.

© CUTS International 2021. This Policy Brief is written by Trinayani Sen, Senior Research Associate, of and for CUTS International and published by CUTS Centre for Competition, Investment & Economic Regulation (CUTS CCIER), D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India. Ph: +91.141.228 2821, Fx: +91.141.228 2485, E-mail: c-cier@cuts.org, Web: www.cuts-ccier.org.

*Also at Delhi, Calcutta and Chittorgarh (India); Lusaka (Zambia); Nairobi (Kenya); Accra (Ghana); Hanoi (Vietnam); Geneva (Switzerland); and Washington DC (USA).*

CUTS Policy Briefs are to inform, educate and provoke debate on specific issues. Readers are encouraged to quote or reproduce material from this paper for their own use, but CUTS International requests due acknowledgement and a copy of the publication.