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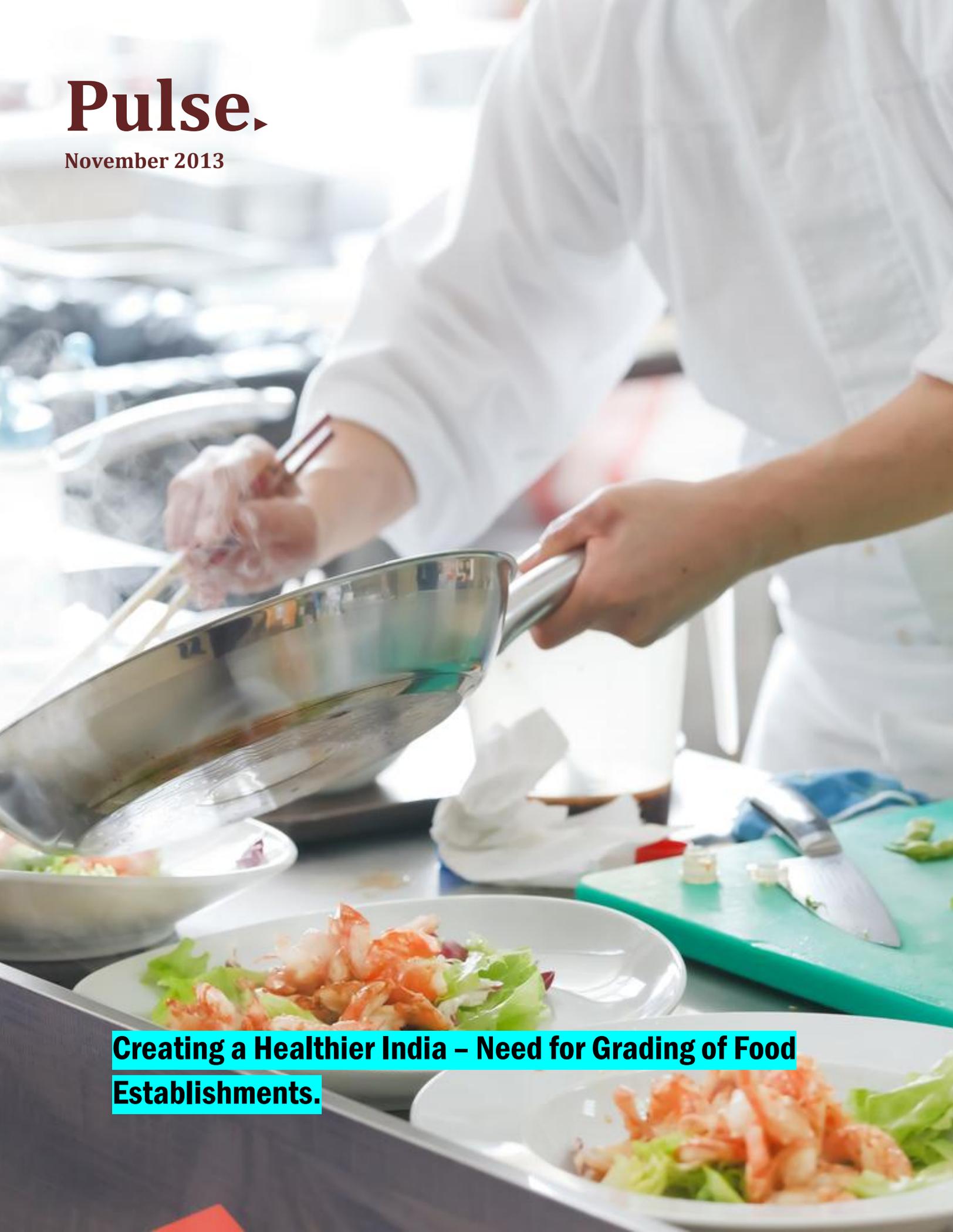
November 2013

Creating a Healthier India – Need for Grading of Food Establishments.

- *Background*
  - *Lifestyle changes reflected in increasing number of food establishments.*
  - *Rise in Food-borne diseases.*
  - *Government Initiatives*
- *Analysis*
  - *Need for an organized mechanism to upgrade the food safety standards in the unorganized food service segment.*

Highlight

The rapid growth achieved by the Indian economy, during the past couple of decades, has not only enabled wide spread changes in the economic landscape but also significant alterations in the social and demographic fabric of the nation.

The effects of this economic windfall have been evident in the spending and consumption patterns of the Indian population with rise in income levels raising the standards of living. This has been visible more so in the Food services sector, where demand drivers in the form of increased public spending, greater urbanization and larger proportion of working population has witnessed a rapid rise in the number of food establishments in the country.

These developments, however, have been accompanied by a whole new range of concerns and issues. The dramatic shift in eating habits and trends in eating out, especially in the case of a country like India which has a penchant for spicy food and whose food services industry is largely made up of the unorganized segment (small eateries, dhabas, roadside food stalls, joints etc), has resulted in a rise in the outbreak of food borne diseases generating greater public consciousness towards healthy eating habits. The rise in the living standards has shifted the consumer's focus and spending habits towards higher food and service quality. Also, the rising cost of medical services, accentuated by the increasing proportion of consumer expenditure in that segment, has also added to the growing consciousness on food safety.
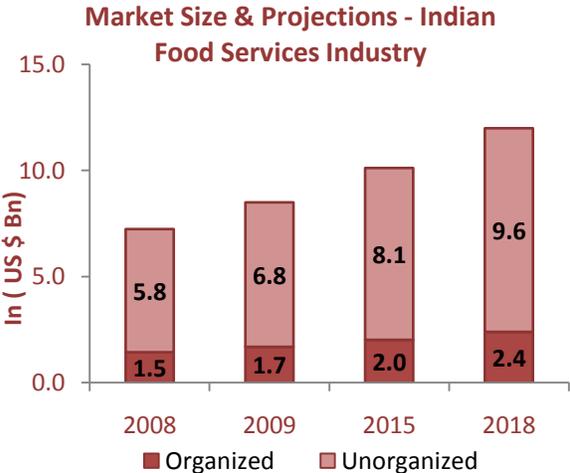
The passing of the Food Safety Act, 2006 and setting up of the Food Safety and Standards Authority of India (FSSAI) under the Act, indicate the importance attached to food safety and the emerging realization within the policy making bodies to ensure greater quality of food service through effective licensing and certification of food establishments. However, the growth in the food service industry and increase in the number of establishments, both in the organized and unorganized segment, create significant challenges in achieving the above objectives. The lack of success witnessed with initiatives undertaken in the past has highlighted the ineffectiveness of prevailing laws and regulations on this front. Onicra believes that there is a need for enhancing the regulatory mechanism by collaboration with independent third parties to certify, audit and grade the existing and upcoming establishments.

Background

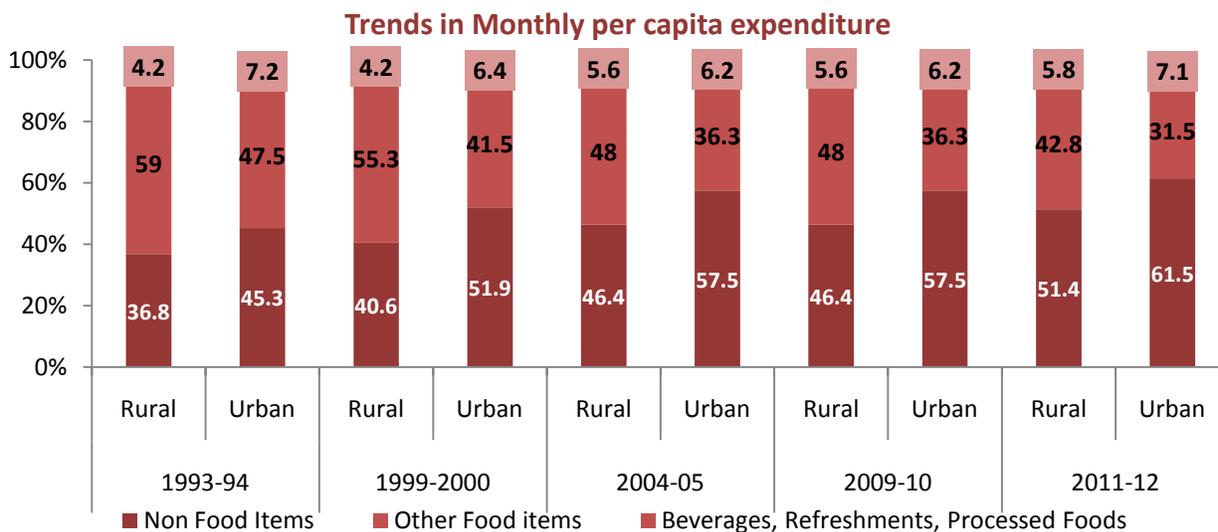## Lifestyle changes reflected in rising number of food establishments

The Indian food retail and services sector, over the past decade has evolved rapidly, keeping in line with the changes in the economic scenario. Growing income levels have been accompanied by alterations in the dietary habits with the traditional affinity towards spicy and low cost street food being challenged by a growing preference for healthier eating options and fine dining restaurants, driven by the demand generated by the emerging middle class.

Market Size & Projections - Indian Food Services Industry

In (US $ Bn)

Year	Organized	Unorganized
2008	1.5	5.8
2009	1.7	6.8
2015	2.0	8.1
2018	2.4	9.6

Source: Maple Capital Advisors

The food retail segment, which is still dominated by the unorganized sector, holds a positive outlook for the organized sector with demand expected to be driven by favorable demographics, greater urbanization, increasing number of working women amidst a growing consumer base. The nation's status as the largest consumer of food is encapsulated in the evolvement of organized food retailing amidst increasing realization by global food chains and restaurants about the potential of the Indian market. The encouraging market trends have already attracted the interest of a number of global fast food operators with the existing retail chains acting fast to beef up the scale of their operations. For

example - Connaught Plaza and Hardcastle restaurants, the Indian partners of McDonalds, have expansion plans to double the existing number of stores within three years with an investment of over US $ 100 million. Other fast food chains, including Yum Foods (which owns brands like KFC & Pizza Hut), are also expanding their network in the country, targeting Tier-2 & 3 cities. As a result of the demand side and supply side drivers, the segment is growing by over 25% annually combining sales of both local and western fast food chains.

Trends in Monthly per capita expenditure

		Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Beverages, Refreshments, Processed Foods		4.2	7.2	4.2	6.4	5.6	6.2	5.6	6.2	5.8	7.1
Other Food items		59	47.5	55.3	41.5	48	36.3	48	36.3	42.8	31.5
Non Food Items		36.8	45.3	40.6	51.9	46.4	57.5	46.4	57.5	51.4	61.5
		1993-94		1999-2000		2004-05		2009-10		2011-12	

Source: Ministry of Statistics & Programme Implementation

Increase in the number of Food-Borne Diseases

The rising prominence of the food service industry, exhibited by increasing public expenditure in the segment, has also thrown light on the aspect of ensuring uniform standards of food safety as it provides the key to preserving health and nutrition amongst the consumers. The cost of food-borne diseases worldwide has been on the rise, with studies by the World Health Organization (WHO) estimating approximately 5 billion cases of infectious diarrhea on an annual basis resulting in over 1.8 million deaths mainly caused by contaminated food and water.

The situation is even more critical in developing countries such as India, whose food retail is still largely characterized by the unorganized sector, catering to a sizeable chunk of the population with majority of them functioning whilst not on the radar of the regulatory authorities.

The spurt in the number of food borne diseases has been fed by cases of both food borne infections and food borne intoxications. They create an economic burden, which specifically in developing countries such as the South East Asian region (which have lower per capita income), prove extremely strenuous on the population resulting not only in medical expenses but also loss of regular income.

Cleanliness both on the inside and outside

The recent outcry over flouting of environmental norms by restaurants in the Hauz khas village has brought to attention the need for food establishments to actively pursue the objectives of ensuring preservation of the surrounding atmosphere, apart from adhering to food safety and cleanliness norms.

The National Green Tribunal (NGT), which is the governing body for cases regarding all kinds of environmental pollution, strictly advises following of norms pertaining to the environment and implement sufficient environment protection measures such as installation of an effluent treatment plant, guidelines on drawing of groundwater, dumping of waste etc. amongst other guidelines, depending upon the size of the facility.

Adherence to global standards

The globalization of the Indian economy has not only led to unprecedented growth, it has also resulted in fresh opportunities and challenges for the Indian markets, domestic players and policymakers. The need to adhere to global food safety standards is multi-dimensional and carries different connotations for different stakeholders involved in the food service industry.

The economy has relied heavily on foreign investments and inflow of foreign funds in particular since opening up its shores to foreign investors two decades ago. With significant growth in the food services sector, as described in a preceding section, there has been an influx of foreign capital with multiple food retail chains opening up their outlets in India either through a Joint Venture, or direct investments in subsidiaries. These developments have created pressure on the domestic retailers to beef up their service offerings and align their business to the superior quality offered by global competition.

On the other side, with India promoting itself as a global destination and an emerging superpower, there is a growing realization to be at par with the world in all aspects. The initiative of the Food Safety and Standards Authority (FSSAI), to conduct a pilot project entailing food safety audit of eateries and food establishments in Delhi, prior to the Commonwealth Games of 2010 is a step towards the same direction.

Finally, with its status as the both the largest consumer and producer of food stuff in the world, a move towards alignment with global food standards is also necessitated to promote the processed food export sector.

Government Initiatives towards Food Safety

The government, through its enforcing agencies, has tried to create and amend legislations and norms to address the concern areas regarding marketing and sale of safe and healthy food and promote healthy eating habits amongst the consumer segment.

The Food Safety & Standards Authority of India (FSSAI), which is the statutory body created under the Food Safety & Standards Act 2006, was set up specifically for ensuring implementation of policies and norms regarding safety of food articles at every stage of the manufacturing and food processing supply chain. In its functional tenure thus far, the body has taken various initiatives to encourage best practices amongst existing food establishments as well as laying down guidelines for their certification and grading through periodic audit by its channel partners like Quality Council of India (QCI) etc. It has laid down the criteria for classification, audit and subsequent certification.

FSSAI also undertook a pilot project titled "Safe Food Tasty Food" in 2009 for food establishments across Delhi, as part of an initiative to check and upgrade the food standards in preparation for the commonwealth games hosted by the city in 2010, which witnessed scores of foreign nationals flocking to the capital thereby providing an opportunity to the policy makers to highlight the nation's development and alignment towards global living standards.

Apart from the above, there have been amendments to other acts and guidelines governing the sector which have been primarily aimed at strengthening the existing regulatory framework and redefine the scope of legislation to cover emerging issues in the field of food safety. The Food Safety and Standards (Licensing and Registration of Food Businesses) Regulations 2011 have sought to restructure the licensing and registration process for various types of food establishments, redefining the extent of the policy to carefully entail business units falling outside the purview of organized food retail.

Similarly, the Food Safety and Standards (Packaging and Labeling) Regulations, 2011 aim to standardize the norms relating to packaging and distribution of processed food articles.

The efforts on part of the government illustrate the enhanced focus on food safety not only on part of the policy makers but also the importance attached to healthy living by the Indian consumer segment which is growing increasingly conscious on such issues.

Food Safety Grading: FSSAI Pilot Project

Stakeholders Involved

Criteria for Rating

Categorization of Food Establishments for the purpose of Rating/Grading

Category A	*Food Establishments having processing/Cooking & serving*
Category B	*Food Establishments which serve-cooked/processed elsewhere*
Category C	*Food Establishments which only cook/process but served elsewhere*

Categories of Requirements	*Categorization on % Compliance/ Level of Implementation*			
	Gold	*Silver*	*Bronze*	*No Certification*
Highly Critical	*100%*	*100%*	*100%*	*<100%*
Critical	*>90%*	*80-90%*	*70-80%*	*<70%*
Major	*>85%*	*75-85%*	*65-75%*	*<65%*

Rating Framework

✓ Food establishments to be assessed as per a Food Safety Rating system
✓ Rating shall be done on the basis of a) Category of requirement b) Level of implementation and compliance.
✓ Requirements categorized on the basis of its significance to Food Safety as Highly Critical, Critical & Major.
✓ Rating of Platinum, Gold, Silver or Bronze given based on level of implementation and compliance to these requirements.

Analysis

Need for an organized mechanism to upgrade the food safety standards in the unorganized food service segment

The evolution of the food services segment has created both opportunities and challenges for various stakeholders involved. The growth achieved by the industry and the potential it holds, in view of the favorable demographic and market dynamics, has attracted the interest of both global and domestic players. However, the issues, accompanying the growth achieved, require the timely attention of the governing bodies.

Despite the increased focus on food safety, the existing scenario surrounding the segment and the structural changes it is expected to undergo, require regular revision of the proposed and implemented policies in order to keep pace with the corresponding developments.

The food service segment in India, as it stands at present, is composed mainly of unorganized players, which make up about 80% of the market segment. Although the growth of organized retail is on a fast track, led by more equitable growth and emergence of Tier-2 & 3 cities as locations for future expansion, the dominance of the unorganized segment is expected to continue for the foreseeable future. These small establishments, comprising of "*dhabas, roadside eateries, street stalls, local hawkers and stand alone sweet shops*," create a significant challenge in successful implementation of food safety practices.

Thus, it is imperative that the regulations put in place for ensuring quality of food served under these establishments are structured in a way which would enable effective control over the functioning of such small scale units. Also, the laws and legislations which would act as enablers in this area, need to be amended suitably so as to create the legal platform and environment necessary for enforcement of the certification and grading framework. The Food Safety and Standards (Licensing and Registration of Food businesses) Regulations 2011, which laid down the guidelines for licensing and registration of food establishments, have sought to clearly define and classify food outlets falling under different categories and established their licensing requirements.

Further, challenges with regards to certification and grading of food establishments lie not only at the policy making stage, but also with the successful implementation of such policies. An effective quality policy would entail not only an initial certification and grading and its periodic renewal but also regular checks through random audits to ascertain the level of compliance with the obtained certification. Thus, there is a need to create a clear grading structure incorporating the scope of third party agencies and certification bodies (empanelled by QCI) apart from the implementing and nodal agencies as described in the guidelines laid down by FSSAI.

The experience with various initiatives on the food safety front in the past, and the drawbacks faced, highlight the importance of a stronger mechanism which is ably backed by supporting legislation and successfully implemented by certified third party agencies.

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