

## **CHALLENGES IN AGRO-BASED INDUSTRIES IN INDIA**

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### **INTRODUCTION**

Agribusiness denotes the collective business activities that are performed from farm to fork. It covers the supply of agricultural inputs, the production and transformation of agricultural products and their distribution to final consumers. Agribusiness is one of the main generators of employment and income worldwide.

Agribusiness is characterized by raw materials that are mostly perishable, variable in quality and not regularly available. The sector is subject to stringent regulatory controls on consumer safety, product quality and environmental protection. Traditional production and distribution methods are being replaced by more closely coordinated and better planned linkages between agribusiness firms, farmers, retailers and others in the supply chains.

### **IMPORTANCE**

Establishment of agro-based industries is based on the availability of raw material.

- Agro-based industries have to set up at rural areas where raw material may be available in plenty – helps in the up-liftment of the rural economy.
- Provide rural population an opportunity for employment.
- Generate income and thereby improve economic condition of people – which in turn creates potential for demand based industries.
- Provide an opportunity for the dispersal of industries instead of concentrating at a particular place.
- Solve the problem of exploitation of farming community by traders and middlemen.
- Farmers could be assured of better price for their produce.
- Encourage to bring more and more areas under various crops – increase agricultural production and improve nation's economy.
- Transportation cost of agricultural products can be minimized – thereby help to minimize cost of finished goods.
- Avoid wastage of perishable agricultural products.
- Help to develop backward areas based on their suitability for setting up agro-industries.
- Prevent migration of people from rural to urban areas.

## **Industries are divided into four groups.**

1. Resource based
2. Demand based
3. Skill based
4. Ancillary

Again the resource based industries are divided into agro-based, forest based, animal husbandry and poultry based, mineral based, marine based, etc. Agro-based industries are those industries which have either direct / indirect link with agriculture. Industries which are based on agricultural produce and industries which support agriculture come under agro-based industries.

## **TYPES OF AGRO-BASED INDUSTRIES**

There are four types of agro-based industries.

### **1. Agro-produce processing units**

They merely process the raw material so that it can be preserved and transported at cheaper cost. No new product is manufactured. Ex: Rice mills, Dal mills, etc.

### **2. Agro-produce manufacturing units**

Manufacture entirely new products. Finished goods will be entirely different from its original raw material. Ex: Sugar factories, bakery, solvent extraction units, textile mills, etc.

### **3. Agro-inputs manufacturing units**

Industrial units which produce goods either for mechanization of agriculture or for increasing productivity come under this type. Ex: Agricultural implements, seed industries, pumpset, fertilizer and pesticide units, etc.

### **4. Agro service centres**

Agro service centres are workshops and service centres which are engaged in repairing and servicing of pumpsets, diesel engines, tractors and all types of farm equipment.

## **NEED FOR AGRO-BASED INDUSTRIES**

- Suitable to rural areas as they are raw material oriented.
- For upliftment of rural economy.
- To solve the problem of unemployment.

- To generate income and increase standard of living.
- For decentralization and dispersal of industries.
- To reduce disparity between rural and urban areas.
- To encourage balanced growth between agriculture and industry.
- To solve the problem of exploitation of farming community.
- To reduce transportation costs.
- To give big push to agriculture and act as a source of demand and supply.
- To avoid wastage of perishable agricultural products.
- To prevent migration of rural people.
- To develop suitable backward areas.
- To improve infrastructural facilities.

## **INSTITUTIONAL ARRANGEMENTS FOR PROMOTION OF AGRO BASED INDUSTRIES**

Following Ministries & Departments at the Centre and State level are at present looking after development of agro based industries.

1. **Ministry of Agriculture:** Deals with rice mills, oil mills, sugar mills, bakeries, cold storage, etc.
2. **Khadi and village industries board:** Covers traditional agro based industries like “gur”, handicrafts, khandasari, etc.
3. **Director General of Trade and Development:** Looks after the industries engaged in the manufacture of tractors, power tillers, diesel engines, pump sets, etc.
4. **Agro-industries Development Corporation:** In each state mainly supply agricultural machinery, inputs and agricultural advisory services to farmers. Some corporations have also undertaken certain manufacturing activities in agro-industries sector.
5. **Small Industry Development Organization:** Deals with small agro-industries like hosiery, processing of food products, beverages, food and fruit preservation, agricultural implements, pesticide formulations, etc.

## **CHALLENGES IN ESTABLISHING AGRO BASED INDUSTRIES**

There are various challenges in establishing agro based industries in India. Some of them are listed below.

1. Poor quality of much raw material

The first constraint is the poor quality of much raw material (Srivastava and Patel, 1994; Kejriwal, 1989; Gulati et al., 1994). Available raw material is often of unsuitable quality, processing varieties are frequently not available, and the period of availability of the raw material is too short and unreliable. Gulati et al. (1994) show that only about 0.5% of the fruits and vegetables grown in India are commercially processed, partly for quality reasons.

## 2. Obsolete technology

Second constraint is the obsolete technology often used in processing, resulting in low efficiency and poor quality of the output (Srivastava and Patel, 1994). According to Boer and Pandey (1997), a major problem in improving technology is the very small size of the average agro-processing unit, suggesting the need to integrate to achieve larger scale to be able to remain competitive.

## 3. Regulations that work against agro industry

The third constraint are regulations that work against agro industry. The government typically considers processed and packaged goods as luxury items, and as a result their production is heavily taxed. There are myriad special regulations and licensing requirements for specific agro industries, such as the Milk Product Order for the dairy industry. These policies create disincentives for investment in higher value-added agro-processing.

## 4. Lack of finance

The fourth constraint is lack of finance. The financial institutions in India are mainly geared to lending for fixed capital requirements, while agro industry, as shown in the analysis above, has a large requirement of working capital. Banks lend working capital, if at all, at higher interest rates than other capital loans.

5. Proper guidance is not available to entrepreneurs.

6. It involves some element of risk taking

7. Change in crops / cropping pattern

8. Change in variety of crop due to technological improvement

9. Failure of monsoon may hit the raw material supply.

10. Proper guidance, training for modern and sophisticated agro-industries are not available.

11. As modern small industries are capital intensive, supply of finance will be a considerable problem.

12. Promotional activities such as conducting, intensive campaigns, identifying candidate industries and explaining to entrepreneurs about prospects are inadequate.

13. Uncertainty about future market demands.

14. Absence of information about quantity and quality of market.

15. Multiplicity of agricultural produce and absence of suitable methodology to select best suited industries to a given region.
16. Seasonal supply of agricultural produce may result in under utilization of capacity of the units as the unit will not be working throughout the year. Ex: Sugarcane
17. Industries based on fruits and vegetables may not get the same variety throughout the year, but they may get some other variety.
18. Absence of proper integration among the various agencies of development in the district.

**References:**

<http://mofpi.nic.in/ContentPage.aspx?CategoryId=796> as viewed on 15<sup>th</sup> May 16, 2012

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**Suggested Readings:**

Mukesh Pandey and Deepali Tewari. 2010. Agribusiness Book: A Marketing & Value-Chain Perspective: Analysing South Asia Textbook Student Edition. International Book Distributing Company

Raghunatha Reddy G and Visnushankar Rao. D. Practical manual. Agribusiness management. Dept of agricultural economics. Acharya N.G. Ranga Agricultural University. Agricultural college. Bapatla.