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**SUBJECT – FUNDAMENTALS OF RURAL DEVELOPMENT**

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**Chapter No. 3 Agriculture Enterprise and Agro-based Industries**

Agriculture Enterprise and Agro-based Industries

* The term 'entrepreneur' is often used to refer to the founder or promoter of a

business, business owner, a self employed person, a trader or a farmer Cultivating  crops on his land. In the field of economics, entrepreneurship is considered as one of the factors of production.

* According to J. B. Say, "The entrepreneur is the economic agent who unites all  means of production, the labour force of the one and the capital or the land of the others and who finds in the value of products his results from their employment reconstitution of the entire capital that he utilizes and the value of the wages, the  interest and the rent which he pays as well as profits belonging to himself."

• According to F. H. Knight, "Entrepreneurs are a specialized group of persons who bear risks and deal with uncertainty."



• Entrepreneurship is associated with the individual or collective capacity to develoP sustainable enterprises.

• The following are considered the distinctive traits of an entrepreneur:

(i) Need for achievement.

(ii) Entrepreneurial orientation.

1. Entrepreneurial drive, which implies the Agriculture ability to Ente go rise through Agro-based long hours, Industries high stress and endless problems that may be encountered in launching a new business.
2. Critical thinking and decision making.
3. Creativity.
4. Networking.
5. Identification, evaluation and pursuit of business opportunities.
6. Risk taking.
7. Ability to navigate an uncertain and constantly changing business environment.
8. Learning and development.
9. Competence for running the business in the form of desired managerial, technical and people skills.

# 3.2 **Agricultural Entrepreneurship**

• 'Agripreneur' (Agricultural entrepreneur) is a self-motivated business manager who performs various agri-based activities using different information, skills and various resources viz. physical resources, financial resources, human resources and information, in order to accomplish a certain goal.

* Agricultural Entrepreneurship is predominantly related to the marketing and  production of various agricultural products. Various other agro-based industries, industries providing agricultural inputs and consultancy and those related with activities allied to agriculture also fall under the domain of agricultural  entrepreneurship. The person carrying out such activities is referred to as an  'Agricultural Entrepreneur' or an 'Agriprenuer'. 
* Agricultural Entrepreneur has a broader vision of the future of his farm business and manages his farm in a profitable and sustainable manner, along with the flexibility to adapt to a rapidly changing agricultural environment. He leads the way and is the first one to act when a new opportunity comes along. 
* An agripreneur actively looks for ways to capture the added value within the value  chain, which will result jn increased profits. He augments his profits by innovative ways such as direct selling to customers, entering into contracts with input suppliers processors and industrial buyers.
* Focus on the identification and pursuits of opportunities are the core of agricultural entrepreneurship. Changing consumer habits, enhanced environmental regulations, new requirements for product quality, chain management, food safety, sustainability and so on has brought new entrepreneurs and 'innovative practices into the agricultural domain.

There are some facets in which agricultural entrepreneurship is quite similar to entrepreneurship in non-agricultural firms, particularly in regards to some universal traits of an entrepreneur such as identification of opportunities, proactiveness, risk taking.

 In India, agriculture is dominated by small family farms and hence, the family farming culture and allied logic impacts agricultural entrepreneurship.

* As family farms are passed from one generation to the next, a conservative mentality remains and does not stimulate change and innovative thinking.
* Farm women play a vital role in agricultural entrepreneurship. Many of the times, they are the ones who initiate and develop new on-farm business activities. They typically start by fitting their new activities into the existing farm and are able to spot newer opportunities over time.

**The Sphere of an Agicultural Enterprenuer:**

An agricultural entrepreneur operates under an uncertain environment. The major factors that impact hm are the vagaries of weather, financial support, social and the political environment around him.

There are mainly 4 factors which impact agricultural entrepreneur:

1. Weather
2. Economy
3. Social environment
4. Political environment
5. Weather: Monsoon plays a critical part in agriculture. A timely average monsoon can give tremendous boost to returns on his business.
6. Economy: When the economy is in good shape, an agricultural entrepreneur is able to sell more of his premium produce.
7. Social environment: A conducive social environment with support from family and

 friends and rural groups can act as a catalyst for an Agripreneur. 

1. Political environment: Support from political institutions at national and local level can help agripreneurs in terms of policies, financial assistance etc.



An agricultural entrepreneur is influenced by a lot of related factors as below:

1. Input suppliers (seeds, machinery, chemicals). 
2. Government (policies and schemes).
3. Competitors.
4. Extension workers.
5. Agents (facilitate selling of agricultural goods).
6. Markets. 

7. Commercial services.

1. Finance agencies (banks and financial institutions for banking and credit).
2. Technology support.

**Entrepreneurship Opportunities in Agricultural Sector:**

Today, entrepreneurship in agriculture ranges from the basic farming activities, to various other allied activities cantered around agriculture, may it be manufacturing or trading.

Following is a list of different opportunities available for an Agricultural entrepreneur.

1. Basic farming activities (growing crops and selling them).
2. Custom crop harvesting.
3. Consultancy services.

(iv) Renting of farm equipments and tractors.

(V)Manufacturing and trading of farm implements and tools.

(vi) Manufacturing, trading of fertilizers, pesticides, insectides etc.

1. Food processing industries.
2. Agro-tourism.
3. Exports of agricultural produce,

(X) Horticultural farming.

(xii) Commercial tree farming.

1. Dairy industry.
2. Fisheries.

(XV) Sericulture.

**Factors Influencing Agricultural Entrepreneurship:**

Agricultural entrepreneurship is influenced by a host of factors, as cited below:

1. Family support.
2. Extension services.

(iii) Location (proximity to markets or urban areas).

1. Culture.
2. Availability of extension services.
3. Support from Government and Non-Government Organizations.

(vii) Skills development and training.

**Importance of Agricultural Entrepreneurship:**

Agricultural entrepreneurship, basically refers to managing farming business in an efficient and innovative way, so as to augment profits. It also encompasses other activities related to agriculture such as selling farm equipments, crop consultancy, food processing etc. Entrepreneurship is required by farmers to survive successfully in a changing business environment.

Agricultural entrepreneurship has assumed importance due to following reasons:

 (i) Economic growth: Agriculture contributes around 15 % to India's GDP. Innovative practices resulting in growth in this sector will result in an increased GDP for the country.

(ii) Employment: Agriculture provides employment to more than 50% of Indiais workforce. Hence, growing opportunities in this sector can result in increase in employed youth in the country.

1. Survival and growth of farmers: Increasing agricultural productivity to ensure farmer's survival as well as the improvement of their environment.



1. National food security: India is managing 17.5 % of world population on 2.4 % of world land, In this view, Agricultural entrepreneurs are required in providing food

 security to the nation, considering the huge and increasing Indian population. 

(v) Exports: Export of surplus food productions in order to augment foreign exchange reserves of the country.

1. Sustainable farming: Farmers having thorough knowledge of old as well as new methods in agriculture, and their impacts on parameters such as soil erosion degradation of land are required for sustainable development of agricultural land.
2. Agripreneurs are required for country to move up in the value chain. India has been exporting primary goods to the world. For example, if the country exports tomato ketch up instead of exporting tomato, more foreign exchange can be garnered.
3. Self-reliance: Rapid growth of agriculture is necessary for self-reliance of the country and also for meeting the food and nutritional security of the people.

(xi) Equitable distribution: Agripreneurs can bring about equitable distribution of income and wealth in rural areas, reduce poverty and improve the quality of life. Growth in agriculture is seen to have a maximum cascading impact on other sectors, leading to the spread of benefits over the entire economy and the largest segment of population.

(x) Innovative and premium products: Agripreneurs are required to develop innovative food products as well as improved methods and processes to farming.  India is today demanding agro-products which have health benefits.

1. Increased wealth and development in rural areas: Innovative practices in  agriculture, with a focus on cost reduction and profitable opportunities can result in increase in wealth in rural areas and to their overall development.
2. Technology adoption: Agripreneurs are required to adapt new technologies and share them with other farmers.

# **3.3 Agri-business Enterprises**

 Agribusiness enterprises refer to the business units which are engaged in farming and farming related commercial activities. They deal with aspects such as production' processing and distribution, which are required to send an agricultural good to market.

Several experts in the agricultural field view agribusiness with regards to the range Of activities and disciplines encompassed by modern food production.

* Agriculture Enterprise Agro-based Industries Agribusiness enterprise, being a commercial entity, emphasizes on the application of core business principles, technology and financial management to production planning and actual production, distribution and utilization of agricultural output. 

Agribusiness enterprises is a broad term, and includes the following

1. Manufacturers of farm machinery. For example, John Deere, Escorts etc.
2. Food processing companies.
3. Companies providing seeds, agrichemicals, insecticides and fertilizers for  agriculture. For example : Deepak Nitrite, Kaveri Seeds, DuPont, Mosanto.
4. Farming, including contract farming,

(v)Companies making biofuels and animal feeds,

1. Companies carrying out distribution and retailing activities of agricultural produce.
2. Agro-tourism companies,
3. Farmer's cooperatives,

**Definitions of Agri-business:** 

According to Davis, "Agribusiness referred to the sum of all farm supplies; production operations on the farm; and the storage, processing, and distribution of farm commodities and items made from them. "

According to Roy,

"Agribusiness is the co-ordinated science of supplying agricultural product ion inputs, and subsequently producing, processing and distribution of food and fiber," Agribusiness System:

The Agribusiness system consists of five sub systems as follows:

1. The Inputs Subsystem.
2. The Production Subsystem.
3. The Processing Subsystem,

4. The Marketing Subsystem.

5. The Support Subsystem.



All the subsystems are strongly interrelated and the coordination among them ensures success of an agribusiness venture.

1. The Inputs Subsystem: This is the first subsystem in agribusiness which encompasses all sorts of inputs related to agricultural production. For example: seeds, fertilizers, machineries, tools and implements and even the credit.

Improvement in quality of inputs has the capacity to bring large efficiency gains for the entire system.

2. The Production Subsystem: It deals with production of food grains and other agricultural products. Some inputs are directly used for the production of an agricultural commodity as end product, whereas some inputs are used as a raw material for the production of other products.

3. The Processing Subsystem: The business units in this sector, procure raw agricultural commodities and process them into food products desired by customers. The processing subsystem enables transformation of commodities from the production subsystem into various products. The level of processing can simply be washing and grading or a complex one such as chemical alteration. 

4. The Marketing Subsystem: The marketing subsystem is concerned with transfer Of agricultural commodities or agricultural inputs from source to the end user.

5. The Support Subsystem: Support subsystem consists of government and nongovernmental agencies, commercial associations, banks and financing institutions, research organizations and cooperatives which provide certain services such as policies, finance, training etc. crucial for a successful agribusiness undertaking.

**Difference between Agriculture and Agribusiness :**

Agriculture refers to basic farming which involves production of food through cultivation of farms and allied activities like rearing, forestry, fishery and management of livestock. Agribusiness, on the other hand, is a business connected to agriculture, which implies owning or operating large scale farms or catering to those who do. It encompasses a range of commercial activities revolving around agriculture such as provision of agricultural machinery and inputs, marketing and retailing of agricultural produce, providing agro consultancy services etc.

**Issues in Agribusiness :**

Agribusinesses are facing a lot of issues and challenges today. If these are resolved in time, agricultural sector will grow by leaps and bounds.

1. Decreasing land holdings: In India, as the farm land is being passed from one generation to another, the size of land holdings in general has shown a decline, owing to the rising population. Moreover, the prices of land are skyrocketing. In a small farm, it becomes uneconomical to employ modern machinery and equipments.

1. Meeting food demand: It is becoming difficult for farmers to keep pace with increasing demand for food, due to rising population.
2. Government regulations: The government issues new regulations in order to ensure affordable food for its people, to improve safety and to reduce the effect of farming on the environment. The long-standing demand regarding amendment in Agricultural Produce Marketing Committee Act (APMC) in India is still not resolved.

 4. Low farm income: It has been found that per capita income of farmers is quite low  due to a host of factors. Majority of them are trapped in a vicious cycle of low productivity and low investments.

5. Technical literacy: Though technological solutions are available, farmers are not capable enough to implement them, Proper skills and training need to be provided.



6. Availability of credit: Agripreneurs do not receive adequate and timely finance. As a result, they are not able to make fullest use of available opportunities.

7. Weak infrastructure: The local infrastructure regarding implementation of food safety standards and quality control is unsatisfactory. Infrastructure in rural areas needs to improve to transport agricultural produce from producer to consumer in a  speedy and efficient manner with minimum food wastage. Even warehouses and cold storage chains, and related technology have to go a long way in India. Several research studies indicate that more than 30% of the food produced in farm is wasted before it reaches to the consumer.



1. Poor managerial skills: Many farmers still possess an old mindset of Subsistence agriculture rather than viewing farming as a profitable business venture.
2. Rising prices of agricultural inputs: The increasing prices of agricultural inputs, i.e. seeds, fertilizers, equipments make agricultural sector less productive, 

**Solutions:**

These issues can be addressed through following means:



Promoting of a larger role for farmers organizations or cooperatives by taking over some of the processes in the value added chain.

2. The operations of small agribusiness enterprises can sustain through forging partnerships with large companies.

1. Establishing a more conducive policy environment for agribusiness enterprises.
2. Amendment of the APMC act.
3. Providing skills and training to farmers.

6. Developing efficient warehousing and cold storage facilities.

1. Making farmers aware of several government initiatives related to farm sector. Also, the Government must strictly oversee its implementation
2. Farmer's incomes can be increased through a favourable policy and increasing MSP (Minimum Support Price). 

**Prospects of Agribusiness:** 

The future of agribusiness will be determined by the choices that agripreneurs will make and the support system around it. Even, Government policies will play an important role.

On one hand, the future of agribusiness seems to be bright and imbibed with a lot Of opportunities, aided by several factors:



1. Technological developments and research in the field of agriculture will result in

development and application of newer, efficient methods of doing farming.

2, Increasing government support through various schemes targeted at agriculturists

3. Increased automation in agricultural operations can result in increased productivity

4. Use of IOT (Internet of Things) and Artificial Intelligence in agriculture can result in efficient utilization of resources.

5. Increased demand for quality food all over the world, which implies that market size and opportunities thereof, will increase.

6. Remote sensing technology is currently applied in western countries, will make its way to India. For example, automatic Ways to monitor greenhouse fruit and vegetable production, monitoring soil quality etc.

1. It is quite possible that physical work such as harvesting crops, removing weeds or providing water and nutrients to the plants will be done by robots.
2. Opportunities such as agro tourism will grow manifold. With increasing means of transportation and lack of greenery and open spaces in the city, it is quite possible that city dwellers would want to tour farms in rural areas. 
3. It is inevitable that increasing number of farmers will get an opportunity to sell their produce directly to the customer, eliminating middlemen in the process, thereby resulting in higher profits.
4. A lot of Fast-Moving Consumer Goods (FMCG) Companies will look to establish an extensive backward linkage with farmers, in order to build a highly cost effective  procurement system. ITC has already christened 'e-Choupal', a web platform to procure from farmers.

However, there are few concerns that can spoil the future of agribusiness.

i. Soil degradation: Degradation of soil and issues such as soil erosion will make the very land available for agriculture into a non-productive one. This is a highly serious concern.

2. Unfavorable government regulations: Government regulation such as APMC act,  barring exports of agricultural produce, Essential commodities act etc. make agribusiness venture a less profitable one

1. Climate change: Climate change results in an erratic, unpredictable weather. For example, arrival of monsoon much ahead of time can damage crops.
2. Land size becoming bare minimum: Decreasing land holdings render the business of agriculture as unfeasible.

# 3**.4 Agricultural Marketing**

Agricultural marketing refers to all those processes through which agricultural goods reach to different places. The activities of agricultural marketing range from harvesting to final sales of the agricultural products. 

*  According to National Commission on Agriculture, "Agricultural marketing is Q process which starts with a decision to produce a saleable farm commodity and it involves all the aspects of market structure or system, both functional and institutional, based on technical and economic considerations and includes pre and post-harvest operations, assembling, grading, storage, transportation and distribution'.
* Agricultural marketing includes handling of product at the farm, initial processing, grading and packing in order to maintain and enhance quality and avoid wastage and ultimately making goods reach till the consumer.
* Different processes involved in agricultural marketing are listed below:
  1. assembling the agricultural product after harvesting.



* 1. processing the product.

(iii) grading the product in accordance with different quality standards.

(iv) packaging of product.



 (v) storing the excess produce or storing for a probable use in future.

(vi) distribution of agricultural products to the marketplace or consumer.



**Hindrances to Agricultural Marketing :**

Agricultural marketing is not just the activity of bringing agricultural products to the market for the purpose of sale, but also includes a gamut of activities that help the farmers



to fetch the maximum price for their product.

However, there are some hindrances faced by the system of agricultural marketing, as detailed below:

(i) Defective weighing techniques: Farmers are vulnerable to defective weighing techniques and other malpractices, Many of them are not even ware of such practices.

 (ii) Lack of efficient marketing information system: Many a times, farmers are illinformed about market prices and market conditions. This information is crucial for negotiating prices and planning shipments of produce. Lack of such information forces farmers to sell their product at lower prices.

1. Small scale production: Most farmers have small land holdings. leading to 'little produce. As a result, the farmers have little bargaining power.
2. Storage facilities: The storage facilities such as warehouses, cold storage etc. are inadequate. Moreover, the cost of storage is quite high, As a result, farmers do not have the liberty to wait for better prices and instead, have to sell their products immediately
3. Lack of Credit facilities: The farmers do not receive adequate credit facilities through formal credit channels such as banks, due to several reasons. This leads to their exploitation by the moneylenders.
4. Lack of transport facilities: In rural areas, adequate transport facilities are not available. This acts as a hindrance for farmers in bringing their products to the urban centres for better prices.



1. Export quality standards: Indian farmers find it difficult to maintain quality standards for exports set by the destination markets. For example, some years back, there was an issue regarding flies in Alphonso mangoes exported to Europe.
2. Wastage: Due to inadequate knowledge of post harvesting and poor infrastructural  facilities, a lot of agricultural produce gets wasted during transit from farm to the market place.

(ix) Middlemen/Intermediaries/Agents: A large number of intermediaries exist  between the farmer and the consumer. These middlemen usurp high margins, thereby reducing the returns of the farmers. 

**Government Measures for Agricultural Marketing:**

Government of India (GOI) has taken several measures to develop the agricultural markets. These range from creation of support facilities and creating transparency to providing a fair price for agricultural products.

These are as follows:

* 1. Regulated Markets: The government came up with the concept of a regulated market in order to create transparent marketing transactions. In case of regulated markets, the sale and purchase of the agricultural products are monitored by the market committee. This market committee consists of farmers, government and traders.
  2. Co-operative Marketing: The government encourages forming co-operative agricultural marketing societies under which the farmers get access to fair prices. Through the formation of these societies, farmers sell the products collectively Such a collective sale enhances the bargaining power of the farmers, thereby helping reasonable prices for their product.

3. Infrastructure Development:

* GOI provided basic infrastructural facilities such as roads and railways. Additionally, the government provided cold storages and warehouses in order to enable farmers  to sell their products at the time when the price is attractive.
* The railways transport facilities at subsidised prices helped farmers to sell their produce in the urban market, where they can get better prices for their produce.

4. Information Dissemination through Electronic and Print Media:

Electronic and print media provides information about prices of different agricultural products, which can be used by farmers to analyse the price behaviour in the market.

1. Standardisation and Grading;

Quality norms set by government agencies assist farmers to maintain quality of products. Moreover, the government also certifies such quality products.

1. MSP (Minimum Support Price) Policy:

Government fixes minimum support price for agricultural products such as rice, wheat, cotton, maize. Farmers are assured of a minimum support price at which the Government will be ready to purchase agricultural products, considering the risks and uncertainties involved in a farming venture. 

**Alternative channels for agricultural marketing:**

Farmers, particularly small and marginal farmers sell their produce through middlemen or agents. However, the farmers are being exploited by these middlemen, and as a result, they are unable to receive fair price for their products. Moreover, the middlemen earn high margins charging much higher price to the consumer. This situation necessitated for alternative marketing channels for agricultural products. 

* Under the aegis of alternative marketing channels, the farmers can sell their product



directly to the consumers. As a result, farmers can receive a comparatively higher price for their products, thereby augmenting their profits.



* Examples of alternative marketing channels:

(i) Apni Mandi and Big Bazar in Punjab, Haryana and Rajasthan.

1. Rythu Bazars in Andhra Pradesh.
2. Uzhavar Sandies in Tamil Nadu.

(iv) Hadapsar Mandi in Pune.

 One more emerging alternative channel for agricultural marketing is the contract of direct sales between the farmers and the national and multinational companies. National and multinational companies related to FMCG and Retail sector such as ITC,  HUL, Reliance Retail make contracts with farmers for their supply of farm products. Even food processing companies and fast food chains are entering into such contracts with farmers. These companies offer advance payments to the farmers for supplying agricultural products at predetermined rates. Such contracts reduce price risk for the farmer and also augment his income.

## **3-5 Agro-based Industries**

Agro-based industries are those industries which

1. Use output of agriculture and allied activities as raw materials. For example, cotton textile industries use cotton as raw material, process them to make dresses.
2. Provide inputs required in agriculture such as agricultural machinery, tools implements, fertilizers, pesticides, seeds etc. 

For example: Kaveri Seeds, UPL, John Deree etc.

**Classification of Agro-based Industries:**

In an economy, industry and agriculture are closely interrelated. According to

Bhattacharya, agro-based industries are classified into four types:

1. Agro-Produce Processing Units.
2. Agro-Produce Manufacturing Units.

3. Agro-inputs Manufacturing Units. 

4. Agro-Service Centres.



 1. Agro-Produce Processing Units: These industrial units only process the agricultural produce. Agricultural produce is merely processed as raw material. This is done so as to preserve the product and transport it at a low cost. No new product is manufactured by such units. For example, groundnut mills, rice mills etc. 



1. Agro-Produce Manufacturing Units: These industrial units manufacture new products by using agricultural produce as raw material. The manufactured products will be entirely different from the original raw material.

For example, Textile mills, solvent extraction units, bakery, sugar industries etc.

1. Agro-inputs Manufacturing Units: These industrial units manufacture inputs such as seeds, fertilizers, tools and equipment used in agricultural activities. Such inputs

can be used in traditional agriculture as well as in mechanization of agriculture for an increase in productivity and yields,



For example: Companies producing tractors, pump sets, seeds, fertilizers, pesticides power tillers etc.

4. Agro-Service Centers: Agro-Service Centres refer to service centres and workshops which are engaged in repairing and servicing of various farm equipment and tools such as pump sets, diesel engines etc.

**Importance of Agro-based Industries:**

Agro-based industries have an important place in the perspective of a developing country like India where agriculture accounts for over 15 per cent of the country's GDP and more than one-half of the working population.



Agro-based industries are beneficial from the following angles:

1. Improvement in agricultural productivity: Inputs from agro-based industries such as high quality seeds, fertilizers etc. have resulted in increased productivity in agriculture. Tools and equipments such as tillers, tractors are also used in this direction. With increase productivity, agriculture can become a feasible economic proposition.
2. Employment generation: Agro-based industries are instrumental in fostering strong linkages between the agricultural and industrial sectors and in enhancing the employment potential in rural areas.
3. Value addition: Agro-based industries make use of agricultural produce and process it to make value added finished products, which can fetch a much higher price as compared to the original agricultural produce. For example, tomato ketchup is sold at a much higher price as compared to tomatoes.
4. Linkages: Agro-based industries lead to the creation of both forward and backward linkages on a large scale by maximizing mutual complementarities of agriculture and industry.
5. Technology: Advanced technology and related equipment, which can lead to increase productivity of agricultural lands are provided by agro-based industries.
6. Provision of inputs: Agro-based industries provide several inputs such as seeds, fertilizers, insecticides, pesticides etc. which are used in agricultural production.
7. Industrial growth: Agro-based industries can result in rapid industrial growth in areas where they are located.
8. Reduction in inequality: Agro-based industries reduce the inequitable distribution income and economic opportunities in different parts of the country and amongst  different sections of the population.



9. Provide market for farm products: Agro-Produce Manufacturing Units such as sugar industries manufacture new products by using agricultural produce as raw  material. Thus, they serve as a ready market for the agricultural produce, thereby  stabilizing a farmer's income,

10. Infrastructure in rural areas: Agro-based industries serve as a catalytic agent for the development of infrastructure in rural areas.

**Agro-based Industries and Economic Development:**



1. By increasing agricultural productivity, the country's GDP increases.



1. Agro-based industries solely use indigenous raw materials and technical skills and generally do not rely on imports. Thus, they help in conserving foreign exchange.



1. Agro-based industries absorb surplus labour in agriculture, leading to creation of employment opportunities. 
2. Agro-based industries tend to develop rural areas, where majority of the countn/s population lives.
3. Agro-based industries are located near the source of raw material. As a result, transportation costs and thus, the production costs are reduced, resulting in profitability for agro-based industries as well as the farmers from whom they source the raw materials

**Agro-based Industries in India:**



 Below are India's prominent Agro-based Industries:

* 1. Rashtriya Chemicals 81 Fertilizers Ltd.

2. Rallis India Ltd.

* 3. Bayer Crop Science Ltd.

4.BASF India Ltd.

5. UPL Ltd.

6. Dhanuka Agritech Ltd.

7. Kaveri Seeds

8. Mosanto India Ltd.

**3.6 Micro-Financing**

The meaning of the word Micro is extremely small. Financing in general refers to making financial services available particularly the credit facilities.



The basic idea behind micro financing is that the poor people can lift themselves out of poverty, if they are provided access to financial services. Worldwide, microfinancing is being viewed as one of the poverty alleviation tools.

The philosophy of microfinancing is that even small amounts of credit can help end the cycle of poverty. Microfinancing is targeted more towards women borrowers.

Banks do not lend to poor people due to following reasons:



(i) Banks are skeptical about poor people making repayment of loans.

(ii) Banks were designed to lend to people who can keep their assets as security or collateral. Poor people do not possess enough financial or non-financial assets. 

1. Small size loans don't allow enough returns, as managing accounts of clients cost money.

 • Microfinancing is a key strategy in helping poor people to become financially independent, more resilient and capable of providing for their families in times Of economic difficulty.

In India, poor people often depend on friends, family and informal financing channels such as moneylenders. Moneylenders charge very high interest rates (around 30 percent per annum,) Microfinancing is an effort to better the lives Of people.

• Many microcredit models use a system of peer support, wherein borrowers are responsible for each other's success and ensure that every member of the group is able to pay back their loans. This also reduces the risk of default.

 In terms of entrepreneurship, microfinance is seen to entail the provision of financial services to micro entrepreneurs and small businesses, which lack access to banking and related services due to the high transaction costs associated with serving these clients.



Two key mechanisms are used for the delivery of financial services to such clients .

(l) relationship based banking for individual entrepreneurs and small businesses, and

(ii) group based models, where several entrepreneurs come together to apply for loans and other

financial services as a group.

* Microfinance Institutions (MFI's) generally charge higher rate of interest (around 20 percent per annum), due to increased cost of servicing clients and higher credit risk. 
* NÄBARD (National Bank for Agriculture & Rural Development) promoted microfinance through its SHG-BLP (Self Help Group-Bank Linkage Programme) scheme.
* SHG-BLP called for linking of banks with informal groups of less privileged rural folks has the capacity towards a wide movement of empowerment. In fact, SHG-BLP has become the largest microfinance programme in the world, in terms of the client base and outreach.

• Financial institutions come up exclusively provide microfinance facilities. Additionally, commercial banks have a microfinance department.



**Advantages of Microfinance:**



Microfinancing has several advantages, as listed below: 

1. Less default rates: Microfinance loans are targeted more towards women borrowers, who are less likely to default on their loans as compared than men. 

2. Women empowerment: Microcredit is targeted towards women, who make sensible use of these funds to improve their lives and raise their social status.

1. Education: Poor families receiving microfinancing are less likely to pull their children out of school for economic reasons. 
2. Enhanced welfare: Through microfinance, poor people can get access to clean

water, better sanitation, and improved health care.

Financial services provided through microfinance institutions include savings services as well. Savings mechanisms allow poor people to conveniently and safely accumulate surplus funds to create financial stability.

 5. sustainability: A small business loan given to a micro entrepreneur can mean a lot,  through which the business can be grown. This micro entrepreneur will be gradually able to pull himself out of poverty and later be a provider of few jobs.

6, Reduction in poverty: Several research studies indicate that microfinance programmes have been successful in reducing poverty.

7. Employment generation: Microfinancing can help create new employment opportunities, which has a favourable impact on the local economy.

**Problems in Microfinance**:

Though microfinancing has a noble objective of financing the poor to help them  improve their lives and become self-reliant, there exist certain problems listed below:

 Inadequate loan funds.

(II) Inadequate institutional capacities. 

1. Poor coordination.
2. Lack of participation of the beneficiaries in the planning of microfinance programs.
3. Lack of effective training. programs for both beneficiaries and operators of the programs.
4. Attempt by governments to use it as a tool to gain political favor and stability.
5. Higher interest rates can lead to a debt trap for borrowers.

**Prospects of Microfinance :**

The following factors will aid the growth of microfinance:



 (i) Expansion of microfinance can go beyond the traditional institutions. New players like distribution networks and mobile operators will assist in offering financial  products and services at cheaper costs to the poor and unprivileged.

* 1. New technologies such as online banks will help to market these large scale offerings.
  2. Regulations are expected to improve to facilitate ease for clients.