CHAPTER 1
CHAPTER I

India is an agrarian economy with over 85% of people dependent on it as their main occupation in the countryside. It contributes more than 30% of the national income and forms the backbone of the Indian economy. Despite this, the production and productivity are at low level because of the fact that there is excess of labour force on it. In fact, it can not absorb all those who seek job and also can not provide employment to all. In fact it has been rightly pointed out by John W Mellor in his work "The Economics of Agricultural Development" where he comments "The capacity of the agricultural sector to absorb an increased labour force is very limited in most of the developing countries". The implication of the quotation is that there is a limit to the agricultural sector to absorb increased labour force. It is more true in the context of developing country like India.

Further, the farm employment is fluctuating from time to time. Therefore, continuous employment

throughout the year will not be available. At best it gives the employment to the farmers with mandays between 200 to 210 days in a year. There is also underemployment and disguised unemployment in this sector.

The over population and higher pressure on the soil results low productivity, low income and low standard of living of the people in rural areas. The arable land is not likely to increase. The intensification of efforts towards the development of agro-based industries is the only realistic hopes for absorbing surplus labour which is available year after year in larger number.

In view of this, concerted efforts must be made to develop the agriculture allied activities. In this context, agro-based industries play a very important role. Although the steps have been taken by the Government to develop agro-based industries, not much progress has been achieved in the field nor due priorities has been accorded for its
development. It is, therefore, more appropriate to develop agro-based industries as it results in increasing production and productivity, employment opportunities, income and improvement in the standard of living of the people in the rural areas.

NEED FOR DEVELOPMENT OF AGRO-BASED INDUSTRIES:

The problem of unemployment in rural areas has acquired a phenomenal dimension and hence it warrants immediate redressal. Most of the people in villages are remaining either idle or disguised or underemployed.

Moreover, employment availability of farm sector is seasonal in nature. All this compels the need to generate more employment through setting up of agro-based industries. This is largely because there has been no let up in the creation of additions to the labour force as this country has been witnessing a 2.1 per cent growth rate in population which would in turn mean a corresponding increase in people seeking non farm employment in the rural sector.
Even the recent trends indicate that the growth of non-farm activities is concentrated more in urban areas. The rural non-farm activities have grown much less, thus resulting in increased pressure on land. Hence, the present analysis points out an urgent need to promote more non-farm activities in the rural areas and also an essential strategy such as dispersal of surplus labour force from agricultural sector to non-farm sector.

In an economy like India, the process of economic development resulted in a different phenomena, which lead to lop-sided development and over development of few cities and towns which leads to a mindless migration from rural areas to the urban areas for seeking employment with the result that the urban areas are getting over-crowded and people who have migrated to urban areas also find themselves unemployed and are facing innumerable problems such as insufficient housing, health care and other essentials services which are deteriorating the urban environment. In order to combat this situation, a strategy has to be adopted which will effectively meet the need for establishment of agro-based industries.
Income and employment generation of capital intensive industry is too small to afford much relief to growing poverty and unemployment problem. The industries require large capital sources beyond the capacity of India. They have to depend on foreign aid which is not easily forthcoming. It involves substantial amount of foreign exchange which is not available in adequate volume from the existing export earnings.

In addition to this, the industries require larger gestation period resulting in inflationary trends in the economy. It is due to the sophisticated nature of technology and techniques adopted. As the capital intensive industries do not absorb the surplus labour on the land, the trend is to encourage community and domestic based industries as they would lead to the exploitation of the material and human resources which are available in abundance in the rural areas.

The centralized large scale industries in India creates various social problems associated with over-crowded industrial urban centres. It has resulted in concentration of economic power and wealth in a fewer hands; failed to produce a
solution to regional economic imbalances and general monopolistic tendencies. In this context, the economy needs the decentralised industries in the easy way of development of agro-based industries in a dispersal manner in order to spread out economic power and wealth into larger pockets and more people sharing the wealth and benefits of economic prosperity.

One of the most striking phenomena of our economy is that poverty and vast natural resources exist side by side. Indeed, the rural incidence of rural poverty and unemployment continues to be unabated and are twin problems of Indian economy. It is now realised that the poor continues to be bypassed in the development process as growth does not trickle down to the poorest. As the Seventh Five Year plan document reveals that the solution to the problem of unemployment and poverty that goes with a higher rate of overall economic growth". In this context, there is a need to open up agro-based industrial activities in rural areas with the twin objectives of full employment and efficient resource management which should be promoted

Government of India, Seventh Five Year Plan, Planning Commission, New Delhi.
simultaneously with the inter-connected sectors of agriculture and agro-based industries.

In the world scenario, India ranks second to Brazil in fruit production and next only to China in production of vegetables. It is important to note that only 12 per cent of agricultural raw materials, fruits and vegetables production of over 40 million tonnes and around 30 million tonnes are processed. The percentage is as high as 70 per cent in some developed countries.3

Every year, around 25 to 30 per cent fruits and vegetables valued at Rs.3000 crores in waste due to poor harvesting, storage, transportation and post harvesting processing. Further, India lacks the right management techniques and enough market information for post harvesting processing of fruits and vegetables. Not enough money has been invested in processing machinery, grading, packaging machinery, cold storage, freeze drying system; the installed capacity is too small and the technology used too old to be commercial.4 In this context,

4. Ibid.
the development of agro-based industries is very much essential to eliminate this agricultural wastage and ensure a suitable market to the producers and regular supply to the consumers.

Most of the agricultural commodities are bulk in weight and occupy a large space and consequently the transportation costs are also higher. If they are processed at the place of production, the transportation cost could be minimised which results more benefits can be passed to the producers. Some of the agricultural commodities like fruits and vegetables are perishable in nature. It is better to process them at the raw material production areas in order to avoid wastage.

The above discussions revealed that the main pre-requisites of the agro-based industries are good harvesting conditions, storage, transport and marketing facilities. If these pre-requisites are fulfilled, the agro-based industries play a vital role in providing employment and economic power to the rural people in India.
IMPORTANCE OF AGRO-BASED INDUSTRIES:

Agro-based industries widely recognised as a dynamic force of development because agricultural sector alone can not absorb the entire surplus labour force and hence these industries play a vital role in economic development.

Agro-based industries absorb surplus labour force which is high in rural areas and remove disguised or seasonal unemployment where people have to work only during rainy season and has to remain unemployed.

Agro-based industries generate employment opportunities on large scale and contribute significantly to the process of self sustained economic growth. According to an estimate by the food and agricultural organisation these industries account for about half the total value added and almost two-third of the employment in the developing countries. Food processing industry one of the important agro-based industries which ranks fifth in

its contribution to value addition but tops the list in terms of employment with 1.2 million people employed, consisting 18.7 per cent of country’s industrial labour.

As late Prime Minister Shri. Rajiv Gandhi emphasised the need in his address to the State Industry Ministry conference on December, 1988 in the following words: "One area where industry had got into is food processing. And considering that agriculture is still the mainstay of our economy food processing must be the logical next step, after putting agriculture on its seat with green revolution. Otherwise the farmers will be frustrated. Suddenly they will find that rapid increase in their economic growth is settled and they are not finding outlet they will feel frustrated especially in these areas where the farmers have done well and these areas where they have a lot of surplus which can be picked up by processing industry". In fact, the agro-based industries in India have important place and share in the country’s industrial employment.

Locally available resource serves an effective means of reducing the imbalances and accelerates the process of economic development. The rural people can easily be absorbed by the industries because they are well versed with the local conditions and their local influence and gradually put an end to outflow of labour force from rural areas to urban areas.

Agro-based industries lead to an efficient decentralisation of the economy. It is through the decentralised effort of industrial development via development of small scale industries that Japan was virtually demolished and ruined during the second world war has turned into a "workshop of the world" today. It may be taken as an eye opener in India having bulk of rural labour force and growing inequalities in the distribution of income and wealth and leading to peaceful and concurrent socio-economic development of all classes.

Most of the agro-based industries are labour-intensive and are small compared to medium sized industries reacquiring a relatively smaller capital investment as compared to high technology industry located in more industrialised urban areas. As
agro-based industries use indigenous raw materials and technical skills they reduce pressure on foreign exchange requirements.

Further, the agro-based industries play an important role in poverty alleviation in India. These industrial activities for the rural poor are most important for supplementary their non-farm incomes thus likely to reduce the poverty of the household. Thus, these industries has a very powerful role in alleviating the incidence of poverty in rural India.

Agro-based industries are Nation's primary method of transferring raw materials into finished products for consumption. Most of the agricultural products including subsistence products are processed to some extent. A Nation therefore, can not fully use its agro-economic resources without agro-based industries.

Promotion of agro-based industries would facilitate the greater utilisation of domestic raw materials and contribute significantly to employment growth. The human and material resources of the
country can be managed efficiently through the promotion of agro-based industries in India. It also assumes importance in the development strategy because these industries make decentralised planning a relatively better and thereby help in formulating a plan strategy based on local resource endowment and felt needs of the people of the area.

Agro-based industries lead to the creation of both forward and backward linkages on large scale by maximising mutual complementary of agriculture and industry. Improvement in agricultural productivity depends on a variety of inputs of industrial origin including fertilisers, power, tools and techniques, while agriculture in turn supplies to the industries not only wage goods but also raw materials.

To sum up, the agro-based industries would provide an excellent opportunities in promoting integrated development of agriculture and industries in transforming a stagnant rural economy into a dynamic industrial economy. Indeed, the role of agro-based industries is immense in fastening strong linkage between agriculture and industry and thereby accelerating the process of industrialisation in India.
THE MEANING AND CONCEPTS OF AGRO-BASED INDUSTRIES:

The term agro-based industries connote different meanings to different writers, institutions and agencies in the wake of growing need of inter-dependence between agriculture and industry and the modernisation of the former in recent years.

The business and industrial units play an important role in the modern commercial agricultural system. This has given a special significance to industries related to agriculture. These industries are variously called as agro-industries, agro-allied industries, agro-based industries and so on.

The term 'Agro-business' was first used by J. Davis and R. Goldberg in 1957 and described it as the sum of total of all operations involved in the manufacture and distribution of farm supplies, production activities on the farm and the storage,
processing and distribution of farm commodities and items made from them.  

Fedar Ernest considers 'agro-business' as the extension of capitalism into the agriculture of under-developed countries. It stands for modernisation of agriculture in capitalist style. It also encompasses all the participants involved in production, processing and marketing of farm products.

In India, the term 'agro-industry' is used often too broadly and hence, it is somewhat vague. A long list of agro-industries has been issued by the Union Development Commissioner for Small Scale Industries. It comprises all the enterprises connected with the processing of agricultural produce and farm wastes have been brought under a single head in the list.


9 Pattaneshetti, C.C., Agro-Industrial Integration, ICSSR, New Delhi.
Industries related to canning or processing of fruits and also those providing cold storage facilities, industries producing chemicals needed in the processing operations of plant fibre, forest produce, and some marine based ventures are also categorised as agro-based industries. In addition to this, the manufacture of farm implements of various types including power tillers, threshers, poultry equipments, accessories of dairying and formulation of pesticides have also been listed as agro-industries.

The National Council of Applied Economic Research has defined agro-industries as those which use either agricultural raw materials or make things that farmers need for agricultural purposes.

Making a distinction between the term agro-industries and agro-based industries, Reserve Bank of India observes "the agencies supporting agriculture by way of designing and manufacturing of inputs generally termed as 'agro-industries' or by

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10 Ibid.

nature, somewhat different from those supported by agricultural products which are known as agro-based industries\textsuperscript{12}.

Sib Nath Battacharya considered that agro-based industries are those industries which have either direct or indirect link with agriculture. In other industries which are based on agriculture produce and industries which support agriculture come under agro-based industries\textsuperscript{13}.

There are economists who have used the term 'agro-based industries' instead of agro-industries in the view that it is difficult to give a precise definition of agro-industries because in the ultimate analysis the whole economy depends on agricultural sector, either directly or indirectly as agriculture is feeder to industries. Agro-based industries are supported to be based and dependent upon the growth of agricultural production.


\textsuperscript{13} S.N. Battacharya, "Rural Industrialization in India", B.R. Publishers, New Delhi, 1980.
The present study defines agro-based industries as those of processing industries which are using large quantities of agricultural raw materials such as silk reeling, rice milling, oil milling, flour milling, decorticating of groundnuts, manufacturing of bakery products, manufacturing of juice, manufacturing of gur, and manufacturing of beedies.

CLASSIFICATION OF AGRO-BASED INDUSTRIES

The agro-based industries can be classified on the basis of nature and stage of the processing of agricultural produces.

C.C.Pattanshetti classifies agro-processing industries into two categories, viz.,

i) Primary Processing Industries, and

ii) Secondary Processing Industries.

Primary processing industries are those industries which are engaged in the first stage of processing such as sugarcane by sugar, gur and khandasari industries, processing of oil seeds by
village ghanis and oil mills, ginning and processing of cotton and baling of jute, rice, wheat and dal mills, processing of fruits and vegetables.

Secondary processing industries are engaged in the further stage of processing or more sophisticated treatment of the product or in the utilisation of by-product viz., bakery product, manufacture of confectionary, vanaspati, weaving and spinning\textsuperscript{14}.

S.N. Bhattacharya who has classified Agro-based Industries into four types agro-based industries, namely,

i) Agro-Produce Processing units,
ii) Agro-Producing Manufacturing units,
iii) Agro-Input Manufacturing units, and
iv) Agro-Service Centres.

\textsuperscript{14} Pattanshetti, C.C. Agro-Industrial Integration, ICSSR, New Delhi.
1. Agro-Produce Processing Units: Those industrial units which simply process the agricultural produce come under this category. It does not manufacture any new product and merely process the agricultural produce as raw material, so that it can be preserved and transported at cheaper costs, i.e., rice-mills, ground-nut and decorticating mills.

2. Agro-Producing Manufacturing Units: These units manufacture the entirely new products based on agricultural produce as the main raw material. The finished goods will be entirely different when compared to its original raw-material, e.g., sugar factories, bakery, solvent extraction units, textile mills, and straw-board units.

3. Agro-Inputs Manufacturing Units: The industrial units which produce goods either for mechanisation of agriculture or for increasing productivity come under this type. These units are directly linked with agriculture, as it supports agriculture at various stages, e.g., industries manufacturing fertilizers, pesticides and insecticides, and all types of industries manufacturing agricultural implements, and pump-sets etc.
Agro-Service Centres: Agro-service centres are workshops and service centres which are engaged in repairing and servicing of pump-sets, diesel engines, tractors and all types of farm equipments.

The points emerged from the discussion of definitions, and classification of agro-based industries are: (a) Agro-based industries all those industries which are directly or indirectly linked to the agriculture sector and (b) it mainly classified on the basis of scope and nature of the processing of agricultural produces (viz, primary and secondary). The present study focuses mainly on nine agro-based industries. They are ; I). Silk Reeling II). Rice Milling III). Oil Milling IV). Flour Milling V). Decorticating of Groundnuts VI). Manufacturing of Bakery Products VII). Manufacturing of Juice VIII). Manufacturing og Gur and IX). Manufacturing og Beedies.
By and large, the agro-based industrial sector in Kolar district of Karnataka state is characterised by number of implications. Finances life blood for smooth running of an industry. This is a pre-requisite for promotion of industries. However, most of the agro-based industries face the problem of finding adequate finance. They do not have sufficient funds of their own for fixed capital and working capital investment. Banks and other financial agencies are usually hesitant in advancing funds to agro-based industries because of these units have low credit worthiness as entrepreneurs have small assets base. There is always a fear that industrial units would die before seeing the light of successes and even if it would succeed it may not be viable.

One of the main implication of agro-based industries is non-availability of easy and adequate supply of raw materials at standard prices. There is frequent disruption in the supply of raw materials due to this reasons beyond the control of these units. These units having poor financial resource base are not able to keep stock of raw
materials for a year or so. Frequent disruption in the supply of raw materials hinders the production uneconomic in most of the cases.

Lack of marketing support is the most vulnerable aspect of agro-based industries sector, which is normally at a disadvantage. Often located in remote and an accessible regions, agro-based industries find themselves with high level of finished goods unable to compete with other industries in terms of standardisation, quality, price and packaging.

Majority of the products are marketed locally and even in the working place at much lower prices. In many cases, produce is sold to petty traders who make payment not only at low rates but also with a lag. In some cases, agro-based industrial units fail to obtain proper prices for the produce due to lack of knowledge. Lack of knowledge regarding foreign markets, absence of competitive marketing strategies, higher cost of production and non-standardized quality of the produce are the marketing problems faced by agro-based industries.
Quite often the agro-based industries suffer due to non-availability of allweather road for easy movement of raw materials and finished products. Power supply, in most cases required on a small scale is erotic and irregular. The existing communication facilities are grossly inadequate to meet the growing requirements.

It is a great paradox that even with the plethora of institutions and agencies geared to meet the specific requirements of the agro-based industries, the problems of easy credit, modern techniques of production, inadequate infrastructure including training and marketing support continue to plague and impede the progress of agro-based industries.

Keeping the above facts in view, a thorough investigation is undertaken to shed light on the development of agro-based industries.