

**ANALYSIS OF AGRO- PROCESSING INDUSTRIES PROBLEMS:
A CASE STUDY CHITTOOR DISTRICT, ANDHRA PRADESH**

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ABSTRACT

The Agro-Processing industry in India plays a vital role in the national economic development and has potential to meet the local needs and export requirements. Some estimates suggest that in developed countries, up to 14.00 % of the total work force is engaged in agro-processing sector directly or indirectly. However, in India, only about 3 % of the work force finds employment in this sector revealing it's under developed state and vast untapped potential for employment. It helps in processing agricultural products such as field crops, tree crops, livestock and fisheries and converting them to edible and other usable forms. Thus, transformation of agriculture through creating forward and backward linkages with industry has been emerging as an important option to overcome the increasing challenges of creating employment opportunities for increasing labour force and sustaining the livelihood of households in rural areas. Agro-industries confined in both organized as well as un-organized segments were facing variety of problems. The present study attempted to examine the problems of agro processing units i.e., problems raw materials, financial, marketing and others etc.

Key Words: Agro Processing units, Financial, Market, Raw materials,

Introduction

Most important point in the agro-processing is that a sizeable portion of raw material processed in them being rural based it has a very high employment potential with significantly lower investment. Further the agro-industry generates new demand on the farm sector for more

and different agricultural outputs, which are more suitable for processing. On the other hand, development of these industries would relax wage goods constraints to economic growth by enhancing the supply of their products. In this context there is a need for improving the capacity of the agro-industries to harness backward linkages with agriculture and allied activities in order to efficiently convert part of the output to value added products acceptable to the domestic and international markets. This would generate employment opportunities for different types of skills through food processing, packaging, grading and distribution. At the same time this will transfer a size margin to farmers through market linkages. Considering the importance of agro-processing industries in the development perspectives of overall rural development in general and realizing the expected role of expanding this sector for achieving increasing employment opportunities and income level to overcome the emerging challenges of unemployment and poverty in rural areas of the State. Agro processing industries are facing many problems i.e, raw materials, finance ,marketing and others.

Review of Literature

Agribusiness as a concept was first used by J.Davis and R.Goldberg in 1957. According to them, agribusiness is the sum total of all operations involved in the manufacture and distribution of farm supplies, production activities of the farm, and the storage, processing and distribution of farm commodities and items made from them.¹ For them, Agribusiness involves those individuals and organizations engaged in the production, processing, transport, storage, financing, regulation and marketing of the world's food and fiber supplies. In short, according to James E. Austin,² agribusiness is a seed to consumer system composed of series of closely related activities that together enable agricultural produce to flow from the farm to the market place. For Fedar Ernest, agribusiness is the extension of capitalism into agriculture of underdeveloped countries.³ It stands for modernization of agriculture in capitalist style. In view of this, in India, the term agro-industry is often used in a broad sense. The National Council of Applied Economic Research⁴ had defined agro-industries as those, which use either agricultural raw materials or make things that farmers need for agricultural purposes. According to S.K.Gupta⁵, the concept of agro-industries is confined only to those industries that are engaged in the processing of agricultural produce either for consumption or for the use of industry and those industries

which produce inputs for agriculture such as fertilizers and farm implements. Ajit Prasad Jain⁶ has defined agro-industry as one which carry out the processing of farm produce and which provides inputs for the developments of agriculture. He holds that development of agriculture in modern times is marked by the growth of agro-industries which on the one hand provide machine and material needed for achieving higher agricultural yields and on the other process farm produce into the finished and semi-finished goods.

Planning Commission of India had set forth the following criteria for distinguishing the agro-industries.⁷ The industries which satisfy the criteria are those which (1) encourage greater input in to agriculture, (2) lead to better processing and conversion of agricultural commodities, (3) ensure high returns on processed goods and (4) increase agricultural production. Obviously planning commission has included under agro-industries not only those industries which are concerned with the processing of agricultural products but also such industries which are involved in the production of farm inputs and farm implements.¹

M.P.Kaushal⁸ has defined agro-industries in a more comprehensive sense as (1) industries directly based on production of agricultural commodities including forestry, (2) industries based on agricultural wastes, (3) industries based on agricultural by products, (4) water harvesting technology as water is one of the most important source of agricultural production and (5) small scale and industrial structures supporting the purchase, manufactures and repairs of agricultural implements.

Methodology

The study has been based on primary data, the study purports to analyse the problems encountered by the Agro Processing industries in Chittoor district. The study covers 120 small and medium Agro processing units because the size and conditions under which they operate varies from the unit to unit. The data is collected through canvassing questionnaires to the entrepreneurs of Agro processing units.

Objective of the Study

The main objectives of the present study is to identify the problems encountered by the Agro Processing industries and to offer some feasible suggestions for toning up of the performance of Agro Processing industries in Chittoor district.

Source of the Data

The present study is mainly based on primary data. The Primary data was collected from the sample units by way of field study. Schedules specially designed for the purpose were filled in through personnel interviews and information given by the respondents was also recorded, analysed and drawn interferences.

RESULTS AND DISCUSSION

Major problems relating to raw materials faced by Agro-Processing Industries as a whole industries high market price of raw materials, irregular availability of raw materials of shortage of raw materials these problems are faced by 61.54 per cent, 52.14 per cent and 35.89 per cent of the total entrepreneurs respectively other raw materials related problems reported by units included poor quality of raw material (18.8 per cent) protagonist policy of government favouring farmers (13.68 per cent) lake of storage facility (14.53 per cent) and competition among units to by raw material (9.40 per cent). High market price of raw material is one of the most serious problems relating to raw materials for 62.82 per cent of the units in rice mills, 80 per cent of units in coconut oil mills, 53.33 per cent of the units in curry powder processing units, 55.50 per cent of the units milk processing industries.

Table 1: Distribution of Units on the basis of Problems relating to raw materials

Industry	High Market Price of Raw Materials	Irregular availability of raw materials	Non availability /shortage of raw material	Poor quality of raw materials	Lack of Storage facilities	Competition among units to by raw materials	Total Units
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Rice Mills	22 (62.85)	27 (77.14)	16 (45.71)	5 (14.29)	7 (20.00)	0	35
Milk Processing's	12 (60)	7 (35)	3 (15)	7 (35)	0	5 (25)	20
Fruit and Vegetable Processing	7 (28)	13 (52)	6 (24)	0	8 (32)	0	25
Curry Powder Processing	14 (56)	13 (52)	14 (56)	9 (36)	0	0	25
Coconut Oil Mill Processing	12 (80)	14 (93.33)	12 (80)	10 (66.33)	1 (6.66)	1 (6.66)	15
Total	67 (55.83)	74 (61.66)	51 (42.5)	33 (27.5)	9 (7.5)	6 (5)	120

Source: Survey Data

Figures in Parentheses are percentage share.

Irregular availability of raw material is another raw material related problem for 77.14% of the units in rice mills, 63.6% of the units in fruit and vegetables processing industry. 80% of the units are coconut oil mills, 53.33% of the units in curry powder manufacture industry and 45.71% the units in rice mills reputed shortage of raw materials is another raw material related problem. Poor quality of raw material is another raw material related problem faced by most of the units in coconut oil mills 66.67% and lock and storage facilities is a raw materials related problem for 33.33% of the units in curry powder manufacturing industry. Competition among units to by raw material is one of the most serious raw material related problem for most of the units in coconut mills 60% of the units in this industry face this problems.

Financial Problems:

Financial problems relate to shortage of capital to build up fixed assets, for modernization and technological up gradation, and shortage of working capital. During the survey, many units in each industry reported facing both of these financial problems. Therefore, percentage share of units facing each problem may not aggregate to 100 per cent, but may be less than or more than 100%(Table 2).

Table 2: Distribution of Units on the basis of Financial Problems

Industry	Total Units	Lack of Finance	Lack of Working Capital
Rice Mills	35	12 (34.29)	15 (42.85)
Milk Processing's	20	6 (30)	8 (4)
Fruit and Vegetable Processing	25	14 (56)	12 (48)
Curry Powder Processing	25	12 (48)	09 (36)
Coconut Oil Mill Processing	15	6 (40)	7 (46.66)
Total	120	48 (40)	51 (42.5)

Source: Survey Data

Figures in Parentheses are percentage share

Lack of Finance:

It is observed in table 2. shows that 40% of agro-processing industrial units as a whole have reported facing financial problems. They reported that they lack finance for expansion and modernisation of the units/for technological up gradation. Industry wise analyses shows that 34.29 % of rice mills, 56% fruit and vegetables, 48% curry powder processing, 40 % coconut oil mill processing and 30% milk processing units face this problem Sri Jyothi Currypowder in Madanapalli, Ragu Modern rice mill in Chittoor, St. Mary's oil Industries in Pileru reported that financial constraints limit their sale promotion activities and advertising campaigns which determine their marketing success.

Lack of Working Capital:

42.5 % of units in Agro-Processing Industries as a whole face this problem. Industry wise analysis reveals that 42.85 % of the rice mills, 46.66 % coconut oil mills and 36 per cent of curry powder manufacturing Units 4% milk processing and 48% of fruits and vegetable processing units have reported lake of adequate capital as one of the financial problems affecting this operation of the unitsKalapataru coconut oil mill, Tirupati, observed the lake of adequate working capital adversely affected their capacity of Sri Balaji rice mill adequate stock of raw materials and finished products and thus affected regular functioning of the Units. Ragu

Modern rice mill in Chittoor, Sri Jyothi Currypowder in Madanapalli, Kalapataru coconut oil mill, Tirupati observed that lack of adequate working capital adversely affected their capacity to maintain adequate stock of raw materials and finished products and thus, affect regular functioning of the units.

Marketing Problems of Sample Agro-Processing Industry

Marketing problems relate to competition cost of production sales demand brand acceptability, mass media expenditure etc. Distributions of units on the basis of marketing problem they face are given table 3.

Competition

The most important marketing problem common to all sample Agro-Processing Industrial units face competition from other units within the same industry from large scale units from multinational companies and also from other units which produce substitute for Agro-Processing Industrial units as a whole suffer from this problem (Table 3). The proportion of units facing this problem varies from 77.14 % in rice mills of 28% fruit and vegetable processing and curry powder processing 52 %. However table shows that this problem is serious in the rice mills 77.14 %, coconut oil mills 60 %, milk processing 70%, fruit and vegetables 28%.

High Cost Production:

Table 3 shows that 60.83% of Agro-Processing Industry unit as a whole have reported it as the second most serious marketing problem. This problem is found to be serious in case of many industries namely rice mills 68.57%, milk processing 70%, fruit and vegetable processing 48%, curry powder processing 52%, coconut oil mill 66.66%. 40% of Agro-Processing Industrial units as a whole have reported facing financial problems. Industry wise analysis shows that 34.29% of rice mills, 30 per cent milk processing, 48 per cent curry powder manufactory, 56% of fruits and vegetable processing and coconut oil mill processing 40%.

Credit Sale:

The third most important marketing problem controlled by Agro-Processing Industries is credit sale of the product; Industrial Units are competition to sell their product to retailer on credit. Credit sales require industries to keep on producing without realizing the sale proceeds within a reasonable period of time. This along with other factors market most of the industrial units impossible either to devote themselves entirely to production activities or to finding out alternative outlets of market, or to the task of improving the quality of their products and raising their productivity (Table 3). 53.33% of the total agro-processing industrial units as a whole have reported it to be the next important marketing problem. This problem is severe in industries like milk processing 80%, rice mills 71.42%, curry powder processing 56 per cent, fruit and vegetable processing 28 %, and coconut oil mill processing 13.33 %. Stiff competition, desire to expand sales volume and profit have been reported as reasons attributable to this problem. Beside these factors, Ragu Modern rice mill in Chittoor, Sri Jyothi Curry powder in Madanapalli, Kalapataru coconut oil mill, Tirupati have reported that fear of loss of market share and fear of bad debt are some other reasons for resorting to credit sale by the units.

Lack of Brand Goodwill:

Another marketing problem which the units have reported to be facing is the lack of brand goodwill. It implies that their product brand have not received much public acceptance (Table.3). 39.16 % of agro processing industries as a whole are facing this problem. This problem has been reported by 42.85% of rice mills, 60 % milk processing, 40% curry powder processing, 33.33% coconut oil mill processing and 20% fruit and vegetable processing. The units have attributed it to inadequate publicity through mass media. 37.5% of agro-processing units have reported that inadequate publicity through mass as a marketing problem. Sri Jyothi Curry powder in Madanapalli, Tirumal milk processing unit in Chittoor, St. Mary's oil Industries in Pileru reported that they are reluctant to have media exposure because of lack of finance and high cost involved in it.

Inadequate Publicity through Mass Media:

Mass media exposure is an essential ingredient for the smooth growth of an industry. It helps entrepreneurs to plan their activities in accordance with market trends, introduce goods to suit consumers' tastes and get consumers informed of their product through advertising (Table 3). 37.5% of agro-processing industrial units as a whole have reported inadequate publicity through mass media as a marketing problem. This problem is faced by 45.71 % of rice mills, 60% of milk processing's, 40 % of curry powder processing, 26.66 % of coconut oil processing, 12% of fruit and vegetable processing units. Sri Jyothi Curry powder manufacturing in madanapalli opined that effective marketing of curry powder products depend on wide sale promotion activities, advertising campaigns and product differentiation which require huge finance. Small units in this industry lack adequate finance for this purpose and therefore, have no media exposure and have very marketing strategies.

Other Problems:

Distribution of units on the basis of others problems affecting operation Agro-Processing Industry is an excess of revenues from total sales over associated expenses for an industry. A good rate of profitability is necessary for smooth running and growth of an industry. However an important problem affecting the operation of Agro-Processing Industry units is low level of profitability. This problem is adversely affect the reinvestment capacity of the entrepreneurs.

Table 3: Distribution of Units by Market Problems

Industry	Total Units	Competition	High Cost of Product	Credit sale	Lack of Brand Goodwill	Inadequate Publicity through mass Media	Lack of Differentiated Product	Low Demand	Heavy Taxes	Lack of Storage facilities
Rice Mills	35	27 (77.14)	24 (68.57)	25 (71.42)	15 (42.85)	16 (45.71)	09 (25.71)	2 (5.71)	4 (11.42)	0
Milk Processing's	20	14 (70)	14 (70)	16 (80)	12 (60)	12 (60)	0	0	0	0
Fruit and Vegetable Processing	25	7 (28)	12 (48)	7 (28)	5 (20)	3 (12)	0	0	16 (64)	0
Curry Powder Processing	25	13 (52)	13 (52)	14 (56)	10 (40)	10 (40)	5 (20)	0	5 (20)	0
Coconut Oil Mill Processing	15	9 (60)	10 (66.66)	2 (13.33)	5 (33.33)	4 (26.66)	0	4 (26.66)	0	0
Total	120	70 (58.33)	73 (60.83)	64 (53.33)	47 (39.16)	45 (37.5)	14 (11.66)	6 (5)	15 (12.5)	0

Source: Survey Data

Figures in Parentheses are percentage share

Table: 4 Distributions of Units on the Basis of Other Problems

Industry	Low level of profitability	Inadequate and irregular supply of power	Lack of Labour	Bad Debt	Total no of Units
Rice Mills	18 (51.42)	18 (51.42)	13 (37.14)	4 (11.43)	35
Milk Processing's	14 (70)	7 (35)	0	0	20
Fruit and Vegetable Processing	12 (48)	12 (48)	5 (20)	0	25
Curry Powder Processing	18 (72)	11 (44)	7 (28)	0	25
Coconut Oil Mill Processing	10 (66.66)	3 (20)	0	0	15
	72 (60)	51 (42.5)	25 (20.83)	4 (3.33)	120

Source: Survey Data

Figures in Parentheses are percentage share

Table 4 shows that the 6% of the total Agro-Processing Industry units have reported if to be a major problem. The proportion of units having low level of profit varies from 66.66% in coconut oil mills to 72% in curry powder processing, 70% of milk processing units, 48 % fruits and vegetable 5%, 51.42% in rice mills. This problem is attributed to high cost of production stiff competition and inability of the units to change price of the product proportionate of change in prices of inputs.

Inadequate and Irregular supply of power:

42.5% of the total Agro-Processing Industry units have reported the inadequate and irregular supply of power affect their operation (Table 4). Agro-Processing Units which are located in remote areas, face this problem seriously 51.42% of Rice mills 48% of fruits and vegetable, 44% of curry powder processing units, 35% of milk processing units, 20% of coconut oil mill processing units. Lack of regular supply of power adversely affects the existing capacity utilization resulting in low level of production on the one hand and an increase in cost of production on the others. Therefore an assured regards supply of power is absolutely needed in Agro-Processing Industry have to grow and process at a rapid rate. On

the other hand 20.83 % of the Agro-Processing Industry units in there Industry namely 37.14 % of rice mills, 20% of fruits and vegetables, 28% of Curry powder processing have reported that lake of labours affected their operate.

Bad debt:

Bad debt is the amount which the customers fail to pay to the processing units or there which appear irrecoverable. In preparing accounts they are treated as loss. Bad debt arils due to the practice of credit sale of the products by Agro-Processing Industry units and is regarded as a cost of maintain receivables. Table 4 shows that 3.33% of Agro-Processing Industry units as a whole face this problem and reported it adversely affected their motivation to continue production. This consist 11.43% of rice mills, 8% Curry powder manufacturing units.

Suggestions for Policy Recommendation

1. It was found that capacity utilization in Agro processing industries as a whole is low. This is caused by irregular availability and shortage of raw materials and inadequate and irregular supply of power. To solve this problems agriculture raw material products must be increased considerably by earlier mention strategies.
2. Assured supply of raw material in adequate quantity could also be done though motivating farmers for undertaking diversification in their farming system by using available land under the cultivation of particular raw material as required by industrial units located in particular areas.
3. Only a few units in the sample are found going for international accepted quality management system certificate. Therefore in order to make Agro-processing units competitive domestically and internationally. ISO Certificate units must be made mandatory.
4. In the case of rice mill Civil Supplies Corporation production paddy from farmers supply it to the processes get them processes and distributions the rice through civil supplies Corporation outlets. This arrangements has eliminated intermediaries between rice mill and paddy growers to the benefits of farmers.

5. The facility of cold storage should be made available in clusters of villages so as to retain the quality of most perceivable farm based raw material for a substantial period of time.
6. The rate of value added tax imposed by the State Government was very high which increasing per unit cost of production and making products highly competitive against the similar goods arriving from other states of the country even in domestic markets leave aside the export markets. In this context it was suggested either to reduce the rates of VAT or the similar amount claimed as VAT should be refunded to the industry as loan on subsidized rates of interest.
7. Emerging marketing problems can be solved though establishment of procurement centers among the clusters of villages, ensuring fair measurement of crops while selling to different agencies from the part of the Government.
8. The State Government should ensure regularity in supply of power in industrial areas.
9. The contribution of technological progress to the growth of performance of Agro Processing industries as a whole negative. To solve this problem advanced processing technology should be adopted in this sector.
10. The State Government should introduced policies for providing subsidised financial incentives in the form of capital subsidy cum loan at starting of the units especially in industrially backward districts.
11. Lack of brand goodwill and inadequately publicity of the products are marketing problems faced by relatively small units in agro processing sector particularly food processing units. This units are unable to have media exposure due to huge cost involved it. In order to expose their products to the greater public and to explain the products relative merits over others with the aim of expanding market for their products, District Industrial Centre association with associations of processing units should organize agro processing industries trade fairs in important cities in the state.

Conclusion

The development of agro based industries can help to realise the various linkages or inter-relationships between industry and agriculture. Agro processing industries brings immense benefits to the people to the economy and speed up industrialization process. If the agro based industries are developed it will be possible to reduce regional imbalances and also

to realise the essential goal of rural development of generating employment opportunities on a large scale for the weaker sections of the rural society. However it has a significant place in Chittoor District in relation to agriculture production. Therefore, it has great scope for development in the district. Hence it must be promoted extensively, existing units in this sector are found facing many problems which affect their operation. In this context the recommendations are much help to the policy makers of the state who are engaged in framing Agro Processing Industrial policies.

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