

Factors affecting the growth of small and medium-sized agro based industries in Maharashtra

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Abstract

A growing movement has emerged during the past two decades to question the factors that are responsible for the sustainable development of agro based industries that are engaged in promoting practices that enhances the socio economic standard of rural public. Today this movement for sustainable agro base industries development is garnering increasing support and acceptance within mainstream agriculture. Agro based enterprises contribute extremely to the socioeconomic development of Maharashtra. The sector accounts for more than 95% of the industrial units and contributes 45% of the manufacturing output and 40% of the export (Ministry of MSME, 2014). As a result sustainable agriculture address many environmental and social concerns, but it offers innovative and economically viable opportunities for growers, laborers, consumers, policymakers and many others in the entire food system So consequently, small enterprises play a vital role in creating employment and helping in the industrialization of rural and backward areas.

In this paper, I tried to examine the enterprise level factors responsible for the sustainable development of agro based industries in Maharashtra, using secondary level data. There are many studies on access to formal credit for agriculture and rural households in India. In spite of being an important sector in the Indian economy, however, factors responsible for the sustainable development for agro based small enterprises has not been studied adequately. This study is an attempt to fill the gap. This research reveals that the growth of agro based small industries in Maharashtra is hampered by several interrelated factors, which include business environmental factors that are beyond the agro based small industries control and internal factors of the agro based small industries.

Keywords: business environment, external factors, growth, internal factors, small agro based small industries etc

Introduction

Agriculture based industries plays a pivotal role in the Indian economy. The Gross State Domestic Product (GSDP) at current prices for 2013-14 is estimated at 15, 10, 132 crore. Industry and Services sector both together contribute 88.7 per cent to the GSDP while the contribution of Agriculture & Allied Activities sector is 11.3 per cent. As per advance estimates, Gross State Domestic Product (GSDP) at constant (2004-05) prices, is expected to grow at 5.7 per cent during 2014-15. At the sub sector level, Agriculture sector, growing at a pace of 4.4 per cent, has an average share of 8.6 per cent in GSDP in the current series. According to the advance estimates the 'Agriculture, Forestry and Fishing' sector is expected to grow by 1.1 per cent. Maharashtra's economic attention began to turn to the agricultural sector, particularly on SMEs due to their major role in economic development and their ability to provide jobs. In spite of the vital role of agro based small industries in building a competitive private sector and contributing significantly to economic growth and job creation, they are facing more challenges around the world in general and in developing countries in particular.

Similarly, Maharashtra's agro based small industries face numerous and serious challenges to their growth: the cumbersome legal and regulatory constraints, lack of access to external financing, low human resources capacities, lack of management skills and training, and low technological capacities.

Gross State Domestic Product (GSDP), at current (2014-15) prices for the year 2014-15 is Rs.17,92,122 crores contributing about 14.4% of nation's GDP of Rs.1,24,88,205 crores. Agriculture and allied activities in Maharashtra contribute

nearly 12% per cent to the State's income, although 55% of the population is dependent on them. Agricultural sector contribution to gross domestic product (GDP) is major; it provides employment to major percentage of opportunity to the Indian workforce. Also, the forward and backward linkage effects of agriculture growth increase the incomes in the non-agriculture sector. The main products exported from the State are textiles, readymade garments, cotton yarn, agro-based products, etc. to recognize the efforts put up by the exporters and to boost the exports, the state is taking initiatives like giving awards based on export performance and implementing space rent subsidy scheme for small scale industries for participation in international exhibitions.

The growth of some commercial crops has significant potential for promoting exports of agricultural commodities and bringing about faster development of agro-based industries. Thus agriculture not only contributes to overall growth of the economy but also reduces poverty by providing employment and food security to the majority of the population in the country and thus it is the most inclusive growth sectors of the Indian economy.

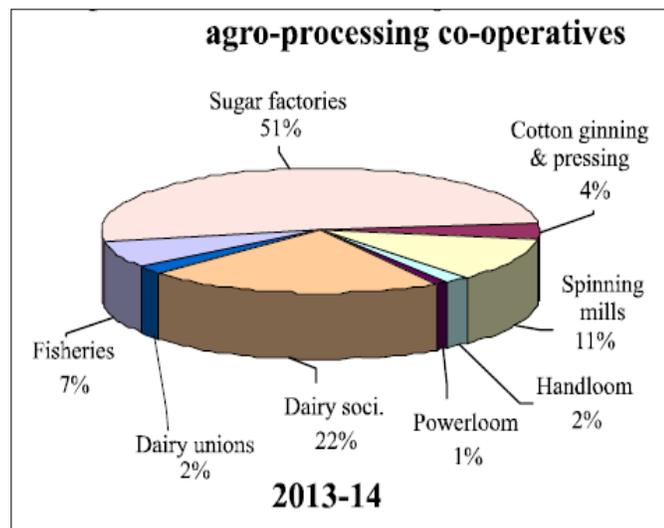
The study presented in this paper uses data from the Economic Survey of Maharashtra, 2014-2015 to identify the most binding factors responsible for the sustainable development of agro based SMEs' in Maharashtra. The purpose of this study is to analyze the key factors affecting the growth of agro-based industries in Maharashtra. The study is directed by the following objectives:

- To evaluate the literature and show how this study relates to it.
- To present a theoretical and conceptual framework on

factors influencing the growth of agro-based industries in Maharashtra.

- To analyze the external and internal factors influencing the growth of agro-based industries in Maharashtra.

Agro-Processing Co-operatives



Source: Economic Survey of Maharashtra 2014-15

Agro-processing co-operatives play significant role in the progress of rural economy, making certain realistic returns to the farmers and also in progress of rural industry, thereby generating employment. The State provides financial assistance to societies for establishing agro processing units. Co-operative sugar factories, cotton ginning & pressing, spinning mills, handloom & power loom, dairy societies & dairy unions and fisheries societies are the major constituents of agro-processing co-operatives.

As per economic survey of Maharashtra 2014-15 there were 142 co-operative cotton ginning & pressing societies in the State as on 31st March, 2014. The contribution of the Government of Maharashtra to the share capital of these societies was 25 per cent. About 60 per cent societies were in loss.

There were 149 co-operative spinning mills in the State as on 31st March, 2014. The contribution of the GoM to the share capital of these societies was 83.3 per cent. About 37.6 per cent societies were in loss. Maharashtra back in 2012 was celebrating as the year of cooperation sector, the latest Economic Survey tabled in the State Legislature shown that the sector was in poor health.

There were 164 cooperative cotton ginning and pressing societies in the State (as of March 31, 2011), of which 81.1 per cent were making losses. There were 167 cooperative spinning mills, of which 43.7 per cent were making losses. The share of state government in the capital of these societies was 64.3 per cent. There were 685 cooperative handloom and 1,378 powerloom societies in the State. The contribution of State government to their share capital was 8.6 and 24 per cent respectively. About 49.3 per cent cooperative handloom and 71.6 per cent powerloom societies were making losses. Further, as many as 42.7 and 34.6 per cent cooperative dairy societies and dairy unions respectively were in the red. As of March 31, 2011, there were 27,110 cooperative dairy societies and 78 cooperative dairy unions in the state.

Causes and Consequences of factors that affect the performance of small and medium agro-enterprises in Maharashtra

The causes and consequences of factors that affect the performance of small and medium agro-enterprises in Maharashtra are, government policy pertaining to production, distribution and price change in the outlay blueprint, subsequent new priorities in the strategy, scarcity of power, transport, raw material and deterioration of industrial relations etc., can result poor performance. Indigenous factor such as mismanagement, lack of entrepreneurial motivation on the part of the local people, professionalism, diversion of funds, wrong dividend policies adopted by cooperative society funding to agro based industries, excessive overheads, and lack of fully responsible for aggravating the situation of industrial sickness in a serve manner. Further, the government policies regarding price distribution, export, import, licensing and taxation are the major factors for poor performance or barriers in development of small and medium scale agro industries development.

Problems of Growth of Small and Medium-sized Agro based Industries in Maharashtra

It finds that the growth of medium and small scale agro-based industries in Maharashtra is hampered by several interrelated factors. Those factors involve the business environmental factors that the medium and small scale agro-based industries in Maharashtra cannot control and its internal factors. There are a number of factors contributing to the lack of industrial growth in the region, like, poor infrastructure, inadequate electricity supply, shyness of capital due to high cost of production, vulnerability of the region, lack of entrepreneurial motivation on the part of the local people, low level of public sector investment, etc. This shows that the majority of problems of small and medium scale enterprises including manufacturing ones are external and internal to it and among them the more important of these factors are discussed as follows:

- **Lack of Basic Infrastructure:** The medium and small scale agro-based industries in Maharashtra operate in an environment with very poor infrastructure which constitutes very serious problem and a barrier to entry and hinders competitiveness. In Maharashtra, poor facility in food parks and cold chain infrastructure, inability to access market, communication, power, water etc. prevent a sustainable development of medium and small scale agro-based industries in Maharashtra.
- **Capital Shortage:** Deficient in access to external financing and lack of short, medium and long term capital, inadequate access to financial resources and credit facilities is considered a major challenge to the growth of medium and small scale agro-based industries in Maharashtra, and it has accounted for high rates of failure among those medium and small scale agro-based industries in Maharashtra.
- **Integrated water resources management:** The irrigated area in command area under the jurisdiction of Water Resources Department, GoM increased from 24.48 lakh ha in 2012-13 to 32.60 lakh ha in 2013-14. The state needs to implement integrated water resources management approach for efficient utilization of its water resources from all sources. The state needs to bring the following technologies closer to the farmers for adoption, use of water impact calculator for scheduling irrigation and applying

measured quantities of water; integrating domestic wastewater treatment and safe use in agriculture as a business model; and machine hiring centers as well as inputs delivery systems in cluster of villages need to be established through PPP. Other activities that need to be undertaken are: create river basin, sub-basin plan and river basin organizations; provision of drainage, rejuvenate all water bodies (tanks/ponds/others); establish water quality database and refine regularly; desilt and protect all reservoirs; promote designed crop pattern in wetlands; recycle and reuse of wastewater in all urban and industrial areas; promote user management and accountability; and adopt outcome based and GIS based monitoring.

- **Agricultural education, research and extension:** Though the state is having numbers of agricultural institutes it is still deprived from adequate number of agriculture and allied sectors-based universities, colleges and training centers, and research organizations. The state is not sufficiently equipped to meet the demand for certified skill workers at various levels in primary sector.
- **Soil health management:** From the decades, inadequate soil health management has led to land degradation and extreme and random use of chemical fertilizers. This has disturbed the balance of nutrients and crop growth; saline and alkali soils with low crop productivity were not reclaimed. Soil fertility degradation due to mismanagement over the years has led to appearance of multi-nutrient deficiencies like zinc (Zn), boron (B), sulphur (S) in addition to low levels of soil organic carbon (C), nitrogen (N), phosphorus (P) and potassium (K). Having seen the benefits in the past and in a pursuit to get higher yields, farmers in various parts are using indiscriminate amounts of chemical fertilizers, but without getting the desired results. Micro and secondary nutrient deficiencies are apparently limiting the realization of optimum yields, and use efficiency of macronutrients as well. Soil testing on large scale through mobile soil testing laboratories along-with soil test-based fertilizer management with focus on micro and secondary nutrients is needed for sustainable intensification and resilience-building of production systems.
- **Taxation and regulations:** High tax rates reduce firms' internal sources of financing and are discouraged from expanding their operations and becoming visible to governmental officials, since being visible or operating formally is likely to increase the cost of operating.
- **Building better field data systems:** To avoid duplication of efforts and to extract all possible data from the computerized databases and to monitor and evaluate the researcher proposed for building better field data systems. This database system will be advanced to enable better understanding of the agro based industries at all levels to make better decisions or activities related to land, water, forest and other related dependent livelihoods.
- **Convergence of all line departments:** All line departments are requested to develop their district/village action plans to converge all their state and central schemes at pilot sites to operationalize the strategy of convergence and holistic system approach. Maximum coverage of pilot site areas through various schemes would make the pilot areas as a live model for the success of the agro based industries sector mission and enable scaling-up through refinement of

policies and institutions based on the learning's and evidences.

Conclusion

Agro based small and medium industries development requires a crosscutting strategy that touches upon many areas such as ability of governments to implement sound macroeconomic policies, sound transportation and communication infrastructure, capability of stakeholders to develop conducive microeconomic business environments, simplified legal and regulatory frameworks, good governance, abundant and accessible finance, supportive and globalised education, sufficiently healthy and flexibly skilled labour as well as capable public and private institutions, and the ability of agro based small and medium industries to implement competitive operating practices and business strategies). Thus, agro based small and medium industries development strategy must be integrated in the broader global development strategy.

The establishment of support institutions and relief measures, commencement of regulatory and privileged laws and the economic reform putting agro based small and medium industries at the centre objectives are some of the palliative measures already considered by the Maharashtra government for the development of agro based small and medium industries in Maharashtra. Finally, the phenomenal growth of agro based small and medium industries is mainly due to the people's quest to be self-employed and not because it is easy to establish or manage. The increasing demand for consumer products creates a large market for agro based small and medium industries and this added to improving business environment and government commitment to promoting agro based small and medium industries provided bright future prospects for small and medium enterprise.

Recommendations

Based on the review of the study, the researcher recommend as follows;

That government should re-introduce the monetary and fiscal policies of agro based small and medium industries so that beneficiaries can use them to run the micro, small and medium enterprises. Government, chamber of commerce and other non-governmental organization should regularly organize educational seminars, workshops and training programs for potential and actual small and medium enterprise operators where they should be educated on how to plan, organize, direct and control their businesses. Agro based small and medium enterprises operators' should device effective marketing strategies. This includes such promotional strategies as advertising, good management customers relations at all times. There should be re-introduction of soft loans for small and medium business by the government and financial institutions. Finally, the quality and quantity of micro, and small scale enterprises products should be high at all times. This will attract more customers. Beside this based on good practice in mature market economies, agro based small and medium industries should:

- Activate in a globally commercially oriented manner,
- Must be a result oriented rather than procedure oriented,
- Concentrate more in internal and specific environment. This means giving attention for improving accounting procedures, modernizations and technology up gradation, product improvement work culture etc;

- Improve industrial relations nationally and internationally,
- Must be accompanied by professional staff people with relevant, contemporary, technical knowledge and practical business experience,
- Be a customer-centre –oriented,
- Comprise of private sector representation on its Management Board,
- Access and integration into local, national, and global markets,
- Develop entrepreneurial motivation program,
- Provision of information about specific markets and potential customers,
- Assist in making contact with potential customers or appropriate public and private intermediaries and business service providers.

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