Post Graduate Diploma in Agricultural Extension Management (PGDAEM)

Course code: AEM 202
Course Title: Farm Business Management (4 Credits)

National Institute of Agricultural Extension Management
(An autonomous organization of the Ministry of Agriculture and Farmer's Welfare, Govt. of India)
Hyderabad – 500030. India.
www.manage.gov.in

Published by

National Institute of Agricultural Extension Management (MANAGE)
Rajendranagar, Hyderabad – 500030. India.

First published: 2007
Second Revised: 2013
Third Revised: 2021

Dr. P. Chandra Shekara,
Director General, National Institute of Agricultural Extension Management (MANAGE)
Rajendranagar, Hyderabad – 500030. India.

Principal Coordinator
Dr. Veenita Kumari, Deputy Director (Gender Studies), MANAGE

Contributors (2007)
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Contributors (2013)
Dr. Sendhil Kumar, Associate Professor (Agril.Extn), KAU, Thrissur
Dr. Seema, Professor, School of Agribusiness Management, ANGRAU, Hyderabad

Contributors (2021)
Dr. Shalendra Singh, Deputy Director (BS), MANAGE
Dr. Sagar Surendra Deshmukh, Training Associate, MANAGE
Dr. Prasoon Mathur, Manager (NCDEX)

Support Team
Dr.P.L.Manohari, Assistant Director, MANAGE
Ms.S.L.Kameswari, Consultant, PGDAEM, MANAGE
Dr. V.Shreedevi, Research Associate, PGADEM–MOOCs, MANAGE
Mr. Phanindra Verma, Data Entry operator, PGDAEM, MANAGE
Ms. M.Lakshmi Thirupathamma, Technical Assistant, PGDAEM, MANAGE

BLOCK I – FARM BUSINESS

UNIT 1

INTRODUCTION AND BASIC CONCEPTS IN FARM BUSINESS

Highlights of the unit

- Objectives
- Introduction
- Basic Concepts
- Market – Meaning, Components, Dimensions andClassification of Markets
- Check your progress
- Let's Sum Up
- Further Suggested Readings/Links

1.0 OBJECTIVES

After studying this lesson, you will be able to understand:

- Basic concepts in Farm Business
- Meaning and Definition of Market
- Types of Agricultural Market

1.1 INTRODUCTION

Farm Business is the science of organizing and combining people, natural and material resources for the purpose of crop and livestock production in order to maximize profit while optimizing input use. Such resources include land, labour, management skill, specialist knowledge, capital (financial and equipment), sunlight, irrigation, plants and animals, livestock feed, fertilizer, agrochemical, time, etc.

Farm business management has assumed greater importance not only in developed and commercial agriculture all round the world but also in developing and subsistence type of agriculture. A farm manager must not only understand different methods of agricultural production, but also he must be concerned with their costs and returns. He must know how to allocate scarce productive resources on the farm business to meet his goals and at the same time react to economic forces that arise from both within and outside the farm.

The need for managing an individual farm arises due to the following reasons:

i) Farmers have the twin objectives, viz., maximization of farm profit and improvement of standard of living of their families.

ii) The means available to achieve the objectives, i.e., the factors of production, are scarce in supply.

iii) The farm profit is influenced by biological, technological, social, economic, political and institutional factors.

iv) The resources or factors of production can be put to alternative uses.

Farm management is concerned with resource allocation. On one hand, a farmer has a set of farm resources such as land, labour, farm buildings, working capital, farm equipment, etc. that are relatively scarce. On the other hand, the farmer has a set of goals or objectives to achieve may be maximum family satisfaction through increasing net farm income and employment generation. In between these two ends, the farmer himself is with a specific degree of ability and awareness. This gap is bridged by taking a series of rational decisions in respect of farm resources having alternative uses and opportunities. The study of farm management would be useful to impart knowledge and skill for optimizing the resource use and maximizing the profit.

1.2 BASIC CONCEPTS

The basic concepts that are frequently used in farm management are discussed below:

i) **Farm-Firm:** Farm means a piece of land where crop and livestock enterprises are taken up under a common management. A farm is a firm which combines resources in the production of agricultural products on the lines of a business firm, i.e., with the objective of profit maximization.

ii) **Resources or Inputs or Factors of Production:** Resources are those which get consumed or transformed into products in the process of production. Services of resources are also used up in the production process.

All agricultural resources can be classified into two types. They are a) fixed resources and b) variable resources.

a) **Fixed resources**: Level of some resources like buildings, machinery, etc. is fixed over a production-planning period irrespective of the level of enterprises taken up. These are called fixed farm resources, E.g. Land, building, machineries, etc. The quantum of fixed resources does not change with the level of production. Some of the resources, which are fixed during a short period, may become variable during a long term.

b) **Variable resources:** Some resources like seed, fertilizer, labour, etc. vary with the level of output. These are variable resources.

Resources can also be classified into stock and flow resources as detailed below:

c) **Stock resources**: They are resources which are used up entirely in the production process. Fertilizer, seed, feed, etc., are such resources that can be stored up for using at later period.

d) **Flow resources**: Contrary to stock resources, there are factors of production which give only flow of services in the production process. Hence, they are called the flow resources. If the services of this category of resources are not utilized, they go waste, as they cannot be stored up for later use. For example, if the services of a farm building or machinery are not used in a particular day, they go waste, as they cannot be stored up for future use.

iii) Ways of Mobilizing Farm Resources: The different types of farm resources and ways of mobilizing them by a farm manager are discussed here.

a) Owning: Resources like land, machinery, implements, tools, work bullocks, etc., can be acquired by purchasing them.

b) Leasing: The immovable resources like land and buildings can be acquired by leasing. Rent has to be paid based on the terms agreed by the lessees (tenants) to the owner of such resources. The land owner may lease-out his lands to land less agricultural labourers or to farmers who are capable of cultivating larger area.

c) Hiring: The farmer can acquire human labour and bullock power through hiring. The magnitude of employment of hired human labour and bullock power depends upon:

a) Size of farm holding,

b) Number of family labourers available,

c) Availability of owned bullocks,

d) Resourcefulness of the farmer to replace labour with capital and

e) Diversification of crop activities practiced in the farm.

d) Joint ownership: When the land, buildings and well are inherited by legal heirs, the land gets sub-divided and buildings and wells are jointly owned among them. Joint ownership is convenient and economical to those who have small and fragmented inherited land. However, disputes arise due to lack of understanding among joint owners in sharing the services and also in the maintenance of the jointly owned assets.

e) **Custom Services:** Farmers could acquire custom services of machineries like tractor, power tillers, threshers, power sprayers, etc. by paying custom hire charges. Hiring of custom services of machineries depends upon

1) Size of farm holding,

2) Availability of alternatives such as human labour and bullock power,

3) Hire charges for human labour and bullock power,

4) Custom hire charges,

5) Time of operation (peak or lean season),

6) Availability of time to carry out the farm operation and

7) Quantum of work to be carried out.

Custom services would be more economical for small and marginal farms as they cannot afford to buy or maintain costlier equipment and machineries.

iv) Product or Output: It is the result of the use of resources or services of resources. The resources get transformed into what is known as output. E.g. Paddy, Groundnut, Sugarcane, Milk, etc.

v) Production: It is a process of transformation of resources or inputs like labour, seed, fertilizer, water, etc. into products like Paddy and Wheat etc.

vi) Transformation or Production Period: The time required for a resource to be completely transformed into a product is called transformation or production period. E.g. Paddy is harvested in 3½ to 6 months.

vii) Production Economics: Farm production economics is a field of specialization within the subject of agricultural economics. It is concerned with choosing of available alternatives or their combinations in order to maximize the returns or to minimize the costs. Agricultural production economics is an applied field of science, wherein the principles of choice are applied to the use of land, labour, capital and management in farming.

viii) The subject matter of production economics explains the conditions under which the profit, output, etc. that can be maximized and the cost, use of physical inputs, etc. that can be minimized. The main objectives of production economics are:

a) To determine and define the conditions which provide for optimum use of resources;

b) To determine the extent to which the current use of resources deviates from the optimum use;

c) To analyze the factors which influence the existing production patterns and resources use; and

d) To identify the means and methods for optimal use of resources.

ix) Extension

The word 'extension' is derived from the Latin roots, 'ex' – meaning 'out' and 'tensio' meaning 'stretching'. Stretching out is the meaning of extension.

In other words, the word "extension" signifies an out of school system of education.

Extension education is an applied social science consisting of relevant content derived from physical, biological and social sciences and in its own process synthesized into a body of knowledge, concepts, principles and procedures oriented to provide non-credit out of school education largely for adults. - Paul Leagans (1971).

Extension service refers to a program for agricultural development and rural welfare which (usually) employees the extension process as a means of program implementation.

Extension process is that of working with rural people through out of school education along those lines of their current interest and need which are closely related to gaining a livelihood improving the physical level of living of rural families and fostering rural community welfare.

1.3 MARKET – MEANING

The word *market* originated from the latin word 'marcatus' which means merchandise or trade or a place where business is conducted.

Word 'market' has been widely and variedly used to mean:

(a) A place or a building where commodities are bought and sold, *e.g.,* super market;

(b) Potential buyers and sellers of a product; *e.g.,* wheat market and cotton market;

(c) Potential buyers and sellers of a country or region, *e.g.*, Indian market and Asian market;

(d) An organization which provides facilities for exchange of commodities, *e.g.*, Bombay stock exchange; and

(e) A phase or a course of commercial activity, *e.g.*, a dull market or bright market.

There is an old English saying that two women and a goose may make a market. However, in common parlance, a market includes any place where persons assemble for the sale or purchase of commodities intended for satisfying human wants. Other terms used for describing markets in India are *Haats, Painths, Shandies* and *Bazar*.

The word market in the economic sense carries a broad meaning. Some of the definitions of market are given below:

1. A market is the sphere within which price determining forces operate.
2. A market is the area within which the forces of demand and supply converge to establish a single price.

3. The term market means not a particular market place in which things are bought and sold but the whole of any region in which buyers and sellers are in such a free intercourse with one another that the prices of the same goods tend to equality, easily and quickly.
4. Market means a social institution which performs activities and provides facilities for exchanging commodities between buyers and sellers.
5. Economically interpreted, the term market refers, not to a place but to a commodity or commodities and buyers and sellers who are in free intercourse with one another.
6. The American Marketing Association has defined a market as the aggregate demand of the potential buyers for a product/service.
7. Philip Kotler defined market as an area for potential exchanges.

A market exists when buyers wishing to exchange the money for a good or service are in contact with the sellers who are willing to exchange goods or services for money. Thus, a market is defined in terms of the existence of fundamental forces of supply and demand and is not necessarily confined to a particular geographical location. The concept of a market is basic to most of the contemporary economies, since in a free market economy, this is the mechanism by which resources are allocated.

1.3.1 Components of a Market

For a market to exist, certain conditions must be satisfied. Theseconditions should be both necessary and sufficient. They may also be termed as the components of a market.

1. The existence of a good or commodity for transactions (physical existence is, however, not necessary);
2. The existence of buyers and sellers;
3. Price at which the commodity is transacted or exchanged

4. Business relationship or intercourse between buyers and sellers; and
5. Demarcation of area such as place, region, country or the whole world.

1.3.2 Dimensions of a Market

There are various dimensions of any specified market. These dimensions are:

1. Location or place of operation
2. Area or coverage
3. Time span
4. Volume of transactions
5. Nature of transactions
6. Number of commodities
7. Degree of competition
8. Nature of commodities
9. Stage of marketing
10. Extent of public intervention
11. Type of population served
12. Accrual of marketing margins

Any individual market may be classified in a twelve-dimensional space.

1.3.3 Classification of Markets

Markets may be classified on the basis of each of the twelve dimensions already listed.

1.3.3.1 On the Basis of Location or Place of Operation

On the basis of the place of location or place of operation, markets are of the following types:

(a) Village Market: A market which is located in a small village, where major transactions take place among the buyers and sellers normally residing in that village, is called a village market.

(b) Primary Markets: These markets are located in towns near the centers of production of agricultural commodities. In these markets, a major part of the produce is brought for sale by the producer-farmers themselves. Transactions in these markets usually take place between the farmers and primary traders.

(c) Secondary Wholesale Markets: These markets are located generally at district headquarters or important trade centers or near railway junctions. The major transactions of commodities in these markets take place between the village traders and wholesalers. The bulk of the arrivals in these markets are from other markets. The produce in these markets is handled in large quantities. There are, therefore, specialized marketing agencies performing different marketing functions, such as those of commission agents, brokers and weighmen in these markets. These markets help in assembling commodities from neighboring district/tehsil/state.

(d) Terminal Markets: A terminal market is one where the produce is either finally disposed of to the consumers or processors, or assembled for export. In these markets, merchants are well organized and use modern methods of marketing. Commodity exchanges exist in these markets which provide facilities for forward trading in specific commodities. Such markets are located either in metropolitan cities or at sea-ports. Delhi, Mumbai, Chennai, Bengaluru, Kolkata and Cochin are terminal markets in India for many commodities.

(e) Seaboard Markets: Markets which are located near the seashore and are meant mainly for the import and/or export of goods are known as seaboard markets. These are generally seaport towns. Examples of these markets in India are Mumbai, Chennai, Kolkata and Cochin (Kochi).

1.3.3.2 On the Basis of Area/Coverage

On the basis of the area from which buyers and sellers usually come for transactions, markets may be classified into the following four classes:

(a) Local or Village Markets: A market in which the buying and selling activities are confined among the buyers and sellers drawn from the same village or nearby villages. The village markets exist mostly for perishable commodities in small lots, *e.g.*, local milk market or vegetable market.

(b) Regional Markets: A market in which buyers and sellers for a commodity are drawn from a larger area than the local markets. Regional markets in India usually exist for food grains.

(c) National Markets: A market in which buyers and sellers spread at the national level. Earlier national markets existed for only durable goods like jute and tea. But with the expansion of roads, transport and communication facilities, the markets for most of the products have taken the form of national markets.

(d) World or International Market: A market in which the buyers and sellers are drawn from more than one country or the whole world. These are the biggest markets from the area point of view. These markets exist for the commodities which have a world-wide demand and/or supply, such as coffee, machinery, gold, silver, etc. In recent years many countries are moving towards a regime of liberal international trade in agricultural products like raw cotton, sugar, rice and wheat. It is expected that the international trade in such commodities will become free from many restrictions that exist now.

1.3.3.3 On the Basis of Time Span

On this basis, markets are of the following types:

(a) Short period Markets: The markets which are held only for a day or few hours are called short-period markets. The products dealt within these markets are of a highly perishable nature, such as fish, fresh vegetables, and liquid milk. In these markets, the prices of commodities are governed mainly by the extent of demand for, rather than by the supply of, the commodity.

(b) Periodic Markets: The periodic markets are congregation of buyers and sellers at specified places either in villages, semi-urban areas or some parts of urban areas on specific days and time. Major commodities traded in these markets is the farm produce grown in the hinterlands. The periodic markets are held weekly, biweekly, fortnightly or monthly according to the local traditions. These are similar to 'spontaneous markets' in several developed countries.

(c) Long-period Markets: These markets are held for a longer period than the short-period markets. The commodities traded in these markets are less perishable and can be stored for some time; like foodgrains and oilseeds. The prices are governed both by the supply and demand forces.

(d) Secular Markets: These are markets of a permanent nature. The commodities traded in these markets are durable in nature and can be stored for many years. Examples are markets for machinery and manufactured goods.

1.3.3.4 On the Basis of Volumes of Transactions

There are two types of markets on the basis of volume of transactions at a time.

(a) Wholesale Markets: A wholesale market is one in which commodities are bought and sold in large lots or in bulk. These markets are generally located in either towns or cities. The economic activities in and around these markets are so intense that over time the population tends to get concentrated around these markets. These markets occupy an extremely important link in the marketing chain of all the commodities including farm products. Apart from balancing the supply and demand and discovery of the prices of a commodity, these markets and functionaries in them serve as a link between the production system and consumption system.

The wholesale markets for farm products in India can be classified as primary, secondary and terminal wholesale markets. The primary wholesale markets are in the nature of assembling centers located in and around producing regions. The transactions in primary wholesale markets take place mainly between farmers and traders. Secondary wholesale markets are generally located between primary wholesale and terminal markets. The transactions in these markets take place between primary wholesalers and traders of terminal market. The terminal markets are generally located at the large urban metropolitan cities or export centers catering to the large consuming population around them or in the overseas markets.

(b) Retail Markets: A retail market is one in which commodities are bought by and sold to the consumers as per their requirements. Transactions in these markets take place between retailers and consumers. The retailers purchase the goods from wholesale market and sell in small lots to the consumers in retail markets. These markets are very near to the consumers.

The distinction between the wholesale and retail market can be made mainly on the basis of buyer. A retail market means that the buyers are generally ultimate consumers, whereas in the wholesale market the buyers can be wholesalers or retailers. But sometimes-bulk consumers also purchase from the wholesale markets. The quantity transacted in retail markets is generally smaller than that in the wholesale markets.

1.3.3.5 On the Basis of Nature of Transactions

The markets which are based on the types of transactions in which people are engaged are of two types:

(a) Spot or Cash Markets: A market in which goods are exchanged for money immediately after the sale is called the spot or cash market.

(b) Forward Markets: A market in which the purchase and sale of a commodity takes place at time *t* but the exchange of the commodity takes place on some specified date in future *i.e.,* time t + n (n=1,2,3…). Sometimes even on the specified date in the future (t + n), there may not be any exchange of the commodity. Instead, the differences in the purchase and sale prices are paid or taken.

1.3.3.6 On the Basis of Number of Commodities in which Transaction Takes Place

A market may be general or specialized on the basis of the number of commodities in which transactions are completed:

(a) General Markets: A market in which all types of commodities, such as food grains, oilseeds, fibre crops, gur, etc., are bought and sold is known as general market. These markets deal in a large number of commodities.

(b) Specialized Markets: A market in which transactions take place only in one or two commodities is known as a specialized market. For every group of commodities, separate markets exist. The examples of specialized markets are foodgrain markets, vegetable markets, wool market and cotton market.

1.3.3.7 On the Basis of Degree of Competition

Each market can be placed on a continuous scale, starting from a perfectly competitive point to a pure monopoly or monopsony situation. Extreme forms are almost non-existent. Nevertheless, it is useful to know their characteristics. In addition to these two extremes, various midpoints of this continuum have been identified. On the basis of competition, markets may be classified into the following categories:

(a) Perfect Markets: A perfect market is one in which the following conditions hold good:

(i) There is a large number of buyers and sellers;

(ii) All the buyers and sellers in the market have perfect knowledge of demand, supply and prices;

(iii) Prices at any one time are uniform over a geographical area, plus or minus the cost of getting supplies from surplus to deficit areas;

(iv) The prices of different forms of a product are uniform, plus or minus the cost of converting the product from one form to another.

(b) Imperfect Markets: The markets in which the conditions of perfect competition are lacking are characterized as imperfect markets. The following situations, each based on the degree of imperfection, may be identified:

(i) Monopoly Market: Monopoly is a market situation in which there is only one seller of a commodity. He exercises sole control over the quantity or price of the commodity. In this market, the price of a commodity is generally higher than in other markets. Indian farmers operate in monopoly market when purchasing electricity for irrigation. When there is only one buyer of a product, the market is termed as a monopsony market.

(ii) Duopoly Market: A duopoly market is one which has only two sellers of a commodity. They may mutually agree to charge a common price which is higher than the hypothetical price in a common market. The market situation in which there are only two buyers of a commodity is known as the duopsony market.

(iii) Oligopoly Market: A market in which there are more than two but still a few sellers of a commodity is termed as an oligopoly market. A market having a few (more than two) buyers is known as oligopsony market.

(iv)Monopolistic Competition: When a large number of sellers deal in heterogeneous and differentiated form of a commodity, the situation is called monopolistic competition. The difference is made conspicuous by different trade marks on the product. Different prices prevail for the same basic product. Examples of monopolistic competition faced by farmers may be drawn from the input markets. For example, they have to choose between various makes of insecticides, pumpsets, fertilizers and equipment.

1.3.3.8 On the Basis of Nature of Commodities

On the basis of the type of goods dealt in, market may be classified into the following categories:

(a) Commodity Markets: A market which deals in goods and raw materials, such as wheat, barley, cotton, fertilizer, seed, etc., are termed as commodity markets.

(b) Capital Markets: The market in which bonds, shares and securities are bought and sold are called capital markets; for example, money markets and share markets.

9. On the Basis of Stage of Marketing

On the basis of the stage of marketing, markets may be classified into two categories:

(a) Producing Markets: Those markets which mainly assemble the commodity for further distribution to other markets are termed as producing markets. Such markets are located in producing areas.

(b) Consuming Markets: Markets which collect the produce for final disposal to the consuming population are called consumer markets. Such markets are generally located in areas where production is inadequate, or in thickly populated urban centres.

1.3.3.10 On the Basis of Extent of Public Intervention

Based on the extent of public intervention, markets may be placed in any one of the following two classes:

(a) Regulated Markets: These are those markets in which business is done in accordance with the rules and regulations framed by the statutory market organization representing different sections involved in markets. The marketing costs in such markets are standardized and, marketing practices are regulated.

(b) Unregulated Markets: These are the markets in which business is conducted without any set rules and regulations. Traders frame the rules for the conduct of the business and run the market. These markets suffer from many ills, ranging from unstandardized charges for marketing functions to imperfections in the determination of prices.

1.3.3.11 On the Basis of Type of Population Served

On the basis of population served by a market, it can be classified as either urban or rural market.

(a) Urban Market: A market which serves mainly the population residing in an urban area is called an urban market. The nature and quantum of demand for agricultural products arising from the urban population is characterized as urban market for farm products.

(b) Rural Market: The word rural market usually refers to the demand originating from the rural population. There is considerable difference in the nature of embedded services required with a farm product between urban and rural demands.

Rural markets generally have poor marketing facilities as compared to urban markets. According to the survey of the Directorate of Marketing and Inspection (DMI) of Government of India,

- Only 46 per cent of rural primary markets, of the country have the facility of market yards;
- 6.4 per cent have office buildings,
- 3.2 per cent have cattle shed, 3 per cent have canteen,
- 4.9 per cent have storage facilities,
- 5.1 per cent have auction platforms,
- 12.9 per cent have drinking water facility and
- 5.2 per cent markets have electricity facility.
- Marketing support services such as godowns, cleaning, price information and extension services were found completely non-existent in most of these rural markets.

1.3.3.12 On the Basis of Market Functionaries and Accrual of Marketing Margins

Markets can also be classified on the basis of as to who are the market functionaries and to whom the marketing margins accrue. Over the years, there has been a considerable increase in the producers or consumers co-operatives or other organizations handling marketing of various products. Though private trade still handles bulk of the trade in farm products, the co-operative marketing has increased its share in the trade of some agricultural commodities like milk, fertilizers, sugarcane and sugar. In the case of marketing activities undertaken by producers or consumers co-operatives, the marketing margins are either negligible or shared amongst their members. In some cases, farmers themselves work as sellers of their produce to the consumers. On the basis, the market can be

(a) Farmers markets,

(b) Cooperative markets or

(c) General markets

It must be noted that each market or market place can be classified on the basis of the 12 criteria mentioned above. A 12-dimensional classification of markets is shown in Table 1.1.

Table 1.1Dimensional Classification of Markets

On the basis of location	Village Markets
	Primary Markets
	Secondary Wholesale Markets
	Terminal Markets
	Sea-Board Markets
On the basis of area or coverage	Local/Village Markets
	Regional Markets
	National Markets

	World/International Markets
On the basis of time span	Short Period Markets
	Periodic Markets
	Long Period Markets
	Secular Markets
On the basis of volume of transactions	Wholesale Markets
	Retail Markets
On the basis of nature of transactions	Spot/Cash Markets
	Forward Markets
On the basis of number of commodities transacted	General Markets
	Special Markets
On the basis of degree of competition	Perfect Markets
	Monopoly Markets
	Duopoly Markets
	Oligopoly Markets
	Monopolistic Competitive Markets
On the basis of nature of commodities	Commodity Markets
	Capital Markets
On the basis of stage of marketing	Producing Markets
	Consuming Markets
On the basis of extent of public intervention	Regulated Markets
	Un-Regulated Markets
On the basis of type of population served	Urban Markets
	Rural Markets
On the basis of market functionaries and accrual of	Farmers Markets
	Co-Operative Markets

marketing margins	General Markets

1.4 LET'S SUM UP:

Farm business management is essential for farmers or farm managers to maximize the return on investment and long-term capital appreciation. Farm managers can get higher profitability by understanding the better management practices of farm management. It would be useful to impart knowledge and skill for optimizing the resource use and maximizing the profit. Better price realization will happen with right information of market Understanding the demand and supply and the right placement of produce at right market will pave the way for successful farm business.

1.5 CHECK YOUR PROGRESS:

1. What is Market?
2. What are the Dimensions of the Market?
3. How will you classify the market based on the degree of Competition?

1.6 FURTHER SUGGESTED READING/LINKS:

http://eagri.org/eagri50/AECO342/lec01.pdf

http://eagri.org/eagri50/AECO242/lec01.html

UNIT 2

MARKET LED AGRICULTURAL EXTENSION

Highlights of the Unit:

- Objective
- Links between agriculture and the food industry
- Challenges in agricultural marketing system
- Enhanced roles of Agricultural Extension personnel in light of Market-led Extension
  - Required information to extension system and farmers
  - Flow chart of agriculture as an enterprise
- Paradigm shift from Production-led Extension to Market-led Extension
- Let's sum up
- Check Your Progress
- Further Suggested Reading/references

2.0 OBJECTIVE

After going through this unit, you will be able to understand

- The need for Market Led Extension
- The role of agricultural extension personal in market led extension
- The differentiate production led extension and market led extension

2.1 LINKS BETWEEN AGRICULTURE AND THE FOOD INDUSTRY

The link between agriculture and food continually evolves. In primitive societies, the farmer and consumer were either the same family or close neighbors who bartered their products and services, but as societies develop, other linkages are added. Commodity traders, processors, manufacturers who convert produce into food items and retailers, among others, are interposed between the producer and consumer. Amore recently introduced link into the chain is the scientist. As the link between food and agriculture continues to evolve, we see emergence of an agribusiness i.e. where agriculture and food become a continuum. Multinational companies are vertically integrated organization with links all the way through from agricultural production to retailing. There is a line of argument, which says that it makes sense that those who are closest should the consumer, should assess his /her needs and interprets them back to the primary producer.

As disposable incomes increase, the food industry will increase the quality and diversity of the products it produces. Food manufactures will have certain expectations from agriculture as a supplier of their raw materials.

To build a profitable business, food manufactures seek to establish a preference for their products by differentiating those products in some way, which is meaningful to consumers. Then, in order to enable consumers to recognize the differentiated product, manufacturers brand that product. Manufacturers can then work on building consumer loyalty to these brands. Brand loyalty is normally only established by delivering high quality consistently. As disposable incomes rise, the market tends to develop more sophisticated needs and the quality of the raw material becomes even more critical. Where agriculture is seeking to serve a food industry, that itself is seeking to meet these more sophisticated needs and wants, it can expect to face increasing emphasis on quality. Equally well, agriculture can expect to share in the better return for innovative improvements in quality.

Next to quality comes cost. With an increased capability to search the world for raw materials, the food industry is able to find the lowest cost source for any given level of quality. For the food manufacturer, the country in which he/she manufactures, or markets, need no longer be the source of agricultural produce. Improved transportation and communications mean that the world is becoming his/her source of supply. This is a significant change in the competitive environment of agriculture, which the farming community has to realise, because they have, hitherto, been largely cocooned in their respective domestic markets.

Agricultural products were traditionally seasonal in their production and supply. Modern technology and cultural practices mean that food manufacturers need not have their production schedules dictated by the seasons. Indeed the capital-intensive food industry cannot afford to incur the high costs of underutilizing its capacity. This means that farmers will have to complete in terms of reducing seasonality or fitting into a pattern of social competitiveness.

A manufacturer who has invested heavily in building up his brand will be very keen to get reliable supplies in terms of quality, timing and cost. Producers of agricultural produce will be increasingly judged on their reliability in all of these respects.

Ease of processing will become an increasingly important expectation of the food industry. Like all industries, reductions in the costs of capital equipment, wages and inventories are important objectives. For example, farmers who can deliver on the 'just-in-time' principle will contribute towards reducing a manufacturer's working capital and space requirements. Farmers who can do part of the secondary processing and/or performing functions such as the post-harvest treatment of the crop or transporting will be adding another advantage. Crops that are specially bred or designed to facilitate processing are another type of advantage that the food industry could expect from agriculture. In short, the competitive advantage will rest with those able to add most value and can differentiate what they are offering from that of other suppliers.

In competitive brand marketing, the food industry has to innovate continuously to create new products that are different from and superior to existing ones of their own or competitors. The scope of innovation has traditionally been at the processing stage. Whilst this will continue to be an important area for innovation, manufacturers will increasingly tend to look for innovative changes in the agricultural produce itself. This may be in terms of novel tastes, improved texture, more attractive shapes, etc. In the more sophisticated food markets, healthy eating can become a priority among consumers. Therefore, farmers will have to consider the health connotations of what they choose to grow. There are two aspects of health to be taken into account.

First, consumers may be interested in the food itself i.e. low/no sugar or low/no salt. Nutrition is important in all segments of the market. Thus farmers have to be concerned about the nutritional value of the produce they grow. Second, the consumer may be more, or equally, concerned about the food production methods i.e. the avoidance of chemicals like herbicides, pesticides etc. This may mean a change to the farmer's cultivation practices with implications for the costs of production. The consumer and the food industry will expect the farmer to produce without potentially dangerous chemicals, but at no extra cost to them. This will be another challenge for agriculture.

2.2 CHALLENGES IN AGRICULTURAL MARKETING SYSTEM

- Market size is large and continuously expanding, but marketing system not kept pace
- Private trade is 80% marketed surplus
- Direct marketing "farmer – consumer" is negligible
- 85% of the 27,294 rural periodic market, facilities for efficient trade is still almost absent
- 7161 market yards/sub yards are inadequate, ill equipped and mismanaged
- Due to lack of proper handling at farm gate lead to 30 % F&V, 7% grains, 10% spices loss before reaching market
- Rs. 50,000 crores /year lost due to poor marketing chain
- **Risk bearing:** In both the production and marketing of produce the possibility of incurring losses is always present. Market risks are those of adverse change in the value of the produce between the processes of production and consumption.

- **Storage of farm produce:** Whether storage takes place on the farm or in silos off the farm, increases in the value of products due to their time utility must be sufficient to compensate for costs at this stage, or else storage will not be profitable. These costs will include heating, lighting, chemical treatments, store management and labour, capital investment in storage and handling equipment, interest charges and opportunity costs relating to the capital tied up in stocks. Among the less tangible costs is the risks attached to storage. These include shrinkage due to pilferage, pests, fungal growths and loss of quality due to ageing. Another risk is that demand could fall with adverse effects on prices.
- **Grading:** It is important to have a grading system, which accurately describes products in a uniform and meaningful manner. Grades and standards contribute to operational and pricing efficiency by providing buyers and sellers with a system of communicating price and product information. By definition, commodities are indistinguishable from one another. However, there are differences between grades and this has to be communicated to the market. By the same measure, buyers require a mechanism to signal which grades they are willing to purchase and at what premium or discount. Prices vary among the grades depending upon the relative supply of and demand for each grade. Since the value of a commodity is directly by its grade, disputes can and do arise.
- **The absence of grades and standards** restricts the development of effective and efficient marketing systems.
- **Standardization:** It is concerned with the establishment and maintenance of uniform measurements of produce quality and /or quantity. This function simplifies buying and selling as well as reducing marketing costs by enabling buyers to specify precisely what they want and suppliers to communicate what they are able and willing to supply with respect to both quantity and quality of product. In the absence

of standard weights and measures trade either becomes more expensive to conduct or impossible altogether

- **Processing:** Most agriculture produce is not in a form suitable for direct delivery to the consumer when it is first harvested. Rather it needs to be changed in some way before it can be used. Of course, processing is not the only way of adding value to a product. Storing products until such time as they are needed, adds utility and therefore adds value. Similarly, transporting commodities to purchasing points convenient to the consumer adds value. In short, any action, which increases the utility of the good or service to prospective buyers, also adds value to that product or service.
- **Quality differences in agricultural products arise for several reasons:** Quality differences may be due to production methods and /or because of the quality of inputs used. Technological innovation can also give rise to quality differences. In addition, a buyer's assessment of a product's quality is often an expression of personal preference. Thus, for example, in some markets a small banana is judged to be in some sense 'better' than a large banana; white sugar is considered 'superior' to yellow sugar; long stemmed carnations are of 'higher quality' than short stemmed carnations. It matters not whether the criteria used in making such assessments are objective or subjective since they have the same effect in the marketplace. What does matter in marketing is to understand how the buyer assesses 'quality'.
- **Sporadic success stories of using information technologyby farmers** are publicized. Internet technology has percolated down up to taluk level and in some states up to village level. Search engines and the present websites furnish general information presently. Agricultural Market related information on the internet is inadequate. Hence, a whole network of skilled personnel need to be engaged in collection of current information and creation of relevant websites pertaining to / serving specific needs of farmers. Creation of websites should be mandatory in different languages to

equip the farmers with information. These websites should contain information like market networks, likely price trends, current prices, demand status options for sale, storage facilities etc.

- **Information technology** should be able to provide answers to questions like what and how much to produce, when to produce, in what form to sell, at what price to sell, when to sell and where to sell. This kind of information to the farmers with 'press a button' on the computer on a continuous updated basis. Then and only then, the much talked about IT revolution would be beneficial to farmers.
- **Market intelligence:** As far as is possible marketing decisions should be based on sound information. The process of collecting, interpreting, and disseminating information relevant to marketing decisions is known as market intelligence. The role of market intelligence is to reduce the level of risk in decision-making. Through market intelligence the seller finds out what the customer needs and wants. The alternative is to find out through sales, or the lack of them. Marketing research helps establish what products are right for the market, which channels of distribution are most appropriate, how best promote products and what process are acceptable to the market.
- **Generation of data on the market intelligence** would be a huge task by itself. Departments of market already possess much of the data. Hence, establishment of linkages between agriculture line departments and Departments of Market strengthens the market-led extension. Financing: In almost any production system there are inevitable lags between investing in the necessary raw materials (e.g. machinery, seeds, fertilizers, packaging, flavorings, stocks etc.) and receiving payment for the sale of produce. During these lag periods some individual or institution must finance the investment. The question of where the funding of the investment is to come from, at all points between production and consumption, is one that marketing must address.

- **Facilitating Functions:** it includes product standardization, financing, risk bearing and market intelligence. Facilitating functions are those activities which enable the exchange process to take place.
- **The gigantic size/ mechanism of the public extension system** in the country are heavily burdened with performance of multifarious activities in the field. Extension system acts as liaison between the researcher and farmer. They are endowed with the responsibility of conveying research findings from the scientists to the farmers and feeding back the impressions of the farmers to the scientists. The new dimension of 'marketing' may overburden and become an agenda beyond their comprehension and capability.
- **The public extension system** is already under severe criticism for its inability to deliver the services. In the light of this, the challenge remains to motivate the extension personnel to learn the new knowledge and skills of marketing before assigning them marketing extension jobs to establish their credibility and facilitate significant profits for the farming community. Extension cadre development poses a new challenge to the newly designed role. The present extension system suffers from several limitations of stationery, mobility, travel allowances, personnel development, etc. There is a dire need to upgrade these basic facilities and free the extension cadres from the shackles of the hygiene factors and enthuse them to look forward for the motivating factors like achievement, job satisfaction, recognition etc.

2.3 ENHANCED ROLES OF AGRICULTURAL EXTENSION PERSONNEL IN LIGHT OF MARKET-LED EXTENSION

- SWOT analysis of the market: Strengths (demand, high marketability, good price etc.), Weaknesses (the reverse of the above), Opportunities (export to other places, appropriate time of selling etc.) and Threats (imports and perishability of the products etc.) need to be analyzed about the markets. Accordingly, the farmers need to be made aware of this analysis for planning production and marketing.

- Organization of Farmers' Interest Groups (FIGs) on commodity basis and building their capabilities with regard to management of their farm enterprise.
- Supporting and enhancing the capacities of locally established groups under various schemes / programmers like watershed committees, users groups, SHGs, water users' associations, thrift and credit groups. These groups need to be educated on the importance, utility and benefit of self-help action.
- Enhancing the interactive and communication skills of the farmers to exchange their views with customers and other market forces (middlemen)for getting feedback and gain the bargaining during direct marketing. Ex: Rythu Bazars, Agri-mandi and Uzavar Santhaigal, etc.
- Establishing marketing and agro-processing linkages between farmers' groups, markets and private processors.
- Advice on product planning: selection of crops to be grown and varieties suiting the land holding and marketability of produce will be the starting point of Agri-enterprise. Extension system plays an important role in providing information in this regard
- Educating the farming community: to treat agriculture as an entrepreneurial activity and accordingly plan various phases of crop production and marketing
- Direct marketing: farmers need to be informed about the benefits of direct marketing. In some of the states, Rytu Bazars in AP, Apni Mandis in Punjab and Haryana and Uzavar Santhaigal in Tamil Nadu have shown success
- Capacity building of FIGs in terms of improved production, post-harvest operations, storage and transport and marketing
- Acquiring complete market intelligence regularly on various aspects of markets
- Regular usage of internet facility through computers to get updated on market intelligence

- Publication of agricultural market information in newspapers, radio and Television besides internet
- Organization of study tours of FIGS: to the successful farmers/ FIGs for various operations with similar socio-economic and farming systems as the farmers learn more from each other
- Production of video films of success stories of commodity specific farmers
- Creation of websites of successful FIGs in the field of agribusiness management with all the information to help other FIGs achieve success.

2.3.1 Required information to extension system and farmers

- Present agricultural scenario and land use pattern
- Suitability of land holding to various crops/enterprises
- Crops in demand in near future
- Market prices of crops
- Availability of inputs
- Usage of inputs
- Credit facilities
- Desired qualities of the products by consumers
- Market network of the local area and the price differences in various markets
- Network of storage and warehouse facilities available
- Transport facilities
- Regular updating of market intelligence
- Production technologies like improved varieties, organic farming, usage of bio-fertilizers and bio-pesticides, IPM, INM, and right methods of harvesting etc.
- Post-harvest management like processing, grading, standardization of produce, value addition, packaging, storage, certification, etc. with reference to food grains, fruits and vegetables, eggs, poultry, fish, etc.
- Contract farming

- Private modern terminal markets
- Food retail chains
- Food safety and quality standard
- Certification
- WTO regulations

Fig 2.1 Flow chart of agriculture as an enterprise

Rupee (credit/investment)

↓

What to produce

↓

Analysis of land holding for suitability of enterprises/crops

↓

Decision on how much to produce/ how much land holding to each enterprise/crop

↓

How to produce

↓

Postharvest technology

↓

Value addition

↓

Storage/transport

↓

When to sell

↓

Where to sell

↓

At what price to sell

↓

Selling options

↓

Rupee

↓

Investment

2.4 PARADIGM SHIFT FROM PRODUCTION-LED EXTENSION TO MARKET-LED EXTENSION

Table 2.1 Production Led Extension to Market Led Extension

Aspects	Production-led extension	Market-led extension
Purpose/objective	Transfer of production technologies	Enabling farmers to get optimum returns out of the enterprise
Expected end results	Delivery of messages Adoption of package of practices by most of the farmer	High returns
Farmers seen as"	Progressive farmer High producer	Farmer as an entrepreneur "Agripreneur"
Focus	Production / yields "Seed to seed"	Whole process as an enterprise / High returns "Rupee to Rupee"
Technology	Fixed package recommended for an agro-climatic zone covering very huge area irrespective of different farming situations	Diverse baskets of package of practices suitable to local situations/ farming systems
Extensionists' interactions	Messages Training Motivating Recommendations	Joint analysis of the issues Varied choices for adoption Consultancy
Linkages/ liaison	Research-Extension - Farmer	Research – Extension-Farmer extended by market linkages
Extensionists' role	Limited to delivery mode and	Enriched with market intelligence

	feedback to research system	besides the TOT function Establishment of marketing and agro-processing linkages between farmer groups, markets and processors
Contact with farmers	Individual	Farmers' Interest Groups Commodity Interest Groups /SHG's
Maintenance of Records	Not much importance as the focus was on production	Very important as agriculture viewed as an enterprise to understand the cost benefit ratio and the profits generated
Information Technology support	Emphasis on production technologies	Market intelligence including likely price trends, demand position, current prices, market practices, communication net work, etc. besides production technologies

2.5LET'S SUM UP

The focus of the extension functionaries need to be extended beyond production. Farmers should be sensitized on various aspects on quality, consumer's preference, market intelligence, processing and value addition and other marketing information. This will help the farming community to realize high returns for the produce, minimize the production costs, and improve the product value and marketability.

2.6CHECK YOUR PROGRESS

- What is the need of market led extension?
- What are the challenges in agricultural extension system?
- What is the role of extension personnel in terms of market led extension?

2.7FURTHER SUGGESTED READINGS/ REFERENCES/LINKS

1. https://ageconsearch.umn.edu/record/197025?ln=en
2. http://agropedia.iitk.ac.in/content/market-led-extension
3. https://macp.gov.in/intensification-and-diversification-market-led-production

UNIT 3:

MARKET INTELLIGENCE AND MARKETING CHANNELS

Highlights of the unit

- Objectives
- Introduction
- Importance of Market Intelligence
- Process of Market Intelligence
- Steps in Market Intelligence
- Analytical Models used in Market Intelligence
- Marketing Channels
  - Factors affecting channels
  - Types of Market Channels
- Let's Sum up
- Check Your Progress
- Further Suggested Reading/references

3.0 OBJECTIVES

After studying this lesson, you will be able to understand:

- Information needs,
- Different initiatives to meet information needs of farmer,
- Agricultural marketing channels,
- Factors responsible and
- Channels followed by different leading commodities

3.1 INTRODUCTION

There is a Chinese saying:

Know thy-self, know thy competition, and get it right almost every time.

Know thy-self, not know thy competition, and get it right about half the time.

Not know thy-self, not know thy competition, and get it wrong almost every time.

We now live in a world driven by hyper-competition. Hyper-competition is where too many businesses are pursuing too little business; i.e., there is not enough demand to go around for all providers of goods and services. The knowledge base for managing in this hyper- competitive environment is called Market Intelligence. Market Intelligence is a process of giving you insights into what might happen in the near future. This process requires that we go from data to information to intelligence. Here is a basic example

- Data - Prices for our products have dropped by 5 percent.
- Information - New offshore facilities have lower labour costs.
- Intelligence - Our key competitor is about to acquire a facility in India that will.

The differences between data, information, and intelligence can be subtle, but very real.

- Data- Unconnected pieces of information.
- Information - Increased knowledge derived by understanding the relationships of data.
- Intelligence- Organizing the information to fully appreciate the implications and impact on the organization.

Intelligence differs from data and information since it requires some form of analysis. The purpose of this analysis is to derive some meaning from the piles of data and information. By going through analysis and filtering, we can refine it enough so that someone can act on it and understand their options, giving them an opportunity to make forward-looking decisions. When we present "intelligence" to people, they can draw a conclusion and make an important decision quickly. Therefore, competitive intelligence should put conclusions and recommendations upfront with the supporting research behind the analysis. Market Intelligence should not simply present the facts, declaring what we found; but instead make a statement, saying this is what we believe is about to happen.

Market Intelligence pulls together data and information from a very large and strategic view, allowing you to predict or forecast what is going to happen. This in turn allows you to effectively strategize in relation to your competitive environment. Therefore, Market Intelligence allows you to remain competitive by improving your strategic decisions and this lead to better performance against your competitors.

Market Intelligence does not attempt to collect and analyze all information for an exact picture, but attempts to get enough information so that we can tell what's going on. It's like a picture that is out-of-focus. We need to analyze enough details so we can discern the big picture and report it to management. Therefore, Market Intelligence does not chase down all the facts, but gets enough information to draw a reasonable conclusion for immediate action.

3.1.1 Importance of Market Intelligence

No organization can sit still and expect things to be the same month after month, year after year. At some point, something will happen to change your assumptions. And almost every decision (especially a strategic decision) is based on certain assumptions. Over time, these assumptions fall apart and if you fail to adjust with a continuous flow of new intelligence, then you will be forced to react in a way that makes it difficult to compete. Therefore, Market Intelligence can help test and validate your assumptions. Competitive intelligence also fills in gaps, covering areas that you failed to consider in your assumptions. And of course, competitive intelligence can yield some basic benefits:

- Source for best practices – the only real way to isolate and find “best practices” is to engage in some form of Market Intelligence; otherwise you end up relying on crude and generic type benchmarking data.
- Helps formulate strategy through an understanding of your industry, yourself, and your competitors. Market Intelligence is the essence of strategic business analysis.
- Helps identify areas for improvement as well as risks and opportunities.
- Isolates performance gaps in relation to the competition.

3.2 PROCESS OF MARKET INTELLIGENCE

Market Intelligence follows a two-phase process when it comes to collecting information:

- Phase I: Secondary Research (80% volume / 20% time)
- Phase II: Primary Research (20% volume / 80% time)

Phase I (Secondary Research) leads to Phase II (Primary Research).

Secondary research consists of press releases, analyst reports, trade journals, regulatory filings, transcripts of speeches, and other published sources of information. The bulk of the information (let’s say 80% of it) that we collect comes through secondary research. Once we shift through this information overload, we can move to Phase II where the Market Intelligence resides. Phase II-Primary Research is more hands-on and direct, interviewing sources of published information, meeting face-to-face with key decision makers and flushing out the critical unknowns not found in secondary research. It is here, primary research, where we should spend most of our time (80%) on the pertinent information (20%) derived from secondary research. Therefore, we should recognize the 80 / 20 rule of competitive intelligence: Spend less of your time gathering the information and spend more of your time analyzing and refining it through primary research.

For example, market research journal has just released a very upbeat report (secondary research) about your main competitor. The report is not very specific, but the analyst has issued a very strong buy recommendation to investors. In an effort to better understand what is driving this recommendation, you contact the analyst directly as part of primary research. This leads to a detailed understanding of how the competitor plans to acquire a warehouse for selling fruits and vegetables in India. This is expected to take place in six months. Based on this intelligence, your company goes into action, partnering with a nationwide super market chain and within three months you have out maneuvered the competition to solidify your market share.

Secondary research tends to be easier than primary research since secondary sources of information are public knowledge. Primary research is more difficult because you are on a detective hunt, trying to track down loose ends. Primary research is often done through an interview, such as contacting suppliers, customers, business writers, and Government agencies. Surveys are sometimes used where several sources are involved.

There are several fine points to both secondary and primary research. Here are some basic guidelines:

- Among the secondary sources of information; local sources are more revealing than national or global. For example, suppose we are analyzing Hudson Agro (ARUN ICE CREAMS) and Hudson Agro is headquartered in Chennai, the local newspaper in Chennai will most likely carry more stories about Hudson Agro since it is a major employer in town. On the other hand, a nationwide publication like Business Week will rarely carry stories about Hudson Agro. Market Intelligence is the savvy art of knowing where to get the information.

- Secondary sources should be varied so that you collect different viewpoints. This helps reduce bias in your research.
- Internet related sources of information are often opinionated. Opinion related information is usually subjective and unreliable. Try to find sources of information that are based on solid investigative research as opposed to someone giving an opinion that turns out to be wrong.
- Your competitor's will release an abundance of information – regulatory filings, credit reports, company newsletters, press releases, executive speeches, and other sources of information.
- Secondary research consists mainly of printed type sources of information. The most valuable sources of information are not published at all; but reside in those people who created the published materials.

You should also consider the 80/20 rule in relation to internal vs. external sources of information. For example, most of what you need to know about your competition can be found somewhere within your own organization. Sales people mingle with other sales people within the industry. Many employees have experience from competing companies. Procurement personnel will have a complete listing of suppliers for your industry. Senior managers, research personnel, and others may have published reports, given speeches pertinent to developments in your industry. Call center personnel are always engaged in listening to customer complaints and suggestions. Legal personnel can help define regulatory risks unique to your industry. All of these internal sources can represent great sources of intelligence. The external sources represent the general body of information at large, easy to obtain, and widely distributed. Also, by spending more time upfront on internal sources, you are led to the appropriate external sources (both published and human).

3.3 STEPS IN MARKET INTELLIGENCE

Market Intelligence is a logical approach to resolving critical marketing issues. A typical Market Intelligence project gets organized around certain steps which are as follows.

1. What critical question(s) must get answered?
2. What is the time frame for meeting the competitive intelligence objective?
3. Define the Market Intelligence Project, allocate resources, establish a scope, and
4. Issue a quick plan for execution.
5. Launch secondary research – collect and organize data.
6. Analyze appropriate information, conduct primary research, and enlist others in.
7. Developing the deliverable.
8. Draft findings and recommendations; circulate for review.
9. Approve and distribute final report.

3.3.1 Analytical Models used in Market Intelligence

Craig Fuller and Bensoussan have described in detail numerous analytical models and how they should be applied. The authors referred as FAROUT (Forward Oriented, Accurate, Resource Efficient, Objective, Useful, and Timely), for determining the overall effectiveness of an analytical models.

Analytical Method	Future-orientation	Accuracy	Resource-efficiency	Objectivity	Usefulness	Time-liness
Stakeholder Analysis	Present to short-term	Medium	Medium	Medium	Medium	Medium to high
Business Screening Matrix	Present to short-term	Low to medium	Medium	Low	Medium	Medium
SWOT	Present to short-term	Medium	Medium	Medium	Medium to high	Medium to high
Industry Analysis	Present	Medium	Medium to high	Medium	Medium to high	Medium
Scenario Analysis	Long term	Medium to high	Low to medium	Medium	Medium to high	Low to medium

Fig 3.1 Analytical models in Market Intelligence

3.4 MARKETING CHANNELS

The sequential activities that determine the movement of products from the point of production to the point of consumption (i.e. end use) is referred to as the 'marketing channel'. It refers to the complete route followed in its movement from the source to the destination. An important dimension of the marketing channel is its length. The length of the marketing channel essentially relates to the number of intermediate individuals or institutions involved in the flow of commodities from the origin to the destination. As each participant receives a share in the total price paid by the consumer for the product in the final stage, the efficiency of the marketing system lies in its optimum or shortest length of the channel. Since the objective is to maximize the welfare of both the producers and consumers, the efficiency of the marketing system or channel is indicated by:

(i) The share of producers in the prices paid by the consumers; and

(ii) The difference between the consumer and the producer prices.

Clearly, both these should be maximum for the optimal conditions to prevail for the consumers and the producers. Generally, perishable commodities like fruits and vegetables tend to have shorter channels as compared to the non-perishable commodities like food grains.

Marketing channels in countries like India are different from those in developed countries. While in developed countries consumers prefer processed food items (e.g. wheat in the form of bread), in developing countries most food grains are purchased by consumers in raw form. In other words, the level of development of a society determines the final form in which consumers demand the product. Second, within a country marketing channels differ from product to product. For instance, marketing channels for fruits, which demands better packaging, is different from that of food grains. Third, lots originating from small farms follow different routes than those from the large farms. For instance, while small farmers usually sell their produce to village traders, large farms sell their produce in the main market from where it goes to wholesalers.

Generally, produce sold immediately after the harvest follows longer channel than those sold in the later months. With the expansion in transportation and communication network, marketing channels for farm products in India also has undergone considerable change both in terms of length and quality. A longer marketing channel reduces the producer's share in the ultimate price paid by the consumer. This has the potential of killing the incentive of the producer to adopt innovative practices of production. Removing the constraints for direct marketing in the existing laws of regulated markets and facilitating contract farming would help achieve better returns to the producers.

3.4.1 Factors affecting channels

There are several channels of distribution depending upon type of produce or commodity. Each commodity group has slightly different channel. The factors are:

1. Perishable nature of produce. e.g. fruits, vegetables, flowers, milk, meat, etc.
2. Bulk and weight–cotton, fodders are bulky but light in weight.
3. Storage facilities.
4. Weak or strong marketing agency.
5. Distance between producer and consumer. Whether local market or distant market.

3.4.2 Types of market channels

Some of the typical marketing channels for different product groups are given below:

A. **Channels of rice:**
    1. Producer–miller->consumer (village sale)
    2. Producer–miller->retailer–consumer (local sale)
    3. Producer–wholesaler->miller–retailer–consumer
    4. Producer–miller–cum-wholesaler-retailer-consumer
    5. Producer–village merchant–miller–retailer–consumer
    6. Producer–govt. procurement–miller–retailer–consumer

B. **Channel of other food grains:**
    1. Producer – consumer (village sale)
    2. Producer–village merchant–consumer (local sale)
    3. Producer–wholesaler-cum-commission agent retailer–consumer
    4. Producer–primary wholesaler–secondary wholesaler– retailer– Consumer
    5. Producer–primary wholesaler–miller–consumer (Bakers)

6. Producer->govt. procurement–retailer–consumer

C. Channels of cotton:

1. Producer–government–miller–retailer–consumer.
2. Producer–village merchant–wholesaler or ginning factory– wholesaler in lint–textile mill (consumer)
3. Producer–primary wholesaler–ginning factory–secondary wholesaler–consumer (Textile mill)
4. Producer– trader– ginning factory– wholesaler in lint– consumer (Textile mill)
5. Producer–govt. agency–ginning factory–consumer (Textile mill)
6. Producer–trader–ginning factory–wholesaler–retailer– consumer (non-textile use)

D. Channels of Vegetables:

1. Producers–consumer (village sale)
2. Producer–retailer–consumer (local sale)
3. Producer–trader–commission agent–retailer–consumer
4. Producer–commission agent–retailer–consumer
5. Producer–primary wholesaler–secondary wholesaler– retailer – consumer (distant market)

E. Channels of Fruits:

1. Producer–consumer (village sale)
2. Producer–trader–consumer (local sale)
3. Producer–pre-harvest contractor–retailer–consumer
4. Producer–commission agent–retailer–consumer
5. Producer–pre-harvest contractor–commission agent– retailer–consumer

6. Producer–commission agent–secondary wholesaler– retailer–consumer (distant market)

These channels have great influence on marketing costs such as transport, commission charges, etc. and market margins received by the intermediaries such as trader, commission agent, wholesaler and retailer. Finally, this decides the price to be paid by the consumer and share of it received by the farmer producer. That channel is considered as good or efficient which makes the produce available to the consumer at the cheapest price also ensures the highest share to the producer.

3.5 LET'S SUM UP

Market intelligence helps to understand the customer and their needs. It helps to improve the product and offerings. With up to date information about the competitions and market help to take informed decisions. Use of right channels and stakeholder can bring in more efficiency in the business. Passing the right information throughout the channel partners can add value at different stages of product movement.

3.6 CHECK YOUR PROGRESS

1. What is the importance of the Market Intelligence?
2. What are the steps to be followed to do Market Intelligence?
3. What are the major factors affecting Marketing Channels?
4. What are the different types of market channels?

3.7 FURTHER SUGGESTED READING/REFERENCES/LINKS

- http://www.manage.gov.in/studymaterial/MLE-E.pdf
- http://agritech.tnau.ac.in/agricultural_marketing/agrimark_Marketing%20channels.html
- http://www.egyankosh.ac.in/bitstream/123456789/18833/1/Unit-16.pdf

Block II – Entrepreneurship Development

UNIT 1:

INTRODUCTION TO ENTREPRENEURSHIP

Highlights of the Unit

- Objective
- Introduction
- Entrepreneurship
- Characteristics of entrepreneurship
- Importance of entrepreneurship
- Entrepreneurship development process
- Let's Sum up
- Check Your Progress
- Further readings

1.0 OBJECTIVE

After completing the chapter, you would be able to -

- ❖ Understand the concept of entrepreneurship
- ❖ Know the importance of entrepreneurship in a country like India
- ❖ Know important characteristics of entrepreneurship
- ❖ Understand the process of entrepreneurship development

1.1 INTRODUCTION

Entrepreneurship is important in Indian environment as it involves efficient utilization of resources at local level. Entrepreneurship being a systematic activity, can be planned and established unlike the general belief that it is something one is born with. However, it is important to understand the definition of entrepreneurship along with its important characteristics and process of development for establishing successful entrepreneurship.

1.2 ENTREPRENEURSHIP

The process of entrepreneurship is to be understood in relation with entrepreneur and enterprise. The entrepreneurship refers to the process of setting up own business which will cover all aspects related to decision making, risk assessment, management of funds and searching market for the output. An entrepreneur is the person who sets up a business and enterprise is the output objective. The concept of entrepreneurship is depicted below –

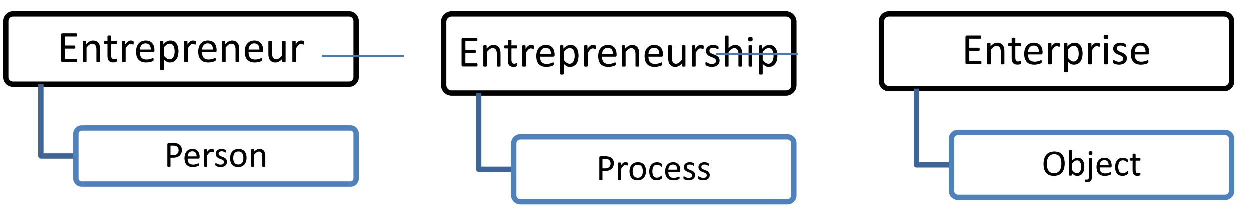


Fig 1.1 Concept of Entrepreneurship

There is no fixed definition of entrepreneurship. However, it has moved, over time, from focus on individual traits (e.g., locus of control, need for achievement), toward entrepreneurial behavior (e.g., entrepreneurial orientation), cognitions (e.g., decision making) and social capital (e.g., networks). Over the last decade, there has been a growing consensus that a fundamental, distinctive feature of entrepreneurship is the identification, evaluation, and pursuit of business opportunities (Shane and Venkataraman 2000).

As the entrepreneur procures factors of production at known prices and selling the output in an environment (future) where price is not known, there is an element of risk and uncertainty associated with the process. Entrepreneur has to arrange resources and deal with allocation of these resources to earn profit, elements like coordination of resources and provision of capital are also integral to the concept of entrepreneurship.

Innovations at different levels of an enterprise are also required to either bring the cost down or enhance revenue. Accordingly, entrepreneurships isseen as associated with risk and uncertainly, coordination of productive resources, innovation and provision of capital.

1.2.1 Characteristics of entrepreneurship

Entrepreneurship is a systemic process of venturing into some activity with an objective to generate profits. This process of entrepreneurship is having certain characteristics as depicted in the Figure 1. Some of the characteristics have also been discussed in detail as below:

- **Systematic activity** – Entrepreneurship is a systematic activity taken up with a well-defined objective. The skill, knowledge and competencies required for taking up entrepreneurial activity may be acquired, learnt and developed through education, training, observation and experience unlike the general belief that it is something one is born with.
- **Innovation –** Innovation is an integral part of entrepreneurship. Innovation is required to make the process profitable by either bringing the costs down or by enhancing revenue. It is required to innovate in terms of a new product, new market, new technology, new models of sourcing inputs and institutional arrangements to perform different activities efficiently in terms of time and cost. Continuous innovation is required in entrepreneurship to optimize performance.

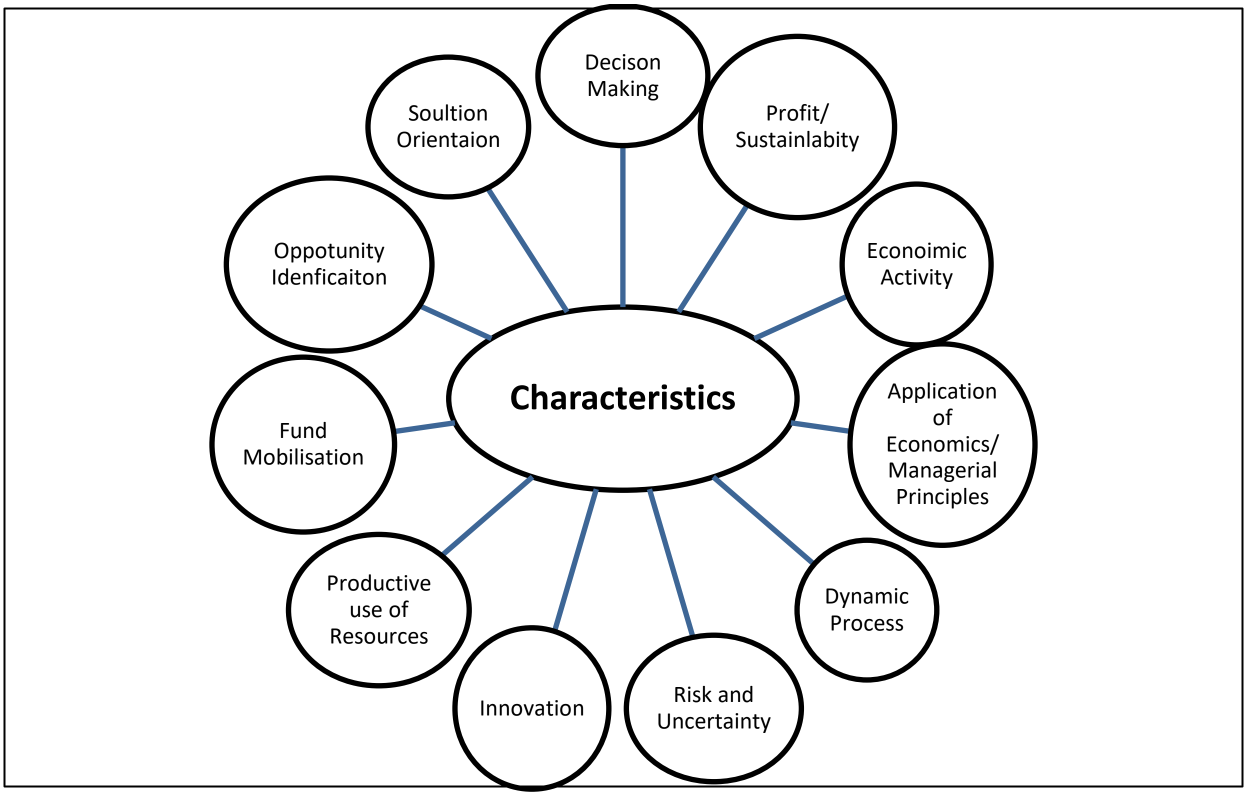


Figure 1.2 Characteristics of Entrepreneurship

- **Risk bearing –** Risk and uncertainties are again an integral part of entrepreneurship. Entrepreneurship deals with procuring and deploying different factors of production by making defined payment against selling the final output at future date in an environment not known to the entrepreneur. Through, there are different means available to address the element of risk and uncertainty associated; still it is highly difficult to completely eliminate such aspects while implementing a new idea.

- **Economic activity –** Entrepreneurship is an economic activity, as it deals with procurement and allocation of resources, optimum utilization of resources, management of enterprise and creation of value and adoption of measures to mitigate risk. Being an economic activity, it will follow certain principles. A better understanding of the economic environment and related principles may help entrepreneur to run the enterprise more efficiently and profitably.

1.2.2 Importance of entrepreneurship

Entrepreneurship has an important role to play mainly in a country like India where limited employment opportunities are available against an even increasing work force. The resources available at local level can also be utilized more efficiently by establishing enterprises at local level.

Importance of entrepreneurship can also be understood from its ability to influence various other economic aspects, like –

- **Employment –** Establishment of any new enterprise will not only make the entrepreneur engaged in the business but will also create employment opportunities for others directly or indirectly. Small scale enterprises offer great employment opportunities for workforce with different sets of ability in terms of education, skills and competencies availableat local level. Thus, entrepreneurship offers immense scope for society having workforce with limited skills. Entry level jobs are offered by entrepreneurship firms which is so important in an environment, like that of our country, where a large proportion of workforce is not equipped with proper knowledge and skills.
- **National Income –** Entrepreneurship deals with establishment of production enterprises. Utilization of different means of production like land, labour, capital and technology helps in creation of income by organizations of production.
- **Capital formation –** Any business will use basic resources to help formation of capital. Enterprises owned by different entrepreneurs mainly run at small scale like dairy, poultry, etc. use resources to form capital.
- **Efficiency and local employment –** Entrepreneurship, many a time having a limited scale of operation confined to limited region/area, help in mobilizing local resources leading to their efficient use and generation of employment at local level. Many times, it may help in developing local systems like small dal mills. The procurement of raw material (grains) and distribution is confined to a limited area leading to

better price realization by farmers and offering local produce to the consumer at better price along with employment creation.

- **Influence on other activity –** Any business will have its influence on many other activities. Each new enterprise will be part of a chain having backward and forward relation. Either one is procuring raw material or providing raw material or processed product to someone next in the chain. The establishment of entrepreneurship will have positive influence on other activities leading to overall development of the economy.
- **Inclusiveness –** Entrepreneurship is idea-driven. It is neither curtailed completely by factors like educational qualification, experience and skill nor by availability of resources. Thus, there is no deterrent for the participation of weak, marginalized section of the society including women, in entrepreneurship. It also has the potential to create employment at local level and may have its positive influence on factors like migration and poverty.

1.3 ENTREPRENEURSHIP DEVELOPMENT PROCESS

Entrepreneurship development process is comprehensive covering aspects like establishing a successful venture but would primarily focus on the process of building capacity of the entrepreneurs. The capacity building of aspiring/ budding entrepreneurs is the founding stone for successful establishment of different enterprises. This probably is the reason for government to have shown so much of focus on incubation and other initiatives like Startup India.

The process of entrepreneurship development will help entrepreneur develop his/her knowledge so that she/he may make an optimum decision at each stage of the cycle of development process as depicted below:

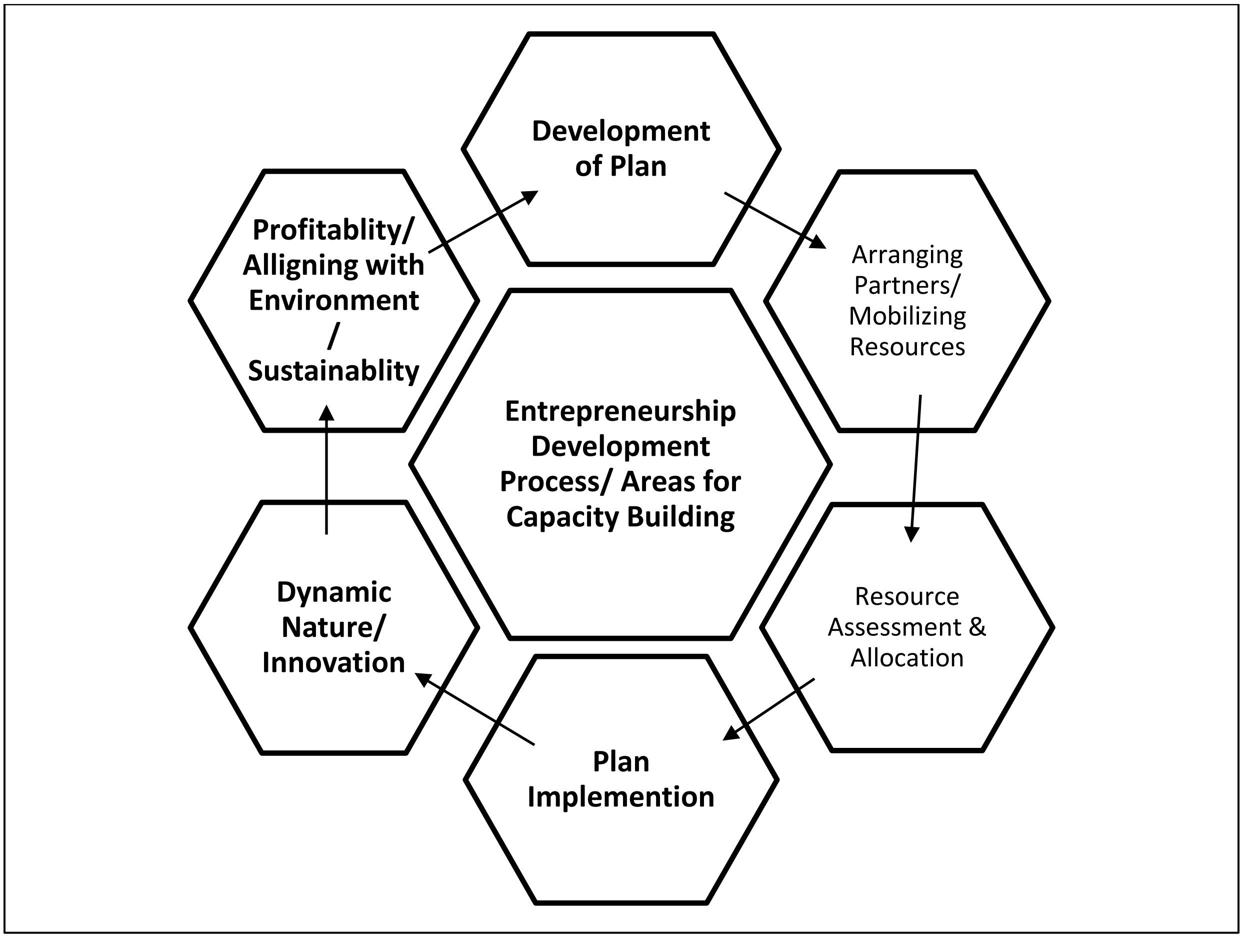


Fig 1.3: Entrepreneurship development process

It is highly important on the part of the institute facilitating the process of entrepreneurship development to identify the potential candidates interested and willing to take the advantage of the program as well as the environment and opportunities available to them. It is also important to identify the resource institute equipped with faculty and basic infrastructure to facilitate the candidates in the process of learning. The capacity of the participants is required to be built on various aspects of project preparation and its successful implementation. Equally important is assistance to the aspirants in identifying the target and goals which these candidates are willing to achieve. A clear understanding of the goal and objectives will help them not only in developing their capacity and knowledge accordingly but also in developing a plan and assessment and allocation of resources.

1.4 LET'S SUM UP

Entrepreneurship is highly important and relevant in present times. For a country like India, it is required for development at the desired pace and for developed counties to sustain the development. Entrepreneurship is a systematic process and accordingly, it is to be planned to supplement the process of entrepreneurship development. Government in recent past has focused on entrepreneurship development through various incubation programs and other initiatives. In the process of the development of entrepreneurship, it is important to identify the right candidate along with their training needs, taking into consideration the local environment.

Key words

Entrepreneurship, importance of entrepreneurship, characteristics of entrepreneurship and process of development of entrepreneurship

1.5 CHECK YOUR PROGRESS

1) What is entrepreneurship, please explain.
2) Why entrepreneurship is considered so important for a developing country like India?
3) Please explain important characteristics of entrepreneurship.
4) What is the process of entrepreneurship development, explain in about 500 words.

1.6 FURTHER READINGS/ REFERNCES:

FAO Extension Guide on Entrepreneurship in farming by David Kahan

UNIT 2:
AGRIPRENEUR AND ITS COMPONENTS

Highlights of the Unit

- Objectives
- Introduction
- Agripreneur
- Quality of an Agripreneur
- Functions of an Agripreneur
- Farmers - Entrepreneur Environment
- Let's Sum up
- Check Your Progress
- Further readings/References/Links

2.0 OBJECTIVES

After completing the chapter, you would be able to

- ❖ Understand the concept of agripreneurship
- ❖ Understand what an agripreneur is and what quality does it possess
- ❖ Know about the different functions of an agripreneur
- ❖ Understand the environment in which an agripreneur has to perform his business

2.1 INTRODUCTION

There is no fixed definition of agripreneurship as is the case with entrepreneurship. Agripreneurship relates to identification and exploitation of business opportunities in all on-farm and off-farm agricultural processes. It may cover any process or activity from input supply to production, marketing of various agricultural produce to off-farm activities like Agri-tourism.

Agripreneurship is a profitable marriage of agriculture and entrepreneurship. Agripreneurship turns a farm into an agribusiness. The term agripreneurship is synonymous with entrepreneurship in agriculture and refers to agribusiness establishment in agriculture and allied sector (Bairwa, et. al., 2014).

Sudha Rani defined agripreneurship as generally sustainable, community oriented, and directly marketed agriculture. Sustainable agriculture denotes a holistic, social oriented approach to farming that focuses on the inter-relationship of social, economic and environmental process (Uneze, 2013). The definition, in addition to market and business, has focused on the dimensions of sustainability and community development. This makes agripreneurship focusing overall sustainable development of the society in rural settings. This may not be true in all agripreneurship cases but definitively makes the bases for need of entrepreneurship in agriculture.

Uneze (2013) states that the need for agripreneurship arises from:

- Increasing demand of organic and quality food.
- Competitive advantages for many primary production activities in agriculture.

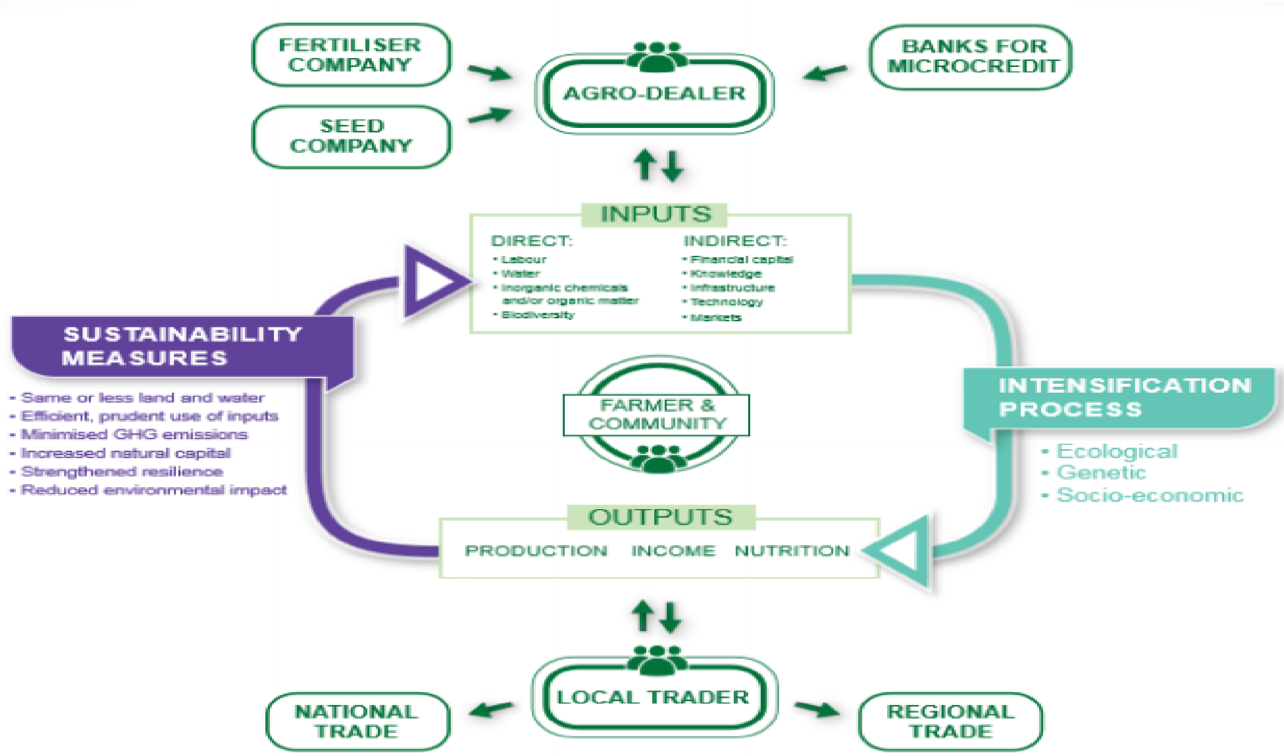
  E.g. rain-fed farming, livestock and wild craft production through low cost production technologies only.
- Private sector willingness to enter into agribusinesses at all levels of operation.
- Need to reduce malnutrition in women and children.
- Need to ensure household and national food security.

2.2 AGRIPRENEUR

As far as agripreneur is concerned, he looks at agriculture as business for earning profits. Dabson and Markley (2010) define an agripreneur as one whose main business is agriculture or agriculture-related. We can therefore consider that an agripreneurworks within a food system (Figure 1) located in but not necessarily limited to a rural location. Also that an Agripreneur identifies an opportunity within a market to directly produce food stuffs, such as vegetables, fruit, dairy, meat, fish and grains utilizing innovative and sustainable production methods (Carr and Anne, 2016).

Kahan David (2012) suggests that a farmer has to be innovative and forward-looking to become an entrepreneur. He has to manage his business as a long-term venture with a view to making it sustainable and has to be able to identify opportunities and seize them. Their production decisions have to be based on what is possible rather than on what they need. The farmer-entrepreneur should have a clear picture in his mind of what is possible and the future he wants. He knows that what is possible is determined by the market. The farmer-entrepreneur wants to make profits. He knows that profits are made in the market.

Figure 2.1 Depiction of Food System



Source: Montpellier Panel Sustainable Intensification: A New Paradigm for African Agriculture2013

2.3 QUALITIES OF AN AGRIPRENEUR

At present, agriculture has become information intensive. There is a need to optimally use available resources to generate sufficient profits. A farmer has to operate as an entrepreneur. He has to be innovative and forward looking to move away from traditional practices to modern technology. There is a need for him to prepare a long-term plan by taking into consideration social, ecological and financial aspects of business to make it sustainable.

The trade environment is changing throwing new opportunities to be availed. He should have the ability to foresee these opportunities and seize them. He should have the ability to identify, assess resources and deploy them optimally to generate maximum possible output. He should be able to relate agriculture with market and changing trade environment as it the market that determines opportunities and profits.

2.3.1 Functions of an Agripreneur

An agripreneur has to perform a wide range of functions ranging from the conception of idea to its development to linking the output to an appropriate market. Agripreneur has to take decisions at every stage to ensure optimal allocation of resources to achieve maximum output and profits. Agripreneur, who is operating in an uncertain and complex environment, has to function as an efficient decision maker supported by relevant information. Some of the important functionsof an entrepreneur as compiled by Ashish Kumar (2015) are as listed below:

1) Identification of opportunity or idea generation
2) Defining objectives by taking into consideration the availability of resources and the environment in which one is operating

3) Raising of funds – identification of funds requirement and having an understanding of different sources and cost and procedure to avail the same from them
4) Procurement of raw materials, machinery, etc
5) Marketing research – opportunities and profits are market linked and therefore, it is important have an understanding of possible market to facilitate the process of opportunity identification and preparation of plan for implementation
6) Determination of the form of enterprise – it can be from agriculture, allied sectors like dairy, poultry, etc. or any off-farm enterprise
7) Recruitment of manpower - mostly labour for carrying out different activities
8) Implementation of the project true to the plan prepared
9) Organizing production ensuring quality
10) Branding and promotion of products
11) Innovations to bring down the costs
12) Controlling costs, quality, etc. to have better profitability

2.3.2 Farmers - Entrepreneur Environment

An agripreneur has to operate in a complex environment and is expected to make decisions with respect to various players like fellow farmers, aggregators, traders, suppliers, transporters and processors and different activities spread all along the value chain. The dependency of various agriculture and allied activities on various risks and uncertainties related to production and market. The uncertainty of environment has been depicted by Kahan David (2012) in Figure-2.

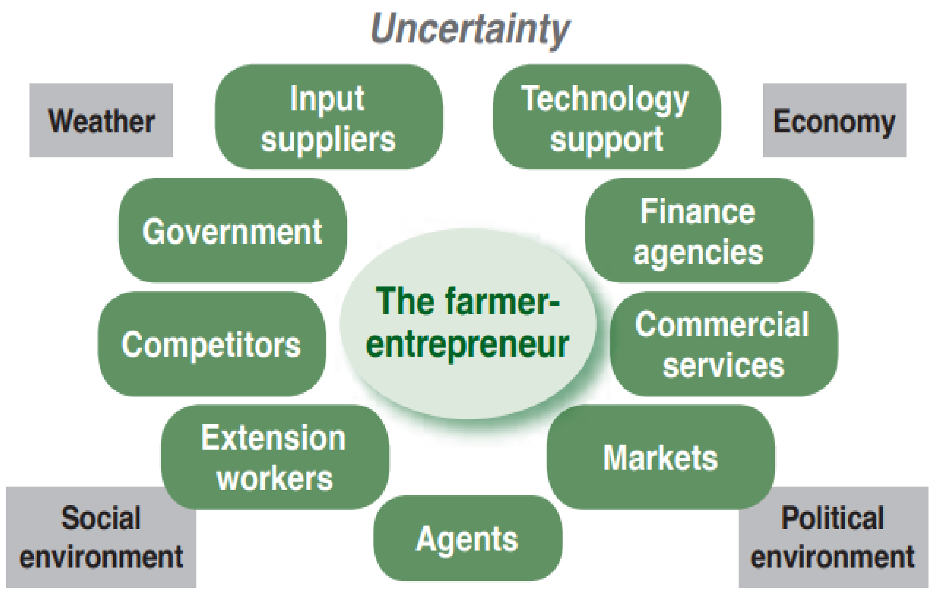


Figure 2.2 World of the farmer-entrepreneur

Procurement and optimum utilization of technology is also an important aspect, mainly in commercial agriculture. Use of appropriate technology is information based and call for capital. An understanding of the institutional alternatives for accessing funds is also important for farmers for preparing their business plans.

The trade environment is also dynamic, both global and domestic. Government has introduced various reform measures to strengthen the agricultural marketing system like private market and direct marketing. These provisions will have bearing on the farmers and the way they cultivate and market their produce. Farmer is required to understand the policy environment and various initiatives of the government like negotiable warehouse receipt allowing farmers to avail loan from different financial institutes against the receipt issued by the warehouse for their stored produce, forward and futures market which can be used as a tool against price risk and electronic national agricultural market (eNAM) to ensure competitive and transparent prices for the farmers. A better understanding of marketing environment will help him take better decisions.

2.4 LET'S SUM UP

In the changed environment, it is important to help farmers become agripreneurs. This will help them take farming as business and use available resources optimally for profits. Agripreneurs have to work in a food-system and are characterized by various traits related to innovation, opportunity identification, moving from traditional to technology based practices and long-term sustainable agriculture. Agripreneur, in present times, is also required to perform various functions at different levels of the value chain. A better understanding of market and policy environment will help him take a better informed decision.

Key words

Agripreneurship, quality and functions of an agripreneur, food-system and farmer-entrepreneur environment

2.5 CHECK YOUR PROGRESS

1. What is agripreneurship, please explain.
2. Define an agripreneur along with his qualities.
3. Why is it important to help farmers become agripreneur in present times?
4. What are the different functions that anagripreneur may have to perform with respect to different players and activities all along the value chain?
5. Please explain the trade and policy environment in which an agripreneur has to operate.

2.6 FURTHER READINGS / REFERENCES/LINKS

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UNIT 3:

AGRIPRENEUR DEVELOPMENT

Highlights of the Unit

- Objectives
- Introduction
- Agripreneur Development
- Institutional support to business entrepreneurs
- Factors Limiting Agripreneur Development
- The Policy Environment
- Summing-up
- Check your process

3.0 OBJECTIVES

After completing the chapter, you would be able to -

- ❖ Understand the concept of agripreneur development
- ❖ Know about the different phases of agripreneur development
- ❖ Know about different factors limiting the process of agripreneur development
- ❖ Understand the market opportunities being created by changing policy environment

3.1 INTRODUCTION

Agriculture is undergoing changes on many fronts be it related to production, marketing or consumer preferences. These changes expect farmers to take up farming as business. This transition from simple farmer to agripreneur, with focus on business, is important not only to avail the opportunities available in agriculture and allied sectors like dairy, poultry, etc. (and also various off-farm activities like Agri-tourism) but also to encourage optimal utilization of existing resources.

Agricultural environment is characterized by large number of smallholders mainly focusing on practicing agriculture by utilizing their existing knowledge without looking at the emerging agribusiness opportunities in the sector. At the most, they are concerned about doing things in a better way within the available resources. These small farmers, generally, not looking at the opportunities being created by the chaining trade and policy environment. This makes the process of agripreneur development challenging in the area of agriculture.

3.2 AGRIPRENEUR DEVELOPMENT

The basic process of development of agripreneurship will remain same as to the development of entrepreneurship which has been discussed in the chapter, introduction to entrepreneurship. However, there may be need for client-requirement-specific educational program to help farmers move from mere producers to agripreneur and help them develop a successful enterprise.

Hence, it is important to know the different phases of EDP. Such knowledge will be useful when we design and organize similar programme. EDP consists of three phases –

1. Pre- training phase
2. Training phase
3. Post- training phase

(1) Pre- training phase: It is a phase undertaken before the conduct of actual training. This includes activities and preparedness required to launch the training programme.

- Selection of entrepreneurs
- Arrangement of infrastructure
- Fixing appropriate resource persons

- Arrangement for the event programme (inauguration etc.)
- Selection of necessary tools, techniques to select the suitable entrepreneurs
- Formation of selection committee
- Arrangement for the publicity
- Application form for the registration
- Finalizing the training syllabus
- Pre-potential survey of opportunities

(2) Training phase: It deals with actual training period.

- Tuning of attitude of trainee to match with the proposed project
- Motivation of trainee towards the entrepreneurial career
- Checking for perceptible change in the behaviour
- Behavioral monitoring for entrepreneurial activities
- Knowledge building of trainee on the technical knowledge, resource management
- Skill up gradation (Preparing viable project, fund mobilization etc.)

(3) Post- training phase

- How far the trainee utilized the training (Post evaluation session)
- Feed back
- Follow-up
- Linking with the supporting institutions

3.3 INSTITUTIONAL SUPPORT TO BUSINESS ENTREPRENEURS

Central Government and various State Government Institutions have the mandate to help develop entrepreneur by providing various kinds of support and facilities in terms of training, access to funds and infrastructure. Availability of the institutional support will motivate the new entrepreneurs to get in to the venture.

Capacity Building - There are a number of institutes to look after the capacity building requirements of budding entrepreneurs like State Agricultural Universities and their extension centers like Krishi Vigyan Kendras, Agricultural Technology Management Agency (ATMA). National Institute of Entrepreneurship and Small Business Development (NISEBUD), National Institute of Small Industries Extension Training (NISIET), Extension Education Institutes and various other national level institutes like NIAM, NAARM and MANAGE.

Infrastructure – Government in additional to special economic zones have developed agri-export zones to provide complete range of infrastructure (like cold chains and logistics support) to support processing, distribution and export of agri-based products.

Finance – The success of any agri-enterprise will hugely depend on the access to funds. There are a number of financial institutes to provide funds to entrepreneurs on relatively liberal terms and conditions.

- Commercial Banks
- National Agricultural Bank for Rural Development
- Industrial Development Banks of India (IDBI)
- Industrial Finance Corporation of India (IFCI)
- Industrial Credit and Investment Corporation of India (ICICI)
- State Financial Corporations
- State Industrial Development Corporations (SIDC)
- Small Industries Development Bank of India (SIDBI)
- Export- Import Bank Of India (EXIM Bank)
- MUDRA, etc.

Agri-clinic and Agri-business Centre – It is an initiative being implemented by MANAGE, Hyderabad in association with SAUs with the support of NABARD. Under the initiative, potential candidates are identified for capacity building to help them develop viable projects. The projects are linked to NABARD for funding. It is a comprehensive initiative providing end to end solution to the budding agripreneurs. In addition, with an objective to provide a comprehensive solutions to the agripreneurs, various institutes have launched Incubation Centre to support agripreneurs by providing training, helping them develop project and linking to appropriate financial institutions. In additional, there are provisions for providing infrastructure support initially and regular follow up to ensure the success of the enterprise.

3.4 FACTORS LIMITING AGRIPRENEUR DEVELOPMENT

Introducing the element of business in agriculture is the need of the hour. However, inculcating business perspective amongst farmers is challenging for various factors. Some of the leading factors as identified in a study by FAO, CTA and IFAD are as discussed below:

Education- Poor and inadequate education of those engaged in agriculture limits productivity. It also curtails their ability to attain skills required in present time knowledge intensive agriculture.

Access to information – Agriculture is changing and one needs to have access to information on wide range of aspects ranging from input-procurement to production to marketing of produce. Insufficient access to knowledge and information can hinder the entire process of development of entrepreneurial ventures.

Access to financial services – Access to formal source of funding is an important factor defining the success of any enterprise. However, most financial service providers are reluctant to provide their services – including credit, savings and insurance – to rural youth due to their lack of collateral and financial literacy, among other reasons. The

Government of India has come up with various initiatives where funding is an integral part of the entire process of enterprise development including other aspects like training, infrastructure, follow-up, etc.

Access to market - Youth will not be able to engage in viable and sustainable agricultural ventures without access to market. Access to markets for youth is becoming even more difficult due to the growing international influence of supermarkets and the rigorous standards of their supply chains. The Ministry of Agriculture and Farmers Welfare has introduced various reforms initiatives in agricultural marketing to promote options like direct market and farmers market to enhance farmers' access to market.

3.5 THE POLICY ENVIRONMENT

The Government of India has taken-up a number of initiatives to make environment conducive for farmers to participate in the emerging markets and avail opportunities being create as a result of these policy initiatives. The Government has introduced reforms in agricultural marketing asking different state governments to modify their Acts to have provisions for private market, direct marketing and farmers markets among others. Recently, Government has introduced e-NAM to help develop an efficient, transparent and competitive marketing system operating across markets. Warehousing has also been identified an important component in marketing of agricultural produce and its ability to improve access to formal credit. Warehousing (Development & Regulation) Act 2007 was introduced by the Government to introduce the concept of negotiable warehouse receipt and improve credit against warehouse receipt. As per the Model APLM Act 2017 circulated by the Government, a warehouse may act as a sub-market yard subject to obtaining permission to do so. Various other initiatives like 'Forward and Futures Markets', Spot Market, etc. have been successfully implemented to strengthen the agricultural market and ensure better prices to the farmers. Organized retail have also come up in a big way to provide farmers an alternative to market their produce at better price by supplying commodities as per the requirement of organized supply chain. Government has also promoted various aggregation models like Farmer Producer Companies to facilitate their horizontal integration so that they are in a position to avail benefits of economies of scale.

3.6 LET'S SUM UP

Agriculture is changing and inculcating business perspective among farmers is need of the hours. It is challenging, though, for various factors like education level, access to information, funds, markets, etc. There is need for a comprehensive plan with focus on capacity building, infrastructure development, funds availability and regular follow up to help develop successful entrepreneur in agriculture.

3.7CHECK YOUR PROGRESS

1. Kindly explain the importance of agripreneur development. What are the different areas required to be focused on to have a comprehensive agripreneur development plan?
2. Why capacity building has an important role in agripreneur development? Kindly explain different phases of EDP.
3. Why is institutional support important in agripreneur development? What are the different areas required to be covered under institutional support?
4. Kindly explain the policy environment created by different initiatives of the Government to encourage development of entrepreneurs in agriculture.

3.8 FURTHER READINGS/ REFERENCES/ LINKS

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UNIT 4:

ROLE OF AGGREGATION IN FARMING

Highlights of the Unit

- Objectives
- Introduction
- Benefits to farmers
- Market access
  - Access to inputs and service
  - Bargaining power
  - Cost savings
  - Interest of private bulk buyers
- Means to aggregation
- Different aggregation models for smallholder
- Characteristics of a success farmers organization
- Lets sum up
- Check Your Progress
- Further readings/ references

4.0 OBJECTIVES

After reading this chapter, the learners will be able to-

- Understand the importance of aggregation in agriculture
- Explain different benefits from aggregations to farmers
- Know different aggregation models prevalent in India
- Explain different attributes of a Successful Farmer Producer Company

4.1 INTRODUCTION

Agriculture is vital for the economy, as more than 52 percent of the workforce is engaged in a sector contributing only 14 percent towards GDP. In an environment, where majority of landholdings are small and marginal, the challenge would be to achieve an economic size of operation leading to income enhancement and reduction in transaction costs. The declining size of the operational holdings in India is, no doubt, a major deterrent for the viability and sustainability of farming, making it unattractive for the youth. Aggregation is held as a veritable instrument to address the phenomenon of smallholdings in the sector. This will go a long way in achieving the economies of scale and integrating farmers into value chains, ensuring them better returns. Aggregation has also the potential to help the small farmers overcome some of the traditional limitations like stagnant productivity, poor quality of produce, low level of competitiveness, poor access to market, etc. Aggregation is, of course, a hard nut to crack in Indian conditions, both in terms of engaging large number of dispersed farmers on a common platform on one hand and on the other, building their capacity to take advantage of the new organizational setup. Studies reveal that only about 10 percent of the world's smallholder farmers are aggregated into producer or other organizations, which points to how formidable is the challenge to aggregate small farmers.

4.2 BENEFITS TO FARMERS

Aggregation not only helps farmers to strengthen their position in the entire supply chain but also facilitates private players to participate in an environment, where procurements are to be made mainly from smallholders. It not only offers numerous benefits to the farmers on account of higher volumes, discounts and reduced per unit cost but also allow private players like retailers to procure quality material on consistent basis in a cost-effective manner.

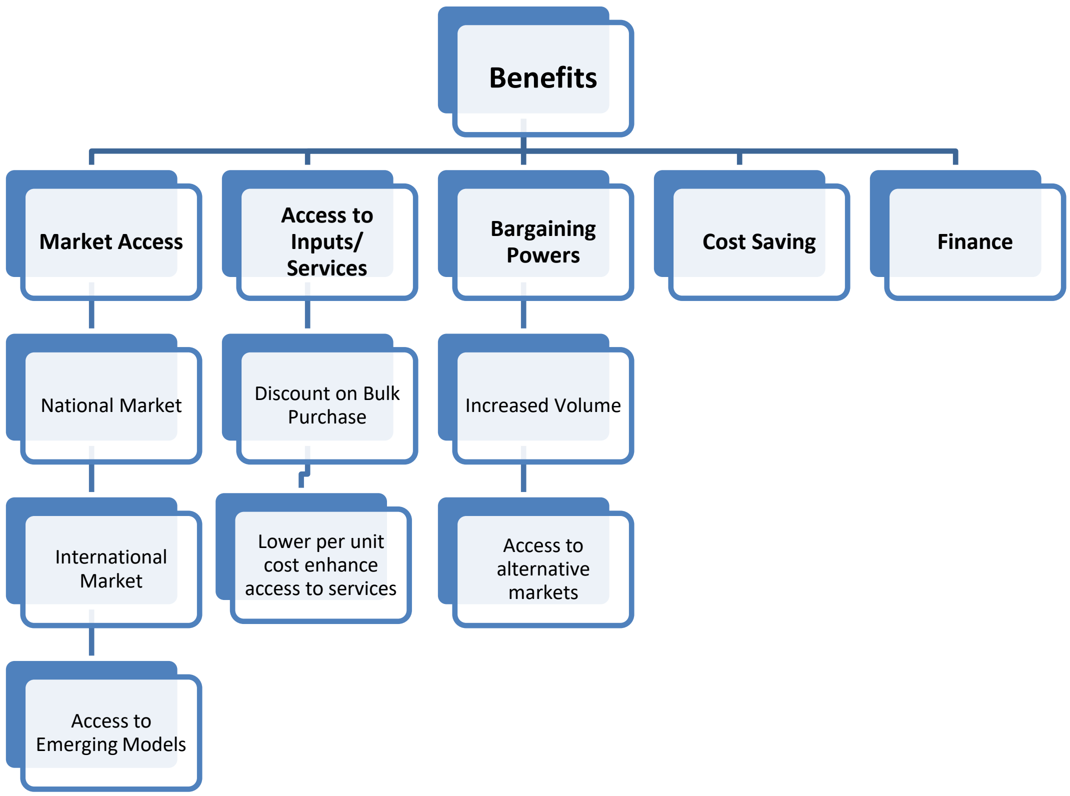


Fig 4.1: Benefits of aggregation in farming

Market access

One of the challenges for farmers is to have access to assured market. The aggregation helps them bring their small surpluses together and makes higher volumes to offer for marketing. Availably of higher volumes create scope for smallholders to explore possibilities of getting themselves integrated with new domestic and international markets, with access to high-end technology and integrated supply chains.

Access to inputs and service

Reduction in per unit cost of inputs improves the access of farmers in group to quality inputs, information and services like sorting, grading, storage and credit.

Bargaining power

Farmers having higher volumes with access to multiple markets are placed in a better position to bargain for better prices collectively.

Cost savings

Aggregation will lead to reduced transaction costs by bringing about per-unit cost reduction through bulk procurement of inputs, transportation costs, in house services of experts, access to technology and capital.

Interest of private bulk buyers

The private bulk buyers of fresh produce will be better served in procuring from groups due to better management and, reduced cost towards procurement, logistic arrangements, training and dissemination of information.

4.3 MEANS TO AGGREGATION

Group Activity is more effective for the benefit of the members of the group than the individual efforts. Informally formed small groups called as self-help groups have exhibited their strengths in various fields including agriculture, in improving financial conditions of the members. Farmer Common Service Centers (FCSCs) are conceptually small scale commercially viable entities owned by Producers' Associations (PAs). The FCSCs will support 250-300 members, through Producer Groups / Farmer Groups of around 12-19 active members in each Producer Groups (PGs). Around 15-20 PGs in a village or a group of villages within the radius of 3-5 Kms. can be federated in to a PA which will be registered under the Society Registration Act, 1860 with the Charity Commissioner to have the legal status / other suitable Acts. The FCSC can mainly deliver some basic value added activities, in grain and horticulture and carry out input and output marketing. This could involve supply of inputs like seeds, fertilizers, manures, pesticides, cattle feed to the members & farmers and also could help in aggregation of produce, and it's cleaning, grading & marketing. Both central and state Government have initiated various legal reforms to facilitate aggregation of small and marginal farmers through instruments such as contract-farming, retail chain linkages, farmers-exporters/processors linkages, cooperatives, CIG, FIG, SHG, FPC, etc.

4.4 DIFFERENT AGGREGATION MODELS FOR SMALLHOLDER

Some of the leading models used for aggregation of farmers in India are discussed below:

Cooperatives –

The small farmers generally have poor bargaining power on account of their small scale of their operations which causes high transaction cost and poor market access. This can be overcome by brining farmers together in group. One of the ways has been to bring farmers together through cooperatives for collective interest. There are many successful examples like Amul, Mahagraphes, Amalsad, etc.Cooperation was introduced in India in the beginning of twentieth century primarily for the supply of credit to agriculture. The basic objective of the cooperative movement in India was to eradicate local money lenders. Agricultural credit societies were established with the promulgation of Cooperative Credit Societies Act 1904. The societies initially were operating on small scale like village which could not effectively serve the needs of members on account of small business and limited funds. The cooperative structure has thus suitably been expanded to strengthen the facility of credit in the form of large societies and cooperative banking especially through supply of inputs like seed, fertilizer, weedicides, pesticides, etc. (Chahal, xxxx). Cooperatives work as an alternative to the prevailing market imperfections, if any. Cooperatives can procure supplies at lower

Amalsad and Gadat Cooperatives in South Gujarat

The Amalsad cooperative was registered in 1941. The cooperative works through the commission agents to market the produce in wholesale Mandis like Delhi, Bombay, Indore, etc. In fact, Delhi alone accounts for 90 percent of the total *chickoo* sales of the cooperative. The Cooperative works in highly competitive markets. The cooperative is also in the business of cleaning, packing, branding, and selling various food commodities at its main complex and through its various outlets. In Amalsad cooperative, every day about 200 farmer members bring graded produce to the society at its collection center. The society is providing complete marketing solutions to its members.

transaction costs through suitable backward linkages and aggregate them appropriately to harness the benefits of economies of scale (Singh, 2008).

Contract Farming – Contract farming is important for majority of the producer-farmers operating on small and marginal land holdings with limited resources as smallholders participate and perform well within vertically integrated chains (Reardon et al., 2009). Accordingly, importance of contract farming has been stressed in agricultural marketing reforms. There is need for adopting various measures to make contract farming more organized with focus on protecting the interest of different stakeholders. Recognizing the importance of Contract Farming in Indian agriculture, the Government of India is now coming up with separate Act for contract farming. Few crops may be more suitable for contract farming than others. The extension mechanism has to promote contract farming amongst farmers, as it is useful in ensuring economies of scale, giving the small farmers access to quality inputs, technology, capital etc.

Organized Retailing in India – Liberalization in trade and agricultural marketing has encouraged many retail chains in India such as MTR, Apna-bazaar, Spencers, Reliance fresh, etc. These retail chains aiming for steady and continuous supply of fresh fruit and vegetables of desired quality establish backward linkages with farmers. The emergence of such models have helped in bringing down the transaction costs and marketing risk by encouraging highly integrated channels with involvement of lesser number of intermediaries. Direct supply by farmers has facilitated the retail chains to have better control over quality, supply reliability and price stability and has helped in enhancing small-farmers' access to market.

Self Help Group - SHG is a development group for the poor and marginalized. It is recognized by the government and does not require any formal registration. The purpose of the SHG is to build the functional capacity of the poor and the marginalized in the field of employment and income generating activities. People become responsible for their own future by organizing themselves into SHGs (NITI Aayog). Occupationwise distribution of SHG suggests that nearly one-fourth of the members come from agricultural occupations. Self-help groups engaged in development activities have the potential to empower their members through the provision of knowledge, skills, motivation, and competencies that support sustainable agriculture (Kalra, et. al., 2013).

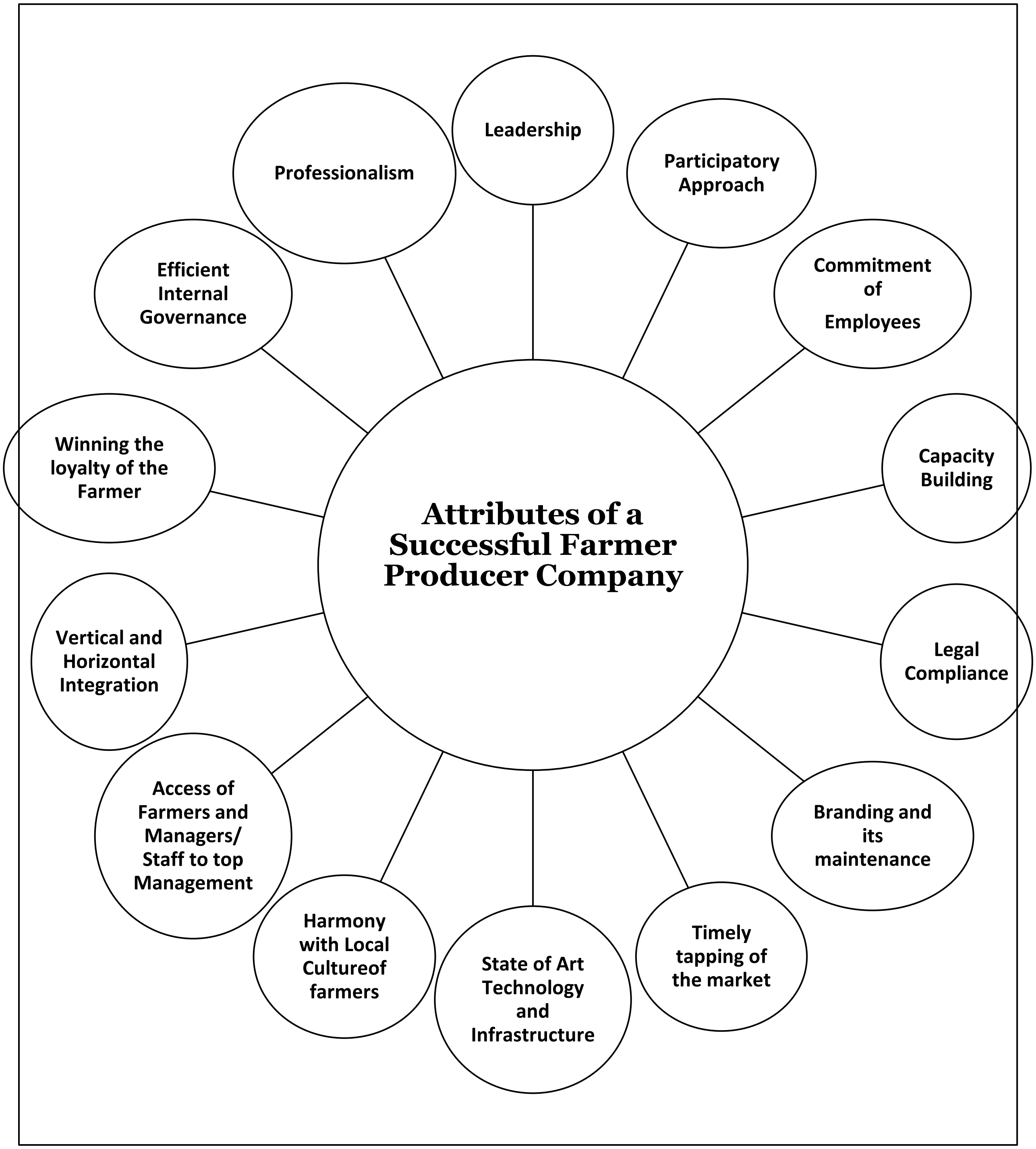
Commodity Interest Group – A Commodity Interest Group is a self-managed, independent group of farmers with a shared goal and interest. Organizing farmers around commodities and linking these groups to economic activities assumes greater significance in the present context to sustain the developmental efforts. National Commission on Farmers also stressed on the importance of Commodity Based Farmers Organizations. Commodity-based farmers' organizations like Small Cotton Farmers' Estates, Small Farmers' Horticulture Estates, Small Farmers' Poultry Estates and Small Farmers' Medicinal Plants estates should be promoted to combine the advantages of decentralized production and centralized services, post-harvest management, value addition and marketing, for leveraging institutional support and facilitate direct farmer-consumer linkage.

Producer Companies – Producer companies came into existence with the amendment of Section 581 of the Companies Act, 1956, in 2003 on the recommendations of an Expert Alagh Committee. The objective of the said company can be production, harvesting, procurement, grading, pooling, handling, marketing, selling, and export of primary produce of the members or import of goods or services for their benefit. A success story has been discussed at Exhibit 2.

4.5 CHARACTERISTICS OF A SUCCESS FARMERS ORGANIZATION

It is also important to understand that there are various factors responsible for the success of a farmers' organization. Based on the findings of a study conducted by MANAGE on Sahyadri Farmers Producer Company, following are the factors that may perhaps be the attributes of a successful Farmer Producer Company.

Fig 1: Attributes of a successful Farmer Company



EXHIBITS Exhibit 1

The Public Role in Collective Action Models

Traditional Role ("Push")	Alternate Role ("Pull")
▪ The donor (or government) drives group formation, and provides most (even 100%) of management, strategy, operational, and marketing guidance. ▪ Subsidies and grants play a big role. ▪ The donor operates via a fixed-term project (often not more than 4 years). ▪ The donor typically has various objectives, both social and economic. ▪ Private sector/agribusiness (apart from the farms themselves) has little role in the project beyond input supply and output purchasing	▪ The donor (or government) has a smaller role primarily as a facilitator between producers and agribusiness, who are jointly in the driving seat. ▪ Equity investments play a big role. ▪ The donor provides basic services, such as training, on an on-going/permanent basis. ▪ Commercial viability is the core joint objective of agribusiness and farmers group. ▪ Donor services are provided according to the evolving needs of the farmer agribusiness relationship and other changes in the staple market.

Source: David Neven, FAO - Market Linkages and Value Chains Group

Exhibit 2

A Success Story

Narayangaon, a small village in Junnar Taluk of Pune district in Maharashtra. The farmers in past were finding hard to make a profit despite all the hard work and efforts put into growing agricultural crops. Distress sale to village vendors and exploitative tactics of middlemen led to lower proportion of farmers in consumer's price. As the nature of their produce was perishable and hence they had no option but to sell it off at whatever price was offered. The middlemen, who would transport their produce to the local markets, would give them wrong information on the market price of products, delay their payments and even take money for accidental losses that would occur during transportation. To put an end to this exploitation, Mr. Shriram Gadhve, took the lead and started orienting farmers about the movement to organize farmers in group with the support of Small Farmers Agribusiness Consortium (SFAC) and Vegetable Growers Association of India (VGAI). Vegetable Growers Association of India is a federation of Kisan Producer Companies (around eight companies) located in Junnar Taluk of Pune district. The establishment of the Junnar Taluka Farmer Producer Organization and Producer Company gave a renewed sense of self-belief and strength to the farmers. Today, Narayangaon is the largest open tomato auction market in the country. This market attracts traders from all over the country who carry back the produce to different parts of the country such as Ahmedabad, Surat, Baroda, Kota, Indore, Jabalpur, Jhansi, Lucknow, Agra, Delhi, Bangalore, Hyderabad, Chennai, Pune and Mumbai and so on.

Fig 4.2 Farmers' Markets

The market has provided bargaining power to farmers. In addition, the market has helped farmers receive their returns almost instantly. All merchants come directly to the market and pay in cash for the produce on the spot. If the produce is graded, the remuneration is higher. Riding on the success of the Narayangaon wholesale market, the farmers of the organization have decided to take a step forward. They are planning to launch a portal that will allow them to auction their produce over the internet.

4.5 LET'S SUM UP

Collectivization of farmers will have a big role to play in bringing about business perspective in farming for its influence on procurement of inputs, production and marketing. An unpublished source of FAO suggests that around 39 percent of collectivization in agriculture focuses on production, 29 percent on buying inputs and 13 percent on marketing. A number of aggregations models are now being promoted by Government of India and the states. Sustainability of these models can be ensured only if the public agencies act in a demand-driven manner. Farmers need to be educated about the new models having less dependency on government with better sustainability (Exhibit 1). Farmers also need to be oriented about benefits and importance of coming in groups, as many of the farmers find it difficult to unite themselves through a group and don't know who they have to collaborate with and for what objectives. In this connection, the extension mechanism, across the line departments, has to play a proactive role.

4.6 CHECK YOUR PROGRESS

a) Why aggregation has become so important in present day agriculture?

b) Kindly explain some of the benefits to the farmers from aggregation

c) Kindly discussion a few aggregation models prevalent in India

4.7 FURTHER READINGS/ REFERENCES/ LINKS

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UNIT 5:

INTRODUCTION TO AGRIBUSINESS

Highlights of the Unit

- Objectives
- Introduction
- Agribusiness in India
- Need for agribusiness
- Emerging areas of agribusiness
- Agribusiness opportunities in India
- Popular agribusiness areas in India
- Let's Sum up
- Check Your Progress
- Further readings/ references

5.0 OBJECTIVES

After completing the chapter, the learners would be able to -

- ❖ Understand the concept of agribusiness and its different components
- ❖ To understand the scope of agribusiness in the country
- ❖ To know emerging areas of agribusiness over different components like production, processing, infrastructure, trade and other

5.1 INTRODUCTION

Agriculture is important for India as half of the workforce is dependent on it directly or indirectly. Efficient utilization of resources with generation of sufficient income is always a challenge, mainly in an environment where production processes are dependent on outdated and inefficient technologies leading to poor productivity and slow growth. The changed environment in terms of liberal trade, reforms in policies, consumer demand for safe food and better purchasing power has opened up the opportunities for enhancing the income from the same level of resources. This however, needs orientation of farmers to take farming as a business and expects them to operate as entrepreneurs along with development of agribusiness in rural areas. Accordingly, this chapter focuses on the concept of agribusiness development.

5.1.1 AGRIBUSINESS IN INDIA

Agribusiness as a concept is dynamic in nature and kept on evolving over time since it was first used during 1950s. Downey & Erickson (1987) defined agribusiness to include "all those business and management activities performed by firms that provide inputs to the farm sector, produce farm products, and/or process, transport, finance, handle or market farm products". Chait, 2014 referred to it as agriculturally related businesses including warehouses, wholesalers, processors, retailers and more (David, 2017).

In the developed countries, agribusiness is defined as the total output arising from farm production and product processing at both pre- and post-farm gate levels. However, in developing countries like India, the agribusiness sector encompasses four distinct sub-sectors, viz. agricultural inputs; agricultural production; agro-processing; and marketing and trade. All these add value or utility to the goods. Agribusiness is emerging as a specialized branch of knowledge in the field of management sciences. In this context, agribusiness can be defined as science and practice of activities, with backward and forward linkages, related to production, processing, marketing, trade, and distribution of raw and processed food, feed and fiber, including supply of inputs and services for these activities (Acharya, 2007).

5.2 NEED FOR AGRIBUSINESS

The development of agribusiness provides an opportunity to create an environment required for investment in agricultural marketing and trade. The Indian economy and particularly agriculture sector is experiencing enormous changes creating lots of scope for development of agribusiness in the country. A few of the examples have been compiled by Bansal (2011) as below:

(1) With varied agro-climatic conditions suitable to cultivate a wide range of agricultural produce, India is all set to expand its agribusiness sector

(2) The focus on enhancing production is leading to growing demand for agricultural inputs like seeds, feed and fodder, inorganic fertilizers and bio-fertilizers.

(3) The demand for extension services has also been felt and farmers are ready to pay for such services.

(4) Majority of the farmers are operating on small land holdings limiting the application of mechanization. This has created scope for business of custom-hiring by organized commercial players.

(5) Utilization of biotechnology in agriculture has ample scope in the production of seed and biocontrol agents, etc.

(6) There is considerable untapped potential in northwestern region in respect of different exportable produce. The development of export channels involving private players along with proper education of farmers may help in harnessing the export potential of crops cultivated in such areas

(7) The purchasing power of the consumers is improving with the growth in Indian economy. This will lead to increased demand for processed and semi-processed food.

(8) The vast coastal line and internal water resources provide enormous opportunity for production of marine and inland fish. Ornamental fish culture is also gaining popularity with increase in aesthetic value among the citizens of India.

(9) The livestock wealth gives enormous scope for production of meat, milk and milk products, etc.

(10) The awareness for safe and healthy food amongst consumer also creates scope for integrated supply chains like supply of antibiotic free eggs backed by certification and traceability

(11) Development of marketing channels creates great scope for enterprises like Beekeeping and Mushroom production

(12) With increasing awareness amongst the consumers about food safety, there will be rise in the demand for organic produce.

(13) There is wide scope for production and promotion of bio-pesticides and bio-control agents for protection of crops.

(14) Seeds, hybrid and genetically modified crops have the highest potential in India in the future, since the productivity of high yielding varieties has reached a plateau.

(15) Micro-irrigation systems and labour saving farm equipment have good potential in the years to come due to declining groundwater level and labor scarcity for agricultural operations like weeding, transplanting and harvesting.

(16) Production of vegetables and flowers under greenhouse conditions can be taken up to harness the export potential and integrate with high-end domestic markets

(17) The enhanced agricultural production throws open opportunities for employment in marketing, transport, cold storage and warehousing facilities, credit, insurance and logistic support services.

5.3 EMERGING AREAS OF AGRIBUSINESS

The agribusiness investment opportunities have broadly been categorized as follows (NAAS, 2006, Acharya, 2007):

Table 5.1 Agribusiness Investment Opportunities

Production	Processing	Infrastructure	Trade and Others
Production of certified seeds	Fruit and vegetable processing, including dehydration, canning, aseptic packaging, processing of underutilized fruits, and processing for other products like grape raisin, osmo air-dried fruits, fruit toffee, bleached dry ginger and spices' powders	Cool chain infrastructure, including cold stores	Procurement through contract arrangements, including contract farming
Production of high-quality planting material, including use of tissue culture methods of micro-propagation	Processing of maize for starch and feed through improved mini/ small mills and dry milling plants	Storage and warehousing	Retailing
Nurseries, including hardening nurseries	Processing of millets for various purposes, including malt from finger millets and RTE (Ready-to-Eat) products	Specialized transport services	Supply chain management
Organic farming	Processing of sugarcane for various jaggery products like	Packaging infrastructure,	Capacity building,

	spiced jaggery, powdered jaggery, and jaggery cubes	including pack houses	including human resource development in agribusiness
Production of microbial cultures and vermicompost	Processing of herbal and medicinal plants	Agri-clinics and service centers	
Floriculture	Processing of dairy products		
	Processing for poultry products, including poultry dressing		
	Processing of livestock products and livestock wastes		

5.4 AGRIBUSINESS OPPORTUNITIES IN INDIA

India, with its ability to produce a wide range of agricultural produce and conducive policy environment, has immense scope for agribusiness. A comprehensive list of areas, as compiled by Sundar (2016), suggesting scope of agribusiness in India is provided below:

- ***Vermi compost-organic Fertilizers Production*** **–** Knowledge based low investment business component
- ***Dried Flowers Business*** **–** Flower production is one of the fastest growing crops in agriculture today with a strong demand for all types of flowers.

- ***Organic Farm Green House -*** An organic farm greenhouse business has a high potential to grow and succeed because the demand for organically grown farm products is growing considerably
- ***Poultry Farming -*** Poultry farming is the fastest growing sector in agriculture and farming business. The annual growth rate is 8-10% in egg and 12-15% in the broiler industry.
- ***Mushroom Farming –*** A mushroom farming is low investment business with ability to supplement income from other sources
- ***Hydroponic Retail Store –*** Hydroponics is a new plantation technology that has been increasing in demands over the past decades as a soil free way of plantation both for commercial and home use.
- ***Snail Farming –*** Snail farming is the process of raising land snails specifically for human consumption. It has a high rate of protein, iron, low fat and almost all the amino acids that are needed by human body.
- ***Sunflower Farming –*** Sunflower farming business can be started with availability of land and knowledge.
- ***Bee Keeping –*** With the increasing awareness about the health, demand for honey is growing globally. Beekeeping for selling honey and other products like wax is a profitable venture to start with limited investment.
- ***Fish Farming –*** With the implementation of modern techniques and having own space, this business can be started with moderate capital investment.
- ***Fruits and Vegetables Export –*** The export potential of fruits and vegetables can be tapped either as a producer or as a facilitator.
- ***Micronutrient Manufacturing –*** Foliar and Soil Application – Micro-nutrient has immense potential but with substantial capital requirement.

- ***Florist* –** Having a retail space and connection with the flower growers, one can start this business. An entrepreneur also can generate a substantial online sale by offering door-step delivery to customers.
- ***Livestock Feed Production* –** With focus on livestock, feed production at small scale with sound distribution network offers good business potential.
- ***Frozen Chicken Production* –** Frozen chicken is a hot product now. The demand for this product is increasing globally. An entrepreneur living in a metro or suburban city can start this business with proper planning
- ***Basket and Broom Production* –** This business can be started by sourcing these products from rural makers and after giving ornamentation, it can be sold as utility or decor item through retail and online both
- ***Flour Milling* –** Establishing your own brand for such product is highly profitable in this business.
- ***Fruit juice-Jam-Jelly Production* –** Fruit juice-jam-jelly production business has the huge market opportunity. Most important thing is the production process is not that complex and can be initiated on small-scale basis.
- ***Groundnut Processing* –** Processed groundnut has good market potential locally and globally as well.
- ***Cashew-nut Processing* –** Processed cashew nut has huge market potential and can be started at small scale.
- ***Quail Egg Farming* –** Commercial quail farming is all about raising quails commercially for the purpose of profitable eggs and meat production. Globally quail farming is playing an important role in fulfilling the daily family nutrition demands and earning livings.
- ***Shrimp Farming* –** Producing shrimp or prawn for human consumption in freshwater. The demand for this product is increasing globally.

- ***Piggery –*** Pig farming requires small investment for items like buildings and equipment.
- ***Soybeans Processing –*** Processing soybeans into different products like milk, soy flour, soya sauce, soya bean oil, etc. is a profitable business ideas to start with moderate capital investment.
- ***Spices Processing –*** Rising global demand gives a boost to spice processing industry. Good quality processed spice has very good demand. Processing and packaging methods are not very complex.
- ***Vegetable Farming –*** Good quality vegetable cultivation with access to inputs and market has potential to generate profits
- *Chicks Hatchery* – It is a highly profitable business to start with a small capital and as such no specialized knowledge is required.
- ***Medicinal Herbs Farming –*** Growing medicinal herbs commercially is one of profitable agriculture business ideas. Having sufficient land and knowledge about the herbs marketing, an entrepreneur can initiate medicinal herbs farming with moderate capital investment.
- ***Cactus Arrangements –*** Cactus is the most favorable as plant decor item. Creating and selling cactus arrangements is a very profitable business to start.
- ***Dairy Farming –*** There is tremendous scope/potential for increasing the milk production through profitable dairy farming.
- ***Goatery Farming –*** Due to its good economic prospects, goat rearing under an intensive and semi-intensive system for commercial production has been gaining momentum for the past couple of years.
- ***Jatropha Farming –*** By exploring the modern technology marginal farmers and cultivators can produce jatropha as a raw material for bio-diesel.

- ☐ ***Potato Powder*** **–** Potato powder has wide application and is used as a thickener. Potato powder processing business can be initiated at semi-automatic small scale basis
- ☐ ***Certified Seed Production*** **–** Requirement for good quality seed provide enormous potential to seed production
- ☐ ***Soil Testing Lab*** **–** Establishing a soil testing lab with a Government certification is reasonable business idea mainly when the focus is on judicious uses of inputs
- ☐ ***Horticulture Crop Farming*** **-** Horticulturists produce fruits, flowers, and plants in greenhouses and nurseries.
- ☐ ***Fodder Farming for Goats and Cows*** **–** with focus on enhancing the productivity of animals, fodder farming offers a good business opportunity
- ☐ ***Agriculture Consulting*** **–** As with other consulting services, agriculture consulting requirement is surely expected to grow in coming days. People with experience and knowledge in a specified field of farming activity can consider offering consulting services to organizations and farmers.
- ☐ ***Rabbit Rearing*** **–** A backyard can serve as a good source of additional income, food and employment. Rabbit do not compete with humans for food, as kitchen leftovers, cut grasses and formulated or compounded feed can help them sustain. Rabbit keeping does not require much capital for investment and maintenance.
- ☐ ***Coconut Juice Production*** **–** One can make good money by selling coconut juice in wholesale, retail outlets and supermarket, but make sure the product is well branded, with company's name and contact.

5.5 POPULAR AGRIBUSINESS AREAS IN INDIA

MANAGE has compiled 53 success stories of Indian Agripreneurs (MANAGE, 2017). An elementary examination of these success stories is provided in the Table 1. The table suggests that providing extension services is an important area which generally has been considered the responsibility of public agencies. The extension services are provided in areas like inputs, veterinary services, diversification, etc. by using innovative approach covering production of films and videos. Production of high value corps has also been taken up by 13 percent Agripreneurs covering aspects like flowers, makhana, lemon, turmeric and organic production of mushroom. Production of high quality certified seed and their distribution is third in this list of preference.

Table 5.2 Different Agribusiness Areas popular in India

Sl. No.	Agribusiness Area	No. of Cases	Average No. of Beneficiaries (Farmers)	Average No. of Person Employed	Average Annual Turnover (Rs Lakhs)
1	Veterinary	7.55	51450	56	15
2	Field Equipment	1.89	200000	10	23
3	Poultry	3.77	300	40	25
4	Tourism	1.89	500	120	25
5	Fish	1.89	2000	8	30
6	Bee keeping	1.89	1400	8	35
7	Organic Farming	5.66	3833	17	39
8	Institutions	1.89	10000	4	40
9	Seed Production	5.66	420	9	40
10	Artificial Insemination	1.89	30000	349	50
11	Inputs	9.43	2440	16	84
12	Solar Solutions	1.89	3000	8	130
13	Extension Services	30.19	52337	71	215

14	Vermicompost	3.77	750	4	257
15	Soil Testing Lab	1.89	50000	18	280
16	Production	13.21	4193	46	425
17	Mechanization	3.77	5500	76	1825
18	Egg	1.89	100	81	2000
	Total	100.00	26053	51	271

Many other new areas have also been explored like tourism, bee keeping, artificial insemination, solar solutions, Vermi compost, soil testing labs, etc. Mechanization is also taking up in an environment where majority of farmers are having small land holdings but will need high degree of investment. As many as 18 different areas have been explored over 53 success stories. Many of the initiatives have been able to generate reasonable annual turnover even by reaching out to less than 1000 beneficiaries like seed production, Vermi-compost, etc. suggesting huge potential for agribusiness in India.

5.6 LET'S SUM UP

The changes experienced in the trade environment, preference of consumer and policies of the government creates tremendous business opportunities. This will, however, demand farmers to be equipped appropriately with required business skills. There is need to shift focus from production to production + other activities to avail value creation opportunities. The focus has also to shift from production to innovation. Through innovations small farmers or small enterprises are able to counter the disadvantages of size and scale (Acharya, 2007).

5.7Check Your Progress

(1) Why is concept of agribusiness so important for a country like India

(2) Kindly mentions a few emerging areas for agribusiness investment

(3) Can you please provide a few popular agribusiness areas in India

5.8 FURTHER READINGS/REFERENCES/ LINKS

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UNIT 6:

SUPPLY CHAIN AND VALUE CHAIN MANAGEMENT IN AGRICULTURE

Highlights of the Unit

- Objectives
- Introduction
- Supply chain in agriculture
- Value Chain Management
- Constraints of small farmers
- Benefits of Supply Chain Management
- Let's sum up
- Check Your Progress
- Further readings/ Links

6.0 OBJECTIVES

- To understand the importance of supply chain management (SCM) and value chain management (VCM) in agriculture
- To know the difference between the supply chain management (SCM) and value chain management (VCM) in agriculture
- To know the benefits offered by Supply chain management (SCM) and value chain management (VCM) in agriculture

6.1 INTRODUCTION

Supply Chain management (SCM) in agriculture refers to a chain of activities of procurement, order fulfillment, product design and development, distribution, delivery, shipping and customer service, executed by two or more separate organizations in the agribusiness industry, to fulfill customer orders.

SCM emerged in the 1980s as a new, integrative philosophy to manage the total flow of goods from suppliers to the ultimate user and evolved to consider a broad integration of business processes along the chain of supply. Main focus of the concept is on the cost and efficiencies of supply, and the flow of materials from their various sources to their final destinations. Efficient supply chains help in reducing costs.

A value chain is a set of linked activities that work to add value to a product; it consists of actors and actions that improve a product while linking commodity-producers to processors and markets. Value chains work best when their actors cooperate to produce higher-quality products and generate more income for all participants along the chain, as opposed to the simplest kinds of value chains, in which producers and buyers exchange only price information. Value chains differ from supply chains as supply chain refers to logistics, the transport, storage and procedural steps for getting a product from its point of production to the consumer. A value chain encompasses the flow of products, knowledge and information, finance, payments, and the social capital needed to organize producers and communities. These two concepts are reverse in order. Supply chain originates from point of production while value chain originates from consumer.

Difference between the supply chain and value chain

Particulars	**Supply Chain**	**Value Chain**
Meaning	The integration of all the activities involved in the procurement, conversion and logistics of the product is known as Supply Chain	Value Chain is defined as the series of activities, that adds value to the product
Originated from	Operation Management	Business Management
Concept	Conveyance	Value Addition
Sequence	Product Request - Supply	Customer Request - Value

	Chain – Customer	Chain - Product
Objective	Customer Satisfaction	Gaining competitive advantage

6.2 SUPPLY CHAIN IN AGRICULTURE

6.2.1 The concept of supply chain: The concept of supply chain can help in efficient movement of Agri-produce for its various characteristics like -

- Seasonality in production
- Localized production
- Perishable nature
- Post-harvest losses at various magnitude
- Poor price realization
- A lot of intermediaries

6.2.2 Advantages of supply chain management

Individual suppliers, producers and marketers who are associated through a supply chain can coordinate their value creating activities with each another and, in the process, create greater value to their products than they used to create when operating independently. Supply chains create synergies as follows:

- Expand the traditional markets beyond their original boundaries and thus increase sales volume for members
- Reduce the transaction cost, marketing cost of products and thus increase the gross margin for the working capital committed by members of the chain and
- Target specific market segments with specific products and differentiate the service through product quality or brand reputation of the products delivered to these

market segments and thus increase consumer perception of delivered value. In this way, they allow chain members to realize higher value.

6.2.3 Components of Supply Chain: The ability of supply chain to offer solutions to the problems identified at different levels in the production and movement of commodity from production point to consumers is expressed, as below:

Component	Problems	Solutions
Agriculture input	Low quality, spurious, costly	Input management
Farm	Technical know-how, small land holding, low productivity and yield	Contract farming
Market	Long intermediary chain and high losses	Planned logistics
Processing	Unsuitable quality	Proper infrastructure
Distribution	Inventory control and Demand forecasting	Modern distribution management
Consumers	Brand clutter	Brand differentiation

6.2.4 Aims of Supply Chain Management

- Supply Chain Management may help in achieving following aims
- Reduction of product losses in transportation and storage
- Aims to increases the sales
- Dissemination of technology, advanced techniques, capital and knowledge among the chain partners
- Better information about the flow of products, markets and technologies

- Better control of product safety and quality
- Sharing of large investments and risks among partners in the chain

6.3 VALUE CHAIN MANAGEMENT

6.3.1. The concept of agricultural value chain: The concept of agricultural value chain covers the full range of activities and participants involved in moving agricultural products from farm gate to the table of consumer. A full range of activities required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers and final disposal after use.*(Kaplinsky and Morris, 2000)*

6.3.1.1 Role of value chain management in agriculture marketing: Value chains may include a wide range of activities. Agricultural value chain might include activities like development and dissemination of plant and animal genetic material, input supply, farmer organization, farm production, post-harvest handling, processing, provision of technologies of production and handling, grading criteria and facilities, cooling and packing technologies, post-harvest local processing, industrial processing, storage, transport, finance, and feedback from markets.

At different stages of value chain, different stakeholders add value to the product to increase the end product value. In other words, a value-chain analysis looks at every step from raw materials to the eventual end-user – right down to disposing of the packaging after use. The goal is to deliver maximum value to the end user for the least possible total cost. That makes supply-chain management a subset of the value-chain analysis.

6.3.1.2Constraints/Issues in VCA

The development of agri-value chains mainly in India are constrained by various factors as typed below -

- Poor quality of seeds and varieties inappropriate for the various uses
- Poor quality of product at harvest with grains of inconsistent size and coloration
- Inadequate threshing techniques and post-harvest drying and storage, which reduce quantity and market quality
- Inadequate grading
- Insufficient market development and communication with markets regarding varieties and quality of sorghum desired
- Insufficient training and finance for improved post-harvest management

6.3.1.3 Value chain and issues with small holders: The nature of development of agriculture in India is characterized by dual value chains operating in parallel for the same product, one informal (traditional) and the other formal (modern). Majority of small farmers are frequently involved in informal chains that deliver products to local middlemen and through small local stores to the consumers. Formal value chains can deliver the same product from larger farms or more organized groups of small farmers to more commercial wholesalers and from there to supermarkets or exporters. Many times small holders find it difficult to integrate with high value chains due to constraints like low quality and lack of awareness on primary processing. Hence, it is required to integrate small producers into modern value chains by finding suitable ways and adopting appropriate strategies.

6.3.2 Constraints of small farmers

Participation of small holders in organized value chain is constrained by various factors, like

- **Production and price risks:** Production and price risks are higher for smallholder farmers in market oriented economies. Institutional mechanisms to guard against such risks are rare in developing countries and therefore farmers grow low risk-low profit crops
- **Access to credit:** Value addition requires investment and financial resources but smallholders are capital starved and need credit support. Credit markets are imperfect, fragmented and underdeveloped.
- **Access to new technologies:** Efficient production of high value commodities requires a different set of inputs and technologies, which are not commonly available to a smallholder farmer.
- **Poor farming skills:** Majority of farmers are illiterate and practicing farming in traditional way with low level of productivity and poor quality of produce. Therefore, it is necessary to provides improved technologies, technical assistance and information to the producers to improve the quality of the output and improve their chances of getting integrated with emerging VCs.

6.4 BENEFITS OF SUPPLY CHAIN MANAGEMENT

- Agricultural supply chain includes the full range of activities and participants involved in moving products from input suppliers to farmers fields, and ultimately, to consumers.
- Each stakeholder in the chain has a link to the next in order to form a viable chain. By understanding the complete production to consumption system of

crops, it is possible to determine how the marketing and value-addition activities take place and who shares how much benefit from such activities.

- Linkage of farmers to the markets through efficient chains would reduce the use of intermediaries in the chain, and strengthen the value-adding activities
- This process of value addition can raise the income of farmers and will provide an incentive for improving their management practices towards higher farm productivity
- The income of the farmers can be enhanced by increasing production, value addition, and better marketing options.
- A better linkage between producers and rest of the players will benefit all the stakeholder involved in input/technology supply and output marketing.

6.5 LET'S SUM UP

The concepts like supply chain and value chains can play an important role in transforming India agriculture and overcoming various problems. Farmers, traders, wholesalers, retailers, big retail chains and consumers are major actors in the chain of activities. With the collective enlightenment of all relevant stakeholders, proper enabling environment (institutions, infrastructure and policy) can be created to benefit different actors. This will help in minimizing costs and maximizing customer satisfaction by providing the right product at the right time, right place and the right price. Conversely, Value Chain is a way of getting a competitive advantage through which a producer can get remunerative price for his produce by staying competitive.

6.6 CHECK YOUR PROGRESS

1. What do you mean by supply chain management (SCM)? Kindly explain the importance of SCM in agriculture.
2. What are the components of supply chain management? Discus in brief.

3. Define the value chain analysis and write the difference between the supply chain and value chain management.
4. What are the different constraints that limit participation of smallholders in emerging high-value chains?

6.7 FURTHER READING/ LINKS

1. Birthal, Pratap S., Joshi, P.K. and Gulati, Ashok (2007) Vertical coordination in high-value food commodities: Implications for smallholders. In: Agricultural Diversification and Smallholders in South Asia, Eds: P.K. Joshi, Ashok Gulati and Ralph Cummings (Jr). Academic Foundation, New Delhi.
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3. Jon Hellin and Madelon Meijer (2006) Guidelines for value chain analysis. Food and Agricultural Organization (FAO).
4. ag.arizona.edu/arec/pubs/dmkt/dmkt.html
5. agecon.lib.umn.edu/ndsu/aer419.pdf
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BLOCK III – BUSINESS MANAGEMENT

UNIT 1:

FUNDAMENTALS OF BUSINESS MANAGEMENT

Highlights of the Unit

- Objective
- Introduction
- Definition and Concepts of Management
- Importance of Management
- Characteristics of Management
- Functions of Management
- General Principles of Management
- Let's Sum up
- Check Your Progress
- Further Suggested Reading/Links

1.0 OBJECTIVE

After studying this lesson, the learners will be able to:

- Define and explain the concept of Management
- Understand the importance of the Management
- Identify the characteristics of Management
- Describe the functions of Management
- Describe the principals of Management

1.2 INTRODUCTION

Let's consider a business enterprise, it may be an industry or it may be a trading concern. In both the cases, to start and run the business some amount of money is needed, some materials, few machines and some men are required, and some processes are involved. All these are considered the inputs for a business that result in output in terms of products or services. However, with same amount of money, raw materials, machines and men, and following the same processes, the output may not be same in all cases. For example, with same amount of money, men, machines and materials, if A and B start a similar business independently, the result may not be the same for both. A may do well whereas B may not. However, this is because the inputs do not become output by themselves. Various activities are required and these need to be properly directed, coordinated and integrated so that the inputs produce good results. This process of using various resources (inputs) to produce some results (outputs) is known as management, and the degree of success varies according to the efficiency with which the resources are managed. Hence, it is important to understand the fundamentals of business management.

1.3 DEFINITION AND CONCEPTS OF MANAGEMENT

Management is a universal phenomenon. It is a very popular and widely used term. All organizations - business, political, cultural or social are involved in management because it is the management which helps and directs the various efforts towards a definite purpose. According to Harold Koontz, "Management is an art of getting things done through and with the people in formally organized groups. It is an art of creating an environment in which people can perform and individuals and can co-operate towards attainment of group goals". According to F.W. Taylor, "Management is an art of knowing what to do, when to do and see that it is done in the best and cheapest way".

Management is a purposive activity. It is something that directs group efforts towards the attainment of certain pre - determined goals. It is the process of working with and through others to effectively achieve the goals of the organization, by efficiently using limited resources in the changing world. Of course, these goals may vary from one enterprise to another. E.g.: For one enterprise it may be launching of new products by conducting market surveys and for other it may be profit maximization by minimizing cost.

Management involves creating an internal environment: - It is the management which puts into use the various factors of production. Therefore, it is the responsibility of management to create such conditions which are conducive to maximum efforts so that people are able to perform their task efficiently and effectively. It includes ensuring availability of raw materials, determination of wages and salaries, formulation of rules & regulations etc.

Therefore, we can say that good management includes both being effective and efficient. Being effective means doing the appropriate task i.e., fitting the square pegs in square holes and round pegs in round holes. Being efficient means to do the task correctly at least possible cost with minimum wastage of resources.

Management refers to the process of using men, money, machines, material and processes through proper direction, coordination and integration of several activities so as to produce desired results and attain predetermined goals. In other words, management consists of a series of activities classified into various functions like planning, organizing, staffing, directing and controlling.

1.4 IMPORTANCE OF MANAGEMENT

i. **Attainment of Goals -** It arranges the factors of production, assembles and organizes the resources, integrates the resources in effective manner to achieve goals. It directs group efforts towards achievement of pre-determined goals. By defining objective of organization clearly there would be no wastage of time, money and effort. Management converts disorganized resources of men, machines, money etc. into useful enterprise. These resources are coordinated, directed and controlled in such a manner that enterprise work towards attainment of goals.

ii. **Optimum Utilization of Resources -** Management utilizes all the physical & human resources productively. This leads to efficacy in management. Management provides maximum utilization of scarce resources by selecting its best possible alternate use in industry from out of various uses. It makes use of experts, professional and these services leads to use of their skills, knowledge, and proper utilization and avoids wastage. If employees and machines are producing its maximum there is no under employment of any resources.

iii. **Reduces Costs -** It gets maximum results through minimum input by proper planning and by using minimum input & getting maximum output. Management uses physical, human and financial resources in such a manner which results in best combination. This helps in cost reduction.

iv. **Establishes Sound Organization -** No overlapping of efforts (smooth and coordinated functions). To establish sound organizational structure is one of the objectives of management which is in tune with objective of organization and for fulfillment of this, it establishes effective authority & responsibility relationship i.e. who is accountable to whom, who can give instructions to whom, who are superiors & who are subordinates. Management fills up various positions with right persons, having right skills, training and qualification. All jobs should be cleared to everyone.

v. **Establishes Equilibrium -** It enables the organization to survive in changing environment. It keeps in touch with the changing environment. With the change is external environment, the initial co-ordination of organization must be changed. So it adapts organization to changing demand of market / changing needs of societies. It is responsible for growth and survival of organization.

vi. **Essentials for Prosperity of Society -** Efficient management leads to better economical production which helps in turn to increase the welfare of people. Good management makes a difficult task easier by avoiding wastage of scarce resource. It improves standard of living. It increases the profit which is beneficial to business and society will get maximum output at minimum cost by creating employment opportunities which generate income in hands. Organization comes with new products and researches beneficial for society.

1.5 CHARACTERISTICS OF MANAGEMENT

The various characteristics of management are:

(a) Management is universal: It means that management is required for every type of organization. It may be a business organization or social or political. It may be a small firm or a large one. Management is required by a school or a college or university or a hospital or a big firm like Reliance Industries Limited or a small variety store in your locality. Thus, it is a universal phenomenon and is common and essential element in all organizations.

(b) Management is goal directed: Every organization is created to achieve certain goals. For example, for a business firm it may be to make maximum profit and/or to provide quality products and services. Management of an organization is always aimed at achievement of the organizational goals. Success of management is determined by the extent to which these goals are achieved.

(c) Management is a continuous process: Management is an ongoing process. It continues as long as the organization exists. No activity can take place without management. To perform all activities like production, sale, storage, operation etc. management is required. So, as long as these activities continue the process of management also continues to operate.

(d) Management is an integrating process: All the functions, activities, processes and operations are intermixed among themselves. It is the task of management to bring them together and proceed in a coordinated manner to achieve desired result. In fact, without integration of men, machine and material and coordination of individual efforts to contribute successfully as a team, it will be difficult to achieve organizational goals.

(e) Management is intangible: Management is not a place like a graphic showing Board meeting or a graphic showing a school Principal at office desk which can be seen. It is an unseen force and you can feel its presence in the form of rules, regulation, output, work climate, etc.

(f) Management is multi-disciplinary: Management of an organization requires wide knowledge about various disciplines as it covers handling of man, machine, and material and looking after production, distribution, accounting and many other functions. Thus, we find the principles and techniques of management are mostly drawn from almost all fields of study like – Engineering, Economics, Sociology, Psychology, Anthropology, Mathematics, Statistics etc.

(g) Management is a social process: The most important aspect of management is handling people organized in work groups. This involves developing and motivating people at work and taking care of their satisfaction as social beings. All managerial actions are primarily concerned with relations between people and so it is treated as a social process.

(h) Management is situational: The success of management depends on, and varies from, situation to situation. There is no best way of managing. The techniques and principles of management are relative, and do not hold good for all situations to come.

1.6 FUNCTIONS OF MANAGEMENT

Management has been described as a social process involving responsibility for economical and effective planning & regulation of operation of an enterprise in the fulfillment of given purposes. It is a dynamic process consisting of various elements and activities. These activities are different from operative functions like marketing, finance, purchase etc. Rather these activities are common to each and every manger irrespective of his level or status.

Different experts have classified functions of management. According to *George & Jerry*, "There are four fundamental functions of management i.e. planning, organizing, actuating and controlling".

According to Henry Fayol, "To manage is to forecast and plan, to organize, to command, & to control". Whereas Luther Gullick has given a keyword '**POSDCORB**' where P stands for Planning, O for Organizing, S for Staffing, D for Directing, Co for Co-ordination, R for reporting & B for Budgeting. But the most widely accepted are functions of management given by Koontz and O'Donnell i.e. Planning, Organizing, Staffing, Directing and Controlling.

For theoretical purposes, it may be convenient to separate the function of management but practically these functions are overlapping in nature i.e. they are highly inseparable. Each function blends into the other & each affects the performance of others.

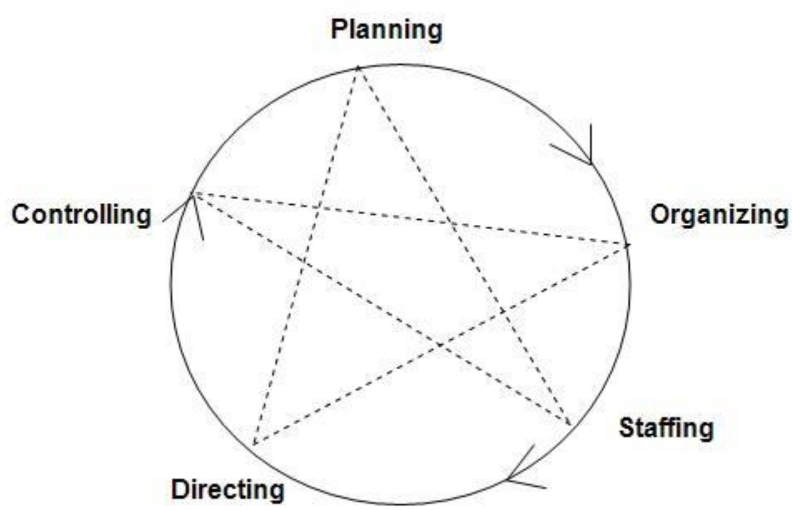

Fig 1: Functions of management

A. Planning: It is the basic function of management. It deals with chalking out a future course of action & deciding in advance the most appropriate course of actions for achievement of pre-determined goals. According to Koontz, "Planning is deciding in advance - what to do, when to do & how to do. It bridges the gap from where we are & where we want to be". A plan is a future course of actions. It is an exercise in problem solving & decision making. Planning is determination of courses of action to achieve desired goals. Thus, planning is a systematic thinking about ways & means for accomplishment of pre-determined goals. Planning is necessary to ensure proper utilization of human & non-human resources. It is all pervasive, it is an intellectual activity and it also helps in avoiding confusion, uncertainties, risks, wastages etc.

B. Organizing: It is the process of bringing together physical, financial and human resources and developing productive relationship amongst them for achievement of organizational goals. According to Henry Fayol, "To organize a business is to provide it with everything useful or its functioning i.e. raw material, tools, capital and personnel's". To organize a business involves determining & providing human and non-human resources to the organizational structure. Organizing as a process involves:

- Identification of activities.
- Classification of grouping of activities.
- Assignment of duties.
- Delegation of authority and creation of responsibility.
- Coordinating authority and responsibility relationships.

C. **Staffing:** It is the function of manning the organization structure and keeping it manned. Staffing has assumed greater importance in the recent years due to advancement of technology, increase in size of business, complexity of human behavior etc. The main purpose of staffing is to put right man on right job i.e. square pegs in square holes and round pegs in round holes. According to Kootz & O'Donnell, "Managerial function of staffing involves manning the organization structure through proper and effective selection, appraisal & development of personnel to fill the roles designed in the structure".

Staffing involves:

- Manpower Planning (estimating man power in terms of searching, choose the person and giving the right place).
- Recruitment, Selection & Placement.
- Training & Development.
- Remuneration.
- Performance Appraisal.
- Promotions & Transfer.

D. Directing: It is that part of managerial function which actuates the organizational methods to work efficiently for achievement of organizational purposes. It is considered life-spark of the enterprise which sets it in motion the action of people because planning, organizing and staffing are the mere preparations for doing the work. Direction is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organizational goals. Direction has following elements:

- Supervision
- Motivation
- Leadership
- Communication

Supervision- implies overseeing the work of subordinates by their superiors. It is the act of watching & directing work & workers.

Motivation- means inspiring, stimulating or encouraging the sub-ordinates with zeal to work. Positive, negative, monetary, non-monetary incentives may be used for this purpose.

Leadership- may be defined as a process by which manager guides and influences the work of subordinates in desired direction.

Communications- is the process of passing information, experience, opinion etc. from one person to another. It is a bridge of understanding.

E. **Controlling:** It implies measurement of accomplishment against the standards and correction of deviation if any to ensure achievement of organizational goals. The purpose of controlling is to ensure that everything occurs in conformities with the standards. An efficient system of control helps to predict deviations before they actually occur. According to *Theo Haimann*, "Controlling is the process of checking whether or not proper progress is being made towards the objectives and goals and acting if necessary, to correct any deviation". According to Koontz & O' Donell "Controlling is the measurement & correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished". Therefore, controlling has following steps:

a. Establishment of standard performance.
b. Measurement of actual performance.
c. Comparison of actual performance with the standards and finding out deviation if any.
d. Corrective action.

1.7 GENERAL PRINCIPLES OF MANAGEMENT

Scientific management was primarily concerned with increasing the efficiency of individual workers at the shop floor. It did not give adequate attention to role of managers and their functions. However, around the same time Henry Fayol, Director of a coal mining company in France made a systematic analysis of the process of management. He strongly felt that managers should be guided by certain principles, and evolved 14 general principles of management which are still considered important in management. These are:

1) **Division of Work:** This principle suggests that work should be assigned to a person for which he is best suited. Work should be divided into compact jobs to be assigned to individuals. This facilitates specialization and improves efficiency.

2) **Authority and Responsibility:** Responsibility means the work assigned to any person, and authority means rights that are given to him to manage people and things to ensure performance. In other words, authority should go hand in hand with the responsibility for effective results.

3) **Discipline:** This principle emphasizes that subordinates should respect their superiors and obeys their orders. On the other hand, superiors' behavior should be such that they make subordinates obedient. If such discipline is observed, there will be no problem of industrial disputes.

4) **Unity of Command:** A subordinate should work under the supervision of one superior only from whom he gets instructions and to whom he is accountable. It avoids confusion in authority and instructions.

5) **Unity of Direction:** Each group of activities having the same objective must have one head and one plan of action. Otherwise, there may be wastage, over expenditure and useless rivalry among the managers.

6) **Subordination of Individual Interest to General Interest:** While taking any decision, the collective good and collective interest of the organization as a whole should be referred to individual interests. The individual's interest should be subordinated to the overall interest of the organization. This ensures welfare of the organization as well as its individual members.

7) **Remuneration:** Management should try to give fair wages to the employees so as to ensure reasonable satisfaction of workers and productivity for the organization.

8) **Centralization:** When a single person controls the affairs of an organization, it is said to be complete centralization. In small concerns, a single manager can supervise the work of the subordinates easily, while in a big organization, control is divided among a number of persons to facilitate operational decision making at various levels. Fayol's opinion was that there should be a proper balance between centralization and delegation of authority in an organization.

9) **Scalar Chain:** This is the chain of authority relationship from the highest to the lowestranks. This implies that subordinates report to their immediate supervisors who, in turn, report directly to their own boss. The order of this chain should be maintained when some instructions are to be passed on or enquiries are to be made.

10) **Order:** Placement of men and materials should be properly made. Proper space should be made available where materials can be kept safely. Each man should be provided the work for which he is best suited.

11) **Equity:** This principle requires the managers to be kind and just to workers. This promotes a friendly atmosphere between superiors and subordinates and motivates them to perform their duties efficiently.

12) **Stability of Tenure:** Employees should be provided stability and continuity of their tenure of employment. There should not be frequent termination of employees. This could be achieved through attractive remuneration and honorable treatment of personnel.

13) **Initiative:** This implies encouraging initiative among its personnel to chalking out and execution of a plan to achieve the desired results.

14) **Esprit de Corps:** These French words mean team spirit. Managers should infuse the spirit of team work and cooperation among the employees. It helps in developing an atmosphere of mutual trust and a sense of unity.

Fayol made it clear that these principles can be applied to most organizations, but these are not absolute principles. Organizations are at liberty to adopt those which suit them or to delete a few according to their needs.

1.8 LET'S SUM UP

It is important to understand the fundamentals of business management to become efficient by getting optimum output with minimum input. Characteristics and Functions help to get the better understanding of operational processes of Management. From the knowledge of principles, managers get indication on how to manage an organization. The principles enable managers to decide what should be done to accomplish given tasks and to handle situations which may arise in management. These principles make managers more efficient.

1.9 Check Your Progress

1. Why management is important?
2. What are the characteristics of Management?
3. What are the functions of the Management?
4. Enlist the principles of Management.

1.10 FURTHER SUGGESTED READING/LINKS

https://vtechworks.lib.vt.edu/bitstream/handle/10919/70961/Fundamentals%20of%20Business%20%28complete%29.pdf

http://www.ddegjust.ac.in/studymaterial/mcom/mc-101.pdf

https://www.managementstudyguide.com/all-subjects.htm

http://download.nos.org/srsec319new/319EL10.pdf

UNIT 2:

ESSENTIALS OF BUSINESS

Highlights of the Unit

- Objective
- Introduction
- Important Business Skills
- Importance of Time Management
- Criteria for successful business
- Importance of Managing relationships with Stakeholders
- Let's Sum up
- Check Your Progress
- Further Suggested Reading/ Links

2.0 OBJECTIVE

After studying this lesson, the learners will be able to:

- Understand entrepreneur and characteristics of entrepreneurs
- Understand the requirement of skill and resources
- Importance of time management
- Criteria for successful business
- Importance of managing relationships

2.1 INTRODUCTION

A business is any activity that provides goods or services to consumers for the purpose of making a profit. Making a business successful involves in depth understanding of several basic components of business. In this chapter we will understand the essentials of business which includes entrepreneurs and their characteristics, managing the resources, required skills, time management and managing the relationships.

Defining Entrepreneur

The word 'Entrepreneur' is derived from the French word "Entreprendre" means, "to undertake."

Entrepreneurs are action-oriented highly motivated individuals who take risks to achieve goals.

An entrepreneur is someone who develops a business model, acquires the necessary physical and human capital to start a new venture, and operationalizes it and is responsible for its success or failure.

2.1.1 Characteristics of an entrepreneur are;

Entrepreneur is a

a. Change agent
b. Risk taker
c. Profit maker
d. Achievement motivator
e. Capital provider
f. Determinant of the nature of the business
g. Innovator
h. Reward receiver
i. Challenge taker

a. Entrepreneur is an agent: An entrepreneur is perceived as an economic agent who assembles materials for producing goods at a cost that ensures profits and re-accumulation of capital. He is also understood as a change agent who brings about changes in the structure and formation of the organization, market and the arena of goods and services.

b. Entrepreneur is a risk taker

Many experts – old and new, have emphasized this characteristic. Back I955, Redlich pointed out that an entrepreneur is a person who identifies the nature of risk and takes a decision. Later on, Burch, Meredith and other experts have agreed that entrepreneur is a risk taker while undertaking a venture.

c. Entrepreneur is a profit maker

An entrepreneur is an individual who establishes and manages the business for the principal purpose of profit and growth.

d. Entrepreneur is an achievement motivator

David C. McClelland has initiated this concept of the entrepreneur by calling him "as per sun with a strong desire for achievement." Later on, Meredith and others have expressed the same concept while they termed "entrepreneurs are action-oriented, highly' motivated individuals." Therefore, entrepreneurs have to have a deep-rooted need for achieving their goals.

e. Entrepreneur is a capital provider

Entrepreneur is a person who operates a business investing by his or her capital. Abbett first pointed out this characteristic in 1967. It a supported by Nadkami (1975) and Sharma (1981). They perceived entrepreneur as the founder of an enterprise who assembles necessary resources for the operation of the enterprise.

f. Entrepreneur is the determinant of the nature of the business

This characteristic /concept of the entrepreneur was promoted by Evans in 1957 It says that entrepreneur is the person or group of persons who perform the task of determining the kind of business to the operated. Therefore, entrepreneurs promote diversified and distinct types of business in society.

g. Entrepreneur is an innovator

Joseph A. Schumpeter {1934) characterized an entrepreneur as an innovator of new combination in the field of production. Later on Robinson (1962) and Hagen (1962) have described entrepreneur as a person who lakes a small venture to the edge of success by his efforts, innovation and motivation.

Innovation is perceived by the Schumpeter as an action that introduces a product, a new quality, a new method of production, new market and new organization. Therefore, entrepreneur innovates something that brings about disequilibria in the industry.

h. Entrepreneur is a reward receiver

An entrepreneur is a person who creates something new of value by devoting time and efforts and in turn receives monetary and personal rewards. Max Weber, Hartman, Hisrich and Peters have recognized this distinct phenomenon of entrepreneurs.

j. Entrepreneur is a challenge taker

It perceives entrepreneur as a person who accepts challenges for developing and exercising vigilance about success and failure to take a risk and to generate products.

The above-mentioned characterizes of an entrepreneur show' that an entrepreneur is a dynamic person who promotes society and civilization by taking ventures that give an enormous variety of goods and organizations to bring about changes in the arena of industrial activity.

j. Leader

Entrepreneurs not only lead themselves, but they are also skilled at leading others. They know the importance of teamwork, and they understand the need to appreciate others, support them, and reward them accordingly.

2.2 IMPORTANT BUSINESS SKILLS

Entrepreneurs require a number of skills to start and run a business. It is important to identify the skills one needs to develop or improve so that one can succeed in day-to-day business operations.

a. **Financial management:** Being able to effectively manage finances is critical. One should be able to forecast the cash flow and sales, as well as, monitor the profit and loss. Having sound financial management skills will help to run the business profitably and protect the financial investment.

b. **Marketing, sales and customer service:** It is important to be able to promote the products or services effectively. Providing good customer service and having a marketing strategy in place will help to generate sales.

c. **Communication and negotiation:** Entrepreneur needs to communicate and negotiate with suppliers, potential investors, customers and employees. Having effective written and verbal communication skills will help to build good working relationships. Every communication should reflect the image entrepreneur is trying to project.

d. **Leadership:** If people are employed, leadership will be a key skill. Entrepreneurs must be able to motivate their staff in order to get the best out of them and improve productivity. Allocation of time to mentor and coach employees is important.

e. **Project management and planning:** Starting a business means one will have to manage a range of projects, such as setting up a website, arranging the fit-out of premises and developing a range of policies and procedures. Knowing how to effectively manage the resources, including time, money and staff will help to achieve the goals.

f. **Delegation and time management:** Failure to delegate is a trap many business owners fall into usually because they are reluctant to let go of control. Managing time effectively may mean delegating responsibility to someone else in the business or outsourcing. Identifying who you can delegate tasks to, allows to concentrate on those tasks that generate revenue.

g. **Problem solving:** However much we plan, we will encounter problems in business. This means one need to be able to make good decisions, sometimes under pressure.

h. **Networking:** Building good relationships through networking will help to grow the business and give the support needed.

2.3 IMPORTANCE OF TIME MANAGEMENT

To become more productive, entrepreneurs keep themselves busy in some activity or the other. They take more work than actually they have time and energy for.

As a quote says, it is not enough to be busy, the question is: What are we busy about? By Henry David Thoreau aptly suits the budding entrepreneurs. Entrepreneurs leading a company must know the importance of time.

An individual should understand the value of time to succeed in all aspects of life. Basically time management refers to managing time effectively so that the right time is allocated to the right activity. It refers to making the best use of time.

a. **Prioritize -** Prioritizing each item on to-do list will help you stay focused on hitting day-to-day, and overall, goals. Ask oneself, "What absolutely needs to be done by the end of the day?" Rank each item by its importance - or deadline - and start working down the list. If anything unexpected comes up during the day, better knowing that the most time-sensitive tasks have already been addressed.

b. **Set Measurable Goals -** This is essential for both business owners, and employees. Establishing clear-cut goals will help measure the success of your work and effectively track progress that one has made toward that goal. As a company, entrepreneur should be asking questions like "Where do we want to be next year, at this time? How much revenue do we need to make next month to stay on track?" The answers to your questions should form measurable, tangible goals that you can communicate to your employees. Time management means that you are not only productive with your time, but your productivity is focused on achieving your company's goals.

c. **Plan Ahead -** Planning ahead today saves you time, and unnecessary stress, tomorrow. Once you have established your goals, you can also start working on a feasible timeline to reach them. An important part of planning is to be realistic about what you can achieve and how quickly you can work through that timeline. Don't fall into the trap of being overly-ambitious with every deadline - although time is money, ensuring that you have enough time to deliver a high-quality product, or service, should always be a top priority. Never meeting deadlines can discourage your employees as well, so be sure to set reasonable goals and communicate to your team exactly what needs to be accomplished to meet them.

d. **Know When to Delegate -** As a business owner, your time is often divided between day-to-day operations and big-picture responsibilities. Knowing when it's appropriate to delegate some of those tasks to other team members can save you quite a bit of time. It's also a great opportunity to motivate

2.4 CRITERIA FOR SUCCESSFUL BUSINESS

The following five criteria's should be checked to understand if the business is running successfully -

a. There is a need or demand for the service/product
b. The barriers to entry are not too low

c. Entrepreneur should have control of decisions regarding the business
d. The business doesn't totally rely on your time input to operate
e. The business is scalable

a. There is a need or demand for the service/product

In the early days, when one wants to start a business, have to do some market research to find out whether or not there is any actual demand for the services or products that one intended to deliver to the target market.

Testing the market to gauge whether there is a gap in existing needs fulfillment or a totally unexploited area within current competitive offerings is prudent. Of course if no one needs or wants what you're offering then there is no viable business to be had.

b. The barriers to entry are not too low

The next thing to test is how high the barriers to entry are to setting up a business like the one is planning. It means how easy it is for anyone else to start up a business like this? If barriers of entry are low means there's going to be a lot of people that can enter into that market and become the competition.

Most professional service businesses require that entrepreneur have high levels of skills, expertise or qualifications that may take many months or even years to gain. This raises the entry barriers for people entering into any sort of service business that requires skill sets.

c. Entrepreneur should have control of decisions regarding the business

Another thing entrepreneurs need when it comes to owning a good business is control. The level of control one has of the business, day to day, in making decisions, planning and steering direction is critical. If one has to answer to someone else or be second-guessed at every turn then this limits in what direction the business takes.

d. The business doesn't totally rely on entrepreneur's time input to operate

Time is also a factor. How much time does one need to devote to the business to make it viable? To make it pay, to make it profitable? If the amount of money one can make from the business is dependent on how many hours put in, there will be a limitation imposed on the size of the business can grow.

e. The business is scalable

Many business owners hit a ceiling as far as their ability to grow. Most of the time this is due to a lack of systems in place to allow the business owner to step back and work on the business. Many entrepreneurs plan for growth in the future from the very start of their business journey. They ensure they develop and implement systems and processes that enable the business to scale and grow in their vision of the future.

If entrepreneur build a business with these attributes it will reward him handsomely not only while owning it, but when decided to sell. A savvy buyer will pay a premium for a well set up business!

2.5 IMPORTANCE OF MANAGING RELATIONSHIPS WITH STAKEHOLDERS

Effective management of relationships with stakeholders is crucial to resolving issues faced by businesses. By using their influence, stakeholders hold the key to the environment in which the business operates and its subsequent financial and operating performance. Thus the effective management of stakeholder relations should be an essential focus of PR and organizational activity.

A stakeholder is any person, group or organization who can place a claim on the business's attention, resources or output, or is affected by that output. They have a stake in the business, something at risk, and therefore something to gain or lose as a result of corporate activity.

The aim of stakeholder relations management is to influence stakeholder attitudes, decisions, and actions for mutual benefit. Stakeholders need to gain from the relationship or they may not be sufficiently motivated to cooperate.

The first main steps in stakeholder relations management are to identify and prioritize stakeholders. Then stakeholder planning can be done to build the support that helps the business succeed.

The benefits of using a stakeholder-based approach are:

- The viewpoints of the main stakeholders can be used to help shape the business at an early stage. This makes it more likely they will support, and their input can also improve the quality of the business.
- Gaining support from powerful stakeholders for business can help in allocating more resources. This makes it more likely the business will be successful.
- By communicating with stakeholders early and often, entrepreneurs can ensure they know what you are doing and fully understand the benefits of your project. This means they can support you actively when necessary.

You can anticipate what stakeholders' reaction to your project is likely to be, and then you can build into your plan the actions that will win their support.

2.6 LET'S SUM UP

To make a business successful, entrepreneurial traits and skills are required and these can be learned and practiced. Along with business skills, soft skills in business makes lot of difference and add value to it. Time management, financial management, understanding of market dynamics and competitors, strategic planning and cordial relationship management with all stakeholders is crucial to make the business successful. **2.7 Check Your Progress**

1. Define Entrepreneur and enlist the characteristics of entrepreneurs.

2. Briefly explain the important skills required for business.
3. What is importance of time management? How will you manage your time?
4. How to make business successful?

2.8 FURTHER SUGGESTED READING/LINKS

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UNIT 3:

BUSINESS DEVELOPMENT PROCESS

Highlights of the Unit

- Objective
- Introduction
- Market Research
- Identification of Business Opportunity
- Idea Generation

3.0 OBJECTIVE

After studying this lesson, the learners will be able to understand:

- Market Research and market research process,
- Opportunity Identification,
- Idea Generation,
- Implementation,
- Commercialization

3.1 INTRODUCTION

Establishing a successful business involves a systematic process. It starts with market research followed by identifying the right opportunity, generating several potential ideas and selecting the best suitable one, appropriate implementation and then finally commercialization. During the process, entrepreneurs have to continuously innovate the processes and overcome the hurdles.

3.2 MARKET RESEARCH

With constant change being the norm in marketing and business, one thing remains the same: the need for marketing research. Marketing research helps individuals and organizations identify opportunities and evaluate business decisions using data. In short, the marketing research process is the backbone of informed business decisions.

Generally, marketing research is one of the first things that entrepreneurs cut from their budgets because of the high time (and sometimes monetary) investment. This is not exactly the good decision, especially when one wants to start a business or the company is planning to launch a new product or venturing into a new market.

Best practices when going through the five-step marketing research process are as follows:

a) **Define the Problem or Opportunity:** The most important part of the marketing research process is defining the problem. In order to do any research and collect data, one has to know what you are trying to learn from the research. In marketing research, defining the problem you need to solve will determine what information you need and how you can get that information. This will help you clarify the overarching problem or opportunity, such as how to best address the loss of market share or how to launch a new product to a specific demographic.

b) **Develop Research Plan:** After examining all potential causes of the problem and have used those questions to boil down exactly what one is trying to solve, it's time to build the research plan. The research plan can be overwhelming to create because it can include any method that will answer the research problem or explore an opportunity identified in step one.

To help develop the research plan, let's review a few techniques for conducting research:

- **Interview prospects and customers:**Oftentimes, we get the best feedback by using this tactic because we go straight to the source. This might take the form of a focus group or one-on-one interviews. Use your defined research problem to help select the right people to interview.
- **Conduct a survey using online tools:**Run user tests on website or landing page(s). This is a cost-effective study that can provide a lot of insight and data into how customers or potential customers behave or respond to something, whether it's new messaging or branding or a modified product or service you are thinking about offering. Use heat mapping toolsand website analytics tools, such as Google Analytics, to track results depending on what data you need to collect.

Oftentimes, we do all of this work and gather all of the data only to realize that we didn't have to reinvent the wheel because someone has already run a similar, credible study or solved the same problem. That doesn't mean you don't need to do any research, but learning about what other organizations have done to solve a problem or seize an opportunity can help you tweak your research study and save you time when considering all of the research options. In marketing research, this is called secondary data because it has already been collected, versus the primary data that you would collect through your own research study.

c) **Collect Relevant Data and Information:** In marketing research, most of the data you collect will be quantitative (numbers or data) versus qualitative, which is descriptive and observational. Ideally, you will gather a mix of the two types of data. For example, you might run an A/B test to see if a new pricing tier would bring in more business. In that research study, you might also interview seven customers about whether or not the new pricing tier would appeal to them. This way, you're receiving hard data and qualitative data that provide more color and insight.

When collecting data, make sure it's valid and unbiased. You would never ask a research interviewee, "You think that we should offer a higher pricing tier with additional services, correct?” This type of question is clearly designed to influence the way the person responds. Try asking both open-ended and closed-ended questions (for instance, a multiple-choice question asking what income range best describes you).

d) **Analyze Data and Report Findings:** After gathering the needed information, analysis of the data should be done. It is important to look for trends as opposed to specific pieces of information. While analyzing the data, don’t try to find patterns based on own assumptions prior to collecting the data.

Sometimes, it’s important to write up a summary of the study, including the process that you followed; the results, conclusions, and what steps you recommend taking based on those results. Even if you don’t need a formal marketing research report, be sure that you review the study and results so that you can articulate the recommended course of action. Sharing the charts and data you collected is pointless if it doesn’t go hand in hand with action.

Is your hypothesis proven wrong? Great—that’s why you do testing and don’t run with assumptions when making decisions that could have a major impact on your organization. It’s always better to take the results as they are, instead of twisting the data to show that you were right.

e) **Take Action:** Once the research is complete, it’s time to take action. Start developing marketing campaigns. Put your findings to the test and get going! The biggest takeaway here is that, although this round of research is complete, it’s not over.

The problem, business environment, and trends are constantly changing, which means that your research is never over. The trends you discovered through your research are evolving. You should be analyzing your data on a regular basis to see where you can improve. The more you know about your buyer personas, industry, and company, the more successful your marketing efforts and company will be. When you look at it that way, you should start to wonder why so many organizations don't budget time and resources for marketing research.

3.3 IDENTIFICATION OF BUSINESS OPPORTUNITY

In general sense, the term opportunity implies a good chance or a favorable situation to do something offered by circumstances. In the same vein, business opportunity means a good or favorable change available to run a specific business in a given environment at a given point of time.

The term 'opportunity' also covers a product or project. Hence, the identification of an opportunity or a product or project is identical and, therefore, all these three terms are used as synonyms. Tobe successful entrepreneurs, we need to be continually innovating and looking for opportunities to grow our startups.

But how do you find new opportunities to take your startup to new markets and growth levels? Here are four ways to identify more business opportunities.

a) Listen to your potential clients and past leads

When you're targeting potential customers listen to their needs, wants, challenges and frustrations with your industry. Have they used similar products and services before? What did they like and dislike? Why did they come to you? What are their objections to your products or services?

This will help to find opportunities to develop more tailored products and services, hone your target market and identify and overcome common objections.

b) **Listen to customers:** When talking to customers listen to what they saying about the industry, products and services. What are their frequently asked questions? Experiences? Frustrations? Feedback and complaints?

This valuable customer information will help identify key business opportunities to expand and develop current products and services.

c) **Look at competitors:** Do a little competitive analysis (don't let it lead to competitive paralysis though) to see what other startups are doing, and more importantly, not doing? Where are they falling down? What are they doing right? What makes customers go to them over you?

Analyzing your competitors will help you identify key business opportunities to expand your market reach and develop your products and services.

d) **Look at industry trends and insights:** Subscribe to industry publications, join relevant associations, set Google alerts for key industry terms and news and follow other industry experts on social media.

3.4 IDEA GENERATION

The Most Important Sources of Idea Generation are:

a) Customers: All marketing activities focus attention on customer needs & wants. It has been observed in various research study that customer often n gives very good suggestion for such information can be obtained with the help of regular customer service of other techniques like focused group discussion & through interviews.

b) Distribution Channel Members: Distribution personnel who are in touch with customer often give excellent suggestion for new product development. Good marketing companies generally keep regular contact leading stockiest or dealers not only defined various information from their existing but also find information about new products or modification made by competitors. The dealer conference can also bring about such new idea.

c) **Competitors:**All marketing companies keep a close watch on development carried out by competitors & these are collected by their own sales force, & dealers. A company should monitor such development activities of competitors; accordingly build their new product development activity.

d) **Own Sales Force:**The Company's sales force who is actually working but have failed in selling, but are in touch with dealers & consumers know about shortcomings of their products & they can often give good ideas for new product development.

e) **Marketing Research and Advertising Agencies:**Advertising agencies/dealers can often suggest new ideas to the management as these agencies are involved in studying consumer & market behavior, lifestyle changes.

f) **Suppliers & Vendors:**New product ideas can be obtained from suppliers or vendors who are dealing with customers. They may suggest certain improvement in quality or growing for new products with the help of raw materials.

g) **Company Management:**Many times owners saved us and members of management have given brilliant ideas for product development & these ideas should be carefully studied.

h) **Scientist & Consultant:**New innovative ideas have being developed through basic & industrial research centers.

3.5 IMPLEMENTATION

a) **Idea Scanning:** In idea generation the objective is to create number of new ideas. The major objective of the idea scanning is to reduce number of ideas by retaining goods & relevant ideas. The new products short listed after screening could need consider prices, development time, manufacturing cost, & rate of return on investment. The consumer welfare should be kept in mind in making choice of product.

b) **Concept Development and Testing**: For the ideas which survive in second stage of product development i.e. screening stage firm used concept testing. Getting reaction from customers on how well new ideas fit with their needs. Concept testing uses market research. It is important to distinguish between product idea & services & as important to specialty chemicals, restaurants and engineering products.

c) **Business Analysis:** Once the product concept has been developed which would be acceptable in market to satisfy needs & wants of the customers next stage is business analysis. The company can analyze its external & internal environment Analysis of internal environment included analysis of its own strength & weakness, while analysis of the opportunities & threats.

Company always tries to watch its strength with opportunities try to reduce its weakness & threats. The company will assess future sales, cost, and profit. Total cost of production, sales, distribution cost, marketing cost, product development & R&D cost, allocation of overheads are decided after, consultation with all functional depts. Involved in developing, designing, production, sale, marketing, purchase & finance departments.

d) **Market Strategy Development**: The market strategy will include target market selection, market size, location of major markets & sub – markets, demographic & consumer characteristics. Sales and profit at the introduction stage & growth stage.

The marketing strategy will also comprise, pricing strategy, distribution strategy, Advertisement & sales promotion strategy. The product positioning brand decisions are also to be taken into consideration.

e) **Market Testing**: Once a developed new product satisfies, all functions performance & overall product style & product & features, the product is taken for actual field trial called, market testing, Market testing of the product is done before commercial launching of the product.

This is helpful to know the consumers reaction, feedback & product performance, Market testing gives useful information regarding product quality, style & features, brand name, packaging as well as distributors, price & type of promotional mix required.

3.6 COMMERCIAL LAUNCHING OF NEW PRODUCTS

In this following factors are important:

1. Time to Launch

2. Place to Launch
3. Segment of target market of Launch

The new product should be introduced at the right time so that it could be sold to the right segment or the target market where, it is needed the most. FMCG can be introduced when the consumer demand is high, seasonal product on consumer durable attempts should be introduced when season is at the peak & not in the off season. The company will have to decide where to go for successful launching of the product.

The safe areas are where the demand is high or volumes are high due to population disposable income of target market. The Company will have to decide area, state region, national market or international market based on companies' strength of resources and profitability, of success of new product.

Company should also consider supply demand situation, population, consumer characteristic, market characteristic, consumer situation & finally government & legal consideration.

3.7 LET'S SUM UP

Business development is a systematic process which if understood and implemented properly will achieve success. All businesses are different and unique in their own ways but the apt process and innovations at all steps will ensure the longer sustainability of the business in the market.

3.8 Check Your Progress

- What are the major steps involved in business development process?
- Explain the process of market research in brief
- How will you identify the business opportunities?
- What are the sources of idea generation?

3.9 FURTHER SUGGESTED READING/LINKS

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UNIT 4:

MANAGING FINANCES

Highlights of the Unit

- Objectives
- Introduction
- Financial Management
- Benefits to farmers
- Functions of financial management
- How to develop financial management skills

4.0 OBJECTIVES

- To understand the concept of farm-financial management
- To know the importance of farm financial management in agriculture
- To develop a financial management plan to identify the activities and resources necessary to achieve stated goals
- To know, how to the prepare and analyze farm financial statements

4.1 INTRODUCTION

Financial management starts with keeping records. In other words, records are the foundation for the financial management of farm business activities. Farm financial management involves the farm as a whole for taking financial decisions. Indeed, the term farm financial management refers to the acquisition and use of financial resources in the individual farm-firm together with the protection of equity.

Indian agriculture is dominated by resource poor marginal, small and medium size farmers. The dependence of farmers on lending institutions for supplement farm-finances has considerably increased. Thus, the lending institutions together with society set the overall framework in which the individual farmer has to manage his finances.

Most farmers still prefer to concentrate on production rather than planning, farm financial management, farm recordkeeping and marketing. However, the escalation in input costs, ability to access capital and greater volatility in commodity markets make financial management skills very important. Those who succeed and sustain their farm business, they have put more emphasis on planning, farm record keeping, profitability analysis and repayment-based financing. While production cannot be neglected, it should be balanced with attention to other key performance areas especially financial management.

4.2 FINANCIAL MANAGEMENT

Financial Management refers to planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

4.2.1 Benefits to farmers

Agricultural finance management is beneficial to the farmers, lenders and extension workers. The economic principles of farm financial management facilitate in optimum combination of different enterprises, resources allocation, control over farm assetsandits efficient use. The investment analysis pertaining to income, repayment capacity and risk bearing ability determine the amount of capital a farm business can profitably and safely use in a long-term on sustainable basis.

Financial management will pinpoint the direction of movementof the farm economics activities.Successful producers will need more information about financial analysis, marketing, analysis of different enterprises and the bottom line contribution of each existing enterprise.

4.2.2 Functions of financial management

- **Estimation of capital requirements:** estimation of capital requirements of the farmdepend upon the expected costs and profits as per the future plans. Proper records will help in making these estimates.
- **Determination of capital composition:** This involves short- term, medium term and long- term debt equity analysis. This will depend upon the proportion of equity capital of firm and additional funds which have to be raised from outside parties.
- **Choice of sources of funds:** For additional funds to be procured, a farm manager may have many choices like loan to be taken from cooperative societies, commercial bank, friends or relatives, etc.
- **Investment of funds:** The farm manager has to decide to allocate funds into profitable enterprises so that there is safety on investment and regular returns is possible.
- **Management of cash:** Cash is required for many purposes like payment of wages and salaries, payment of electricity and water bills, payment to creditors, meeting current liabilities, maintenance of enough stock, purchase of raw materials, etc. Proper records will help in managing cash requirement efficiently.
- **Financial controls:** The finance manager has not only to plan, procure and utilize the funds but he also has to exercise control over finances. This can be done through many techniques like balance sheet, income statement, and cash flow statement ratioetc.

4.3 HOW TO DEVELOP FINANCIAL MANAGEMENT SKILLS

Answer the following questions to bring-in financial management perspective. This process may help farmer understand the importance of financial management in farm-business. Such questions should be addressed continually and not just during an initial planning process.

- Is this an efficient production system?
- Does the farm business have sufficient equity and liquidity to handle adverse condition?
- Is the operation large enough to provide the required family living withdrawal? If not, is there sufficient off-farm income?
- Have the risks involved in the business been adequately analyzed and compensated for?
- Is there a system for obtaining management information and monitoring business performance?

4.4 FINANCIAL STATEMENTS USED FOR MANAGING FARM FINANCE

A farm recordkeeping system facilitates the preparation of financial statements and the monitoring of business performance. Properly prepared balance sheets, income statements and cash flow projections will be needed to help the manager keep the business on right track. This is done by comparing actual performance with the plan and taking necessary actions.

The most useful coordinated financial statements to use for summarizing a farms financial position and for demonstrating managerial ability are the balance sheet, income statement and cash flow statement. These financial statements allow a producer to systematically analyze financial progress, plan operations for the year ahead and demonstrate creditworthiness to lenders. These are the backbone of farm business analysis. These statementsshould be compared over several years for their effective usefulness.

4.4.1 Balance Sheet

The balance sheet, also referred to as the statement of financial position or net worth statement, is a summary of all assets and liabilities of the farming operation at a specific point of time. At a minimum, a balance sheet should be prepared as of the last day of the fiscal year.

The balance sheet provides the foundation for accrual basis accounting. The balance sheet is a financial statement that provides a summary of what the farm-business owns (assets), what the farm-business owes to others (liabilities) and what it owes to the owners (owner's equity). It is also referred to as a statement of assets, liabilities and owner's equity or statement of financial position.

Application of the information contained in the balance sheet is accomplished by the analysis of the various relationships between its three components – assets, liabilities and net worth. This will help in developing a detailed picture of the financial health of the farm business at a specific point in time. Proper use of these financial health indicators will help the farm business manager to make sound farm business management decisions at right time in right direction.

4.4.2 Income Statement

An income statement summarizes income and expense and the resultant net income for an operation. It is sometimes called an operating statement, profit and loss statement or statement of income and expenses. Cash income statements make the summary on a cash basis. Accrued income statements summarize the value of production and the cost of production to produce a "true" net income for the farm.

The purpose of the income statement is to provide information, in summary form, on the results of the farm-business operations for a given time period, for example, a fiscal year. A fiscal year is an accounting period of 12 consecutive months. A business usually completes an income statement at the end of its accounting period.

4.4.3 Cash Flow Statement

A projected cash flow statement is a listing of all anticipated cash inflows and outflows for a specified future period. It includes both farm and non-farm income and all projected cash outflows, including operating expenses and capital outlays, family living expenses, borrowing transactions and tax payments. It provides insight on the changes taking place in cash position of the farm-business during aspecific time period. The objective of this statement is to provide information to the farm-manager about the liquidity and solvency of the farm-business.

Analyzing and application of the information recorded in cash flow statements is of immense help in making sound management decisions. Lack of cash flow often curtail farm plan. Identifying periods with a potential cash flow surplus or cash flow deficit allows the manager to take advantage of opportunities and to plan for periods of cash shortage.

4.4.4 Using and analyzing financial Statements

Farmers should use the information provided by the balance sheet, income statement and cash flow statement to measure and understand farm-business performance. Only by analyzing the components of all three financial statements and their interrelationships, a clear picture of financial position and performance at farm-business can be developed.

There are three warnings that reinforce the importance of using all three statements.

- A business can be going down and still be generating a positive cash flow for a period of time by deferring expenses, restructuring or refinancing debts, selling off assets (including inventories), and not replacing capital assets as they wear out (i.e., living off of depreciation).

- The operator is generating enough off-farm income, assets are appreciating faster than the business is losing money and the operator is inheriting sufficient money (assets) to offset losses, a business has to be profitable to survive in the long run.
- Many farmers have failed even though the business was profitable because they were consuming more than the business was earning.

After a careful review of all factors involved, the farmer may work-out a proper plan. Financial statements that are carefully prepared and analyzed will help the manager see warning signs to make needed adjustments. Good financial analysis does not guarantee success, but it definitely improves the odds.

4.5 LET'S SUM UP

Financial analysis is an important aspect indetermining financial health of a farm-business. Farmers can understand the basics of financial analysis and how to analyse the information available through different farm financial statements. Careful analysis of farm financial records may help in understanding the pattern and amount of financial expenditure on different enterprises. This information will helps in efficient financial planning and effective utilization of farm financial resources. Ultimately, the farm financial management helpsinimproving farm business performance, which in turn helps the farm family to achieve both business and family goals and objectives.

4.6 CHECK YOUR PROGRESS

1) What is financial management; kindly explain the importance of financial management in agriculture?
2) What do you mean by financial statement? Discuss about the different types of farm financial statements.

4.7 FURTHER READING/ REFERENCES/ LINKS

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UNIT 5:

RISK MANAGEMENT

Highlights of the Unit

- Objectives
- Introduction
- Risk and uncertainty in agriculture
- Types of risk
- Why is risk management is important in agriculture
- Risk Management Steps
- Risk management strategies
- Let's Sum up
- Check Your Progress

5.0 OBJECTIVES

- To understand the meaning of risk and uncertainty in agriculture
- To know the different types of risk in agriculture
- To know the different types of strategies for risk management strategies in agriculture

5.1 INTRODUCTION

Agricultural activities are is subject to a wide range of risks due to the various economic, climatic and social factors associated with the environment inwhich farming is practiced. Some of these risk are common to other industries while many are specific to agriculture. Their presence affects production choices with implications on the overall economic efficiency of agricultural production. The realization of the risks not only leads to falls in farm incomes but adversely affect the economic welfare of those involved in agriculture. It has the potential to curtail the investment and growth of farm businesses. It is important to understand the effect of risks on farming and how can risk be mitigated by adopting different techniques.

5.2 RISK AND UNCERTAINTY IN AGRICULTURE

Risk is a situation where all possible outcomes are known for a given management decision and the probability associated with each possible outcome is also known. Risk refers to variability or outcomes which are measurable in an empirical or quantitative manner. Risk is insurable.

Uncertainty exists when one or both of two situations exist for a management decision. Either all possible outcomes are unknown, the probability of the outcomes is unknown or neither the outcomes nor the probabilities are known. Uncertainty refers to future events where the parameters of probability distribution (mean yield or price, the variance, range or dispersion and the skew and kurtosis) cannot be determined empirically. Uncertainty is not insurable.

5.3 TYPES OF RISK

1) **Production Risk:** Agriculture is often characterized by high variability of production outcomes. Unlike most other entrepreneurs, farmers are not able to predict with certainty the amount of output that the production process will yield due to external factors such as weather, pests and diseases. Farmers can also be hindered by adverse events during harvesting or threshing that may result in production loss. Development and adoption of innovations though offer possibilities of better return but also add to production risk in agriculture. In India, more than 63 percent of land is vulnerable to droughts. Droughts lead to economic losses resulting low agricultural production, loss of animal wealth, reduced nutrition and loss of health of workers.

2) **Price or Market risk:** Agri-commodities markets are characterized by risk and uncertainty such as changes in the prices of inputs or outputs. Factors like fluctuations in the prices of inputs and outputs, outside competition, changing supply and demand, market imperfections, changing consumer preferences, etc. result in market risk. Sale of farm produce under distress may take place due to lack of post-harvest processing and lack of infrastructure storage facilities.

3) **Financial and Credit Risk:** Many agricultural production cycles stretch over long periods of time and farmers have to make expenses all through this period. This leads to cash flow problems which further intensified due to lack of access to insurance services, credit and the high cost of borrowing informal sources. This also creates an obligation to repay debt. Rising interest rates, the prospect of loans being called by lenders, and restricted credit availability to the farmers lead to financial risks.

4) **Institutional Risk:** Another Important source of uncertainty for farmers is risk institutional, generated by unexpected changes in regulations that influence farmers' activities. Changes in legal policies, regulations, financial services, level of price or income support payments and subsidies can significantly alter the profitability of farming activities.

5) **Personal Risk:** This risk refers to factors such as problems with human health or personal relationships that can affect the agriculture. Agricultural households, as any other economic entrepreneur, are exposed to personal risks affecting the life and the wellbeing of people who work on the farm.

6) **Resource Risk:** The resource risks include uncertain supply or non-availability of labor (skilled labor), credit, irrigation water and timely supply of desired inputs like seed, fertilizer and plant protection chemicals. Supply of spurious seeds and plant protection chemicals pose a great risk to the producers. Failure of crops due to sub-standard seed or spurious plant protection chemicals causes drain of resources of

the farmer. It inflicts considerable damage not only to value but also on the psyche of the farmer.

7) **Assets Risks:** When all other measures fail, farmers have no option but to sell their assets (like livestock) or to migrate out to regions with better work opportunities. Small farmers are exposed to this risk, the most.

8) **Technology Risk:** Like most other entrepreneurs, farmers are responsible for all the consequences of their activities. Adoption of new technologies like genetically modified crops, investment and associated credit access, exposes farmer to high degree of risk.

5.4 WHY IS RISK MANAGEMENT IS IMPORTANT IN AGRICULTURE

Efficient and effective management of risk will help in making farming a profitable enterprise. Management of risk in agriculture is one of the major concerns of the decision makers and policy planners as risk in farming is considered as one of the major cause of low level of farm investments and diversification towards high-risk high-return enterprises. Both, in turn, have implications for growth in agriculture. In order to develop mechanisms and strategies to mitigate risk in agriculture, it is imperative to know the sources and magnitude of different kind of risks associated with agriculture. Farmers are exposed to wide range of risks like rainfall variability, market price fluctuations, credit uncertainty and adoption of new technology. The diversities in the sources of risks require a variety of instruments offering protection for offering protection to farmers from such risks.

5.4.1 Benefits to farmers: Farmers have to take decisions on crops to be planted, application of seed rates, fertilizer levels and other inputs early in the cropping season. Risk associated with agriculture for various factors like climate, availability of inputs and services bring in an element of uncertainly in all farm management decisions. If everything is known with certainty, decision would be relatively easy. However, in the real world, more successful manager is the ones with the ability to make the best possible decisions within an environment of risk and uncertainty.Therefore,understanding various risk andstrategiesto manage them will help the farmers to take anappropriate decision leading to optimal output.

5.4.2 Methods of reducing risk

The various methods which can be used to reduce risk are discussed as below-

1) **Diversification:** Production of two or more commodities on the farm may reduce income variabilityas; in general, all prices and yields are not low or high at the same time.

2) **Stable enterprises:** Irrigation will provide more stable crop yields than dry land farming. Production risk can be reduced by careful selection of the enterprises with low yield variability. This is particularly important in areas of low rainfall and unstable climate.

3) **Crop and livestock insurance:** For events that can be insured, the risk ofbloss can be covered by availing appropriate insurance policy. This way chance of large loss can be converted into certain cost.

4) **Flexibility:** Diversification is mainly a method of preventing large losses. Flexibility is a method of preventing the sacrifice of large gains. Flexibility allows for changing plans as time passes, additional information is obtained and ability to predict the future improves.

5) **Spreading sales:** Instead of selling the entire crop output at one time, farmers may sell the output in part at different times. Spreading sales helps in managing intra-year price variation.

6) **Hedging:** It is a technical procedure that involves trading in a commodity futures contracts through a commodity broker. This tool may help in managing price risk.

7) **Contract sales:** Producers of some crops like gherkins, vegetablesetc. often sign a contract with a buyer or processor before planting season. A contract of this type removes the price risk at planting time itself.

8) **Minimum support price:** The government purchases the selected farm commodity fromthe farmers at MSP if the market price falls below defined price.

9) **Net worth:** It is the net worth of the business that provides the solvency, liquidity and much of the available credit.

5.4.3 Risk management process: Risk management comprise of all measures that help in identifying and managing risks that put a farm or a firm at risk. Its major goal is to identify, quantify, manage and control potential sources of losses. This contributes to the success and financial sustainability of a farm or firm.

5.5 RISK MANAGEMENT STEPS

i. **Risk identification:** Identification of risk relevant for a specific farm is highly important for instance, livestock farmers will face different risks than arable farms, producers of wheat will be exposed to different risks than producers of sugar beets. Likewise conventional farms will have different risks than organic farms.

ii. **Risk assessment:** Once the risk has been identified, equally important is to assess the frequency and severity of occurrence of risk. This will help in defining appropriate strategy for risk management. It is important to assess the incident rate i.e. the probability of occurrence ofa specific risk. In some cases information is available that makes it possible to quantify the rates of occurrence of risk. This is true, for instance, in the case of weather risks, for which longer-term records are available. In other cases, farmers need to develop subjective assessments of incident rates, taking into account, prior experiences with occurrence of such risks. Another important aspect is to assess the potential loss. It is an assessment of possible financial loss if a risk, such as an animal disease or a hail storm, occurs.

iii. **Risk management:** After relevant risks have been identified and assessed, farmers have to work out a strategy to cope-up with these risks. In general, farmers have four options for managing a risk:

a. **Risk avoidance –** avoid risk or an event of risk to occur if a risk can have catastrophic consequences

b. **Transfer of risks** to third parties like insurance companies or financial investors in futures markets

c. Risk reduction through longer-term contracts or diversifying farm activities

d. **Risk acceptance** - a strategy used mainly where incident rates and loss potentials are low

iv. **Risk control includes internal design of the risk management process (responsibilities, deadlines, etc.):** Providing decision-makers with relevant information on regular basis on topics such as new risks, changing incident rates and loss potentials and critical control of the effectiveness of the risk management strategy applied, i.e. it’s potential to reduce risks to an acceptable level. If any need for a critical review of a farm’s risk management strategy occurs, the whole risk management process has to be re-run.

5.6 RISK MANAGEMENT STRATEGIES

The aim of this section is to outline the main risk management tools and strategies, including policies that may be implemented by government, mechanisms provided by the market and actions that may be undertaken individually on-farm to reduce and cope with risks.

Tools for managing risks in agriculture can be divided into those designed that reduce or mitigate risk or those designed for coping-up with risks. First, risk reducing strategies are generally preventative measures aimed at reducing overall risk exposure e.g. seed treatment, vaccination of livestock to promote herd immunity to disease, etc. Second, risk-mitigating strategies allow farmers to lessen the potential effect of remaining risks, such as insurance against disease outbreaks. Finally, risk coping strategies involve measures to assist in dealing with the impacts of risk once an adverse event has occurred like disaster relief payments in the event of a disease outbreak. The range of risk management tools and risk management strategies are presented in Table 1 and Table 2.

Table 1: Risk management tools in agriculture:

Items	Farm/ household / community	Market	Government
Risk Reduction	▪ Technological choice	▪ Training on risk management	▪ Macro policies ▪ Disaster prevention (flood control) ▪ Prevention of diseases
Risk Mitigation	▪ Diversification in production ▪ Crop sharing	▪ Futures/options ▪ Insurance ▪ Vertical Integration	▪ Border and other measures in the case of contagious disease outbreak

		▪ Production market contract ▪ Spread sales ▪ Diversified finance ▪ Off-farm work	▪ Market-price support (intervention buying, buffer stocks, etc)
Risk Coping	▪ Borrowing from neighbours/ family ▪ Intra-community charity	▪ Selling financial assets ▪ Saving/ borrowing ▪ Off-farm income	▪ Disaster relief ▪ Social assistance ▪ All Agricultural Support Programs

Table 2: Types of risk management strategies

Informal Mechanism	Formal mechanism	
	Market Based	**Institutional**
• Avoiding exposure to risk • Crop diversification and inter-cropping • Plot diversification • Mixed farming • Diversification of income source • Buffer stock accumulation of crops or liquid assets • Adoption of advanced cropping techniques (fertilization, irrigation, resistant varieties)	• Contract farming • Future contract • Insurance • Credit	• Agricultural extension • Supply of quality seeds, inputs etc. • Pest management systems • Infrastructures (roads, dams, irrigation systems, etc.) • Rescheduling loans • Agricultural insurance • Supply of fodder

5.7 LET'S SUM UP

Farmers mainly in Indian conditions are exposed to the uncertainties of weather, prices and diseases. Many farmers live on the edge of extreme uncertainty, sometimes rising just above the threshold level of survival. Risk is considered as a major cause of low level of farm investment and income generation in agriculture. Therefore, management of risk in agriculture is one of the major concerns. The diversities in the sources of risks require a variety of instruments for protecting the farmers against such risks. Farmers need to understand risk and risk management skills for efficient and effective management of risk in farming.

Key words

Risk, uncertainty, risk management strategies & risk management tools.

5.8 CHECK YOUR PROGRESS

1) What do you mean by risk and what are the different sources of risk in agriculture?
2) How to minimize the risk and discuss about the different risk management strategies?
3) Kindly define risk management process and different steps involved in it.
4) What are the different methods that can be adopted by farmers to reduce risk in agriculture?

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UNIT 6:

RECORD KEEPING

Highlights of the Unit

- Objectives
- Introduction
- Farm Records
- Types of Farm Records
- Let's Sum up
- Check Your Progress
- Further readings/ references

6.0 OBJECTIVES

- To know the different types of record keeping system in farm business management
- To be able to collect, interpret and analyze the data
- To understand the importance of record keeping in farm business management and best record keeping practices.

6.1 INTRODUCTION

Records are the foundation for the operational and financial management of any business activities. India agriculture is characterized by considerable crop diversity and regional variation however, the sector is fraught with unavailability of sufficient data. Availability of information and its inaccuracy is a major challenge for policy formulation. Lack of accurate data pauses a major challenge in micro and macro level planning in agriculture covering farm planning and organization, agricultural economic planning, designing agricultural extension services, appraisal and evaluation of agricultural projects and having sound price policies. Accurate farm data plays key role in preparation of appropriate and efficient farm plans. Farm records and books kept by farmers are the major sources of accurate agricultural statistical data. Therefore, every farm and farmer should have relevant information of farm activities.

6.2 FARM RECORDS

A farm record is a document that is used to maintain account of different activities, operations, events, materials, etc. regarding the farm operations.

6.2.1 Benefits to farmers of maintaining Farm Records

1. **Key to higher income:** To obtain higher income, farmers must have exact knowledge about present and potential source of income and costs. The best way to obtain information is to keep records and accounts in order to:
    - Know financial status at a point of time
    - Know gains and losses over time
    - Know better source of income and items of costs
    - Keep a check on unproductive expenditure
    - Examine comparative profitability and costs involved in different enterprises
    - Develop rational short-term and long-term production plans
2. **Basis for diagnosis and planning:** Diagnosis of management problems is the prerequisite of sound planning. Records and accounts provide the basic information needed for such diagnosis.
3. **Way to improve managerial ability of the farmer:** It helps in bringing business perspective which enables farmers in taking advantage of changes in the economic environment. The farmer gets a better insight into the working of his business, which helps in finding out the defects which can be set right by exercising bettor

control. Farmer can avoid mistakes and losses which would otherwise result to dependence only on his memory for guidance.

4. **Basic for credit acquisition:** Properly kept records and accounts are authentic records with the help of which loan can be availed easily from lending agencies.

5. **Basic for Research in Agricultural Economics:** Research requires precise and correct data which is possible only if proper records and accounts are maintained on the farms included in the study.

6. **Basic for Govt. Policies:** The farmers need to continuously feed the facts for state and national farm policies such as land policies, price policies and crop insurance related policies. Proper records are helpful in obtaining the correct data for analysis and formulation of sound policies.

6.2.2 Importance of farm records for farmers

In order to run a farm-business profitably, it is important to maintain records of all relevant activities. A farmer should maintain farm record, as

- Farm records help a farmer to keep stock and manage each aspect of the farm properly.
- They provide needed information for proper planning and budgeting at every point in time.
- They help farmers know the progress and contributions of each aspect of the farm to its overall success.
- To determine which market channels are providing acceptable returns
- With the help of records, a farmer can keep a close check on whether work on his farm is going according to his plans.
- Farm records tell the farmer where he is gaining progressively or loosing
- Farm records enable the farmer obtain loans from banks and other financial houses

6.2.3 What are the best record keeping practices

A list of record keeping practices is provides below:

- Record transactions in chronological order
- Reconcile bank statement with checkbook and record keeping system monthly
- Periodically, at least annually at year-end, take inventory (physical count and valuation)
- A depreciation schedule
- A net worth statement/balance sheet at least once a year on the same date every year
- An income statement to determine net profit or loss
- A projected monthly cash flow statement to start each new year

6.3 TYPES OF FARM RECORDS

Farm records can broadly be divided put into four (5) classes:

1. Inventory records
2. Production records
3. Expenditure and income records
4. Special or supplementary records

Records could be taken daily, weekly, monthly or annually depending on the enterprise, the type of record, the kind of farmer or the farm manager. Usually, most records are kept on daily basis while monthly, quarterly and annual summaries are made.

- **Inventory Records:** An inventory record refers to the complete count and valuation of all assets and liabilities on the farm at a specific date. Assets here refer to all materials, i.e. goods and services, owned by the farmer and used in the production process. Liabilities refer to goods and services which the farm owes to others.

- **Production records:** Production records, also known as physical records are records of quantities of inputs used in the farm and outputs obtained from it. They include records onareunder various crops, chemical inputs used in various crops and crop yields. Production records also include livestock records such as the quantities of feed fed to various type of livestock, the weight gains of the livestock, the production rate such as number of eggs collected per day or per week, amounts of milk produced per animals, number of piglets farrowed per sow, etc. Labor input records which also fall within production records is usually recorded for each enterprise in either mandays or man hours.

- **Expenditure and income records:** Expenditure and income records are derived from production records and they are the money values of the production records. They comprise purchases and wages (expenditure) and sales (income). Expenditure and income records together with production records normally form the basis of day-to-day management decision.

- **Special or Supplementary Records:** These are the records which do not fit into any of the categories discussed above but are essential for the farm-decision making. They include both the farm (layout) map, which can change over time and the farm soil map along with the legal documents pertaining to the farm. Farm layout map and the soil map are necessary for consistent planning and economical use of the land and its improvements, such as irrigation facilities.

6.3 LET'S SUM UP

Farm record keeping is a systematic procedure for recording day-to-day information relating to the farm business including both financial and production related information. This information shows strong and weak areas of the farm business and serves as a starting point for planning decisions. Many planning decisions will involve a need for credit, purchase of inputs and marketing of produce. Adequate farm records helps in right decision making at right time in right direction so that farmers can get a better profit by minimizing losses.

6.5 CHECK YOUR PROGRESS

1) What do you mean by record keeping? Explain different types of farm record keeping?
2) Discuss the benefits of record keeping in agriculture?
3) What are the best record keeping practices in agriculture?

6.6 FURTHER READING/ REFERENCES

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BLOCK IV – LEGAL ASPECTS, LAWS AND ACTS OF FINANCIAL ORGANIZATIONS

UNIT 1:

DIFFERENT ACTS GOVERNING AGRICULTURE

Highlights of the Unit

- Objectives
- Introduction
- APMR Act – Agricultural Marketing
- Agricultural Produce (Grading and Marking) Act, 1937
- Food Safety and Standards Act, 2006
- National Food Security Act, 2013
- The Essential Commodities Act, 1955
- Insecticides Act, 1968
- Fertilizer (Control) Order, 1985
- Summing up
- Check your progress
- Further readings/ references

1.0 OBJECTIVES

After reading this chapter, you will be able to understand –

- Various laws influencing agricultural trade environment
- Provisions defined for practicing agricultural marketing under APMR Act
- Rules and regulation influencing distribution of inputs
- Various compliance required by farmers in changed environment encouraging farmer-organizations performing different functions

1.2 INTRODUCTION

There are various laws to ensure requisite level of orderliness in the environment in which a farmer practices agriculture and related trade. These laws or rules affect different stages involved in the movement of agricultural produce from production to ultimate consumers covering different aspects like inputs, food safety, supply chain, storage and marketing aspects. In this chapter, an attempt has been made to discuss some of the rules and regulation influencing the business of farming.

1.3 APMR ACT – AGRICULTURAL MARKETING

The Act covers regulations regarding marketing of agricultural produce and the duties and responsibilities of different functionaries associated with it. This Act basically enforces regulation on all functions like price discovery, weighment, payment etc. and functionaries of agricultural marketing like traders, commission agents, labor, etc. Regulations by different states were introduced during 1950s/60s to safeguard the interest of the farmer and help physical markets operate efficiently as most the marketing system in the country was characterized by features like high marketing cost, unauthorized deductions and prevalence of various malpractices. Establishment of regulated markets has been able to overcome the problems of traditional marketing system to a great extent. However, these problems still persist in the case of village sales.

1.3.1 Definition of regulated market: A regulated market aims at ensuring correct weighment of produce, prompt payment to the farmers and avoidance of exploitation of farmers by middlemen. Regulated market is one that aims at the elimination of the unhealthy and unscrupulous practices, reducing marketing costs, and providing facilities to the producer-seller in the market. A legislative measure designed to regulate marketing of agriculture produce basically focuses on establishment of regulated markets.

1.3.2 Objectives of regulated marketing

a) To prevent exploitation of farmers by helping them to overcome the handicaps in the marketing of their produce.
b) To make the marketing system effective and efficient so that farmers may get remunerative prices for their produce and the goods are made available to consumers at reasonable cost.
c) To provide incentive prices to farmers for inducing them to increase the production both in terms of quantity and quality.
d) To promote an orderly marketing of agricultural produce by improving the infrastructure facilities.

1.3.3History of market regulation: The need for regulation of markets arose from the anxiety of the British rulers to make available supplies of pure cotton at reasonable prices to the textile mills in Manchester. The first regulated Karanjia Cotton Market was established as early as in 1886 under Hyderabad Residency Order.The first legislation was the Berar Cotton and Grain Market Act of 1897. The 1897 Act became Model Act for legislation in other parts of the country. The then Bombay Government was first to enact Cotton Market Act in 1927. This was the first law in the country that attempted to regulate markets with a view to evolving fair market practices.In order to overcome the problems of agricultural marketing in India,the Royal Commission on Agriculture in 1928 andCentral Banking Enquiry Committee in 1931 recommended establishment of

Directorate of Marketing and Inspection under the Ministry of Food and Agriculture.

1.3.4 Reforms: In order to introduce reforms in agricultural marketing, the Ministry of Agriculture and Farmers Welfare prepared a Model Act in consultation with state governments called Agricultural Produce Marketing (Regulation & Development) Act, 2003. The Salient features of the Model Act are setting up markets in the private/co-op sector, rationalization of market fees, promotion of contract farming, direct marketing and grading and standardization, including setting up of a Grading and Standardization Bureau in each State/U.T. Recently, Government of India has introduced Model Agricultural Produce and Livestock Marketing (Promotion and Facilitating) Act 2017, which replaces the Model Agricultural Produce Market Committee Acts 2003, to make marketing of farm produce even more liberal and integrated. These reforms would go a long way towards attracting private investment to the sector and helping in developing a completely integrated system allowing free and efficient flow of commodities, money and information.As regards other reforms, the Government of India has taken up the following measures:

- A warehouse Development and Regulation Authority has been set up. This is entrusted with the task of promoting negotiable warehouse receipt in the agriculture sector. This will go a long way towards saving the farmers from distress sale of their produce
- Launching of the infrastructure based scheme like ISAM has gone a long way towards attracting private investment to agricultural marketing sector. Market Research Information component of the scheme has been successful in disseminating price and arrival related information from almost all the wholesale markets of the country.

1.4 AGRICULTURAL PRODUCE (GRADING AND MARKING) ACT, 1937

The Directorate of Marketing and Inspection, Ministry of Agriculture and Farmers Welfare enforces Agricultural Produce (Grading and Marking) Act, 1937. Under the Act, Grade Standards are prescribed for agricultural and allied commodities. The Act empowers the Central Government to create rules in accordance with the provisions of the enactment. The rules shall include determining grade designation to point out the quality of any article described under the Schedule, characterizing the quality of the product specified under the grade designation, denoting grade designation marks to symbolize specific grade designation and empowering a person or group of persons to provide grade designation mark to any product with regard to which the mark is set down or any covering included with or label fastened in any product. Under these rules grade standards for 222 commodities have been prescribed.

1.5 FOOD SAFETY AND STANDARDS ACT, 2006

It is an Act to consolidate different laws relating to food. The aim is to establish a single reference point for all matters related to food safety and standards by moving from multi-level control to single line of command. Nine different laws implemented by eight different Ministries of the Government of India governing the food sector have been brought under the Act in order to remove multiple regulations. In the process, eight different regulations namely,

- Prevention of Food Adulteration Act, 1954;
- Fruit Products Order, 1955;
- Meat Food Products Order, 1973;
- Vegetable Oil Products (Control) Order, 1947;
- Edible Oils Packaging (Regulation) Order, 1998;
- Solvent Extracted Oil,
- De oiled Meal, and Edible Flour (Control) Order, 1967;

- Milk and Milk Products Order, 1992;

Any other order issued under the Essential Commodities Act, 1955 (10 of 1955) relating to food have been replaced by the Food Safety and Standards Act, 2006.

As India became a member of WTO, regulations on food trade became obligatory for India to trade internationally. The Food Safety and Standards Authority of India was established under the Act for laying down science based standards for food articles and to regulate their manufacture, storage, distribution, sale and import, for ensuring availability of safe and wholesome food for human consumption. The Food Safety and Standards (Contaminants, Toxins and Residues) Regulations, 2011 provides for tolerance limits for various contaminants, toxins and residues for safety of consumers to be ensured by all the concerned agencies. Trade is supposed to maintain and provide safe food to the consumers by keeping impurities well below tolerance limits.

1.6 NATIONAL FOOD SECURITY ACT, 2013

National Food Security Act, 2013 speaks about ensuring access to adequate quantity of quality food at affordable prices to people to live a life with dignity. The Act under the heading public distribution system directs central and state government to create and maintain sufficient facilities at different levels such as state, district and block to maintain sufficient stock of food grains required under the Targeted Public Distribution System and other food based welfare schemes. This entails procurement and distribution of commodities considered under the act and accordingly influencing the agricultural trade environment.

1.7 THE ESSENTIAL COMMODITIES ACT, 1955

It was enacted by the Government of India in 1955 to control trade and prices of commodities declared essential under the Act. While licensing, government also specifies stock limits for commodities declared as essential commodities. This has a bearing on the trade related to commodities considered essential under the Act.

The focus of government on aggregation is helping farmers forming groups under different models like Farmer Producer Companies, Cooperatives, etc. As groups, the farmers are upgrading themselves to the role of distributor of various inputs. In such case they may need to comply with the provisions of the Act like Insecticides Act and fertilizers' (Control) Order.

1.8 INSECTICIDES ACT, 1968

It is an Act to regulate the import, manufacture, sale, transport, distribution and use of insecticides to prevent risks to human health or animals and for matters connected therewith. As distributor even the farmers group will have to comply with the provisions defined under the Act.

1.9 FERTILIZER (CONTROL) ORDER, 1985

Fertilizers are one of the important commodities handled by many farmers institutions mainly cooperatives. Fertilizers were declared as Essential Commodity to ensure adequate availability of fertilizers at right time and right price to farmers. Fertilizer Control Order (FCO) was announced under Section 3 of Essential Commodities Act, 1955 to regulate trade, price, quality and distribution of fertilizers in the country. The FCO provides for compulsory registration of fertilizer manufacturers, importers and dealers, specification of all fertilizers manufactured/imported and sold in the country. The Central Government provides training facilities and technical guidance to states, and supplements their efforts through random inspection of manufacturing units and their distribution network.

Farmers are diversifying their activities beyond production with the introduction of various institutions to help them come together. In such an environment, there may by many other acts applicable to farmers directly like Shops and Establishments Act of respective, Consumer Protection Act, 1986 and various other acts related to income and taxes like Central Goods and Services Tax Act, 2017and Income Tax Act, 1961.

1.10 LET'S SUM UP

There are different laws/rules defining the agricultural trade environment. Often farmers may not need to comply with the provisions directly but indirectly as per their requirement of rest of the players of the chain. The focus of government of aggregation may compel farmers also, working in formal group, to understand different provisions defined under such Acts dealing with marketing, input distribution, income and taxes and storage to comply with them.

1.11 CHECK YOUR PROGRESS

(a) List the laws which influence the agricultural trade environment.

(b) Explain as to how the Food Safety and Standards Act, 2006 is important in defining farmer's decision to take a particular crop.

1.12 FURTHER READINGS/REFERENCES

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UNIT 2:

WORLD TRADE ORGANIZATION (WTO)

Highlights of the Unit

- Objectives
- Introduction
- WTO and Indian Agriculture
- Agreement on Agriculture (AoA)
- Farm Subsidies in India
- Why India needs to subsidize its farmers
- Let's Sum up
- Self assessment questions
- Further readings// References

2.0 OBJECTIVES

- To understand the structure and function of WTO
- To know the role of WTO in promoting global trade
- To understand the AoA (Agreement on Agriculture) and its impact on agriculture

2.1 INTRODUCTION

The Uruguay round of GATT (1986-93) gave birth to World Trade Organization. The members of General Agreement on Tariffs and Trade (GATT) and Trade singed on an agreement of Uruguay round in April 1994 in Morocco for establishing a new organization named WTO.

It was officially constituted on January 1, 1995 which took the place of GATT as an effective formal, organization. GATT was an informal organization which regulated world trade since 1948.

Contrary to the temporary nature of GATT, WTO is a permanent organization which has been established on the basis of an international treaty approved by participating countries. It achieved the international status like International Monetary Fund(IMF) and International Bank for Reconstruction and Development(IBRD), but it is not an agency of the United Nations Organization (UNO).

Some basic details about WTO

Location: Geneva, Switzerland

Established: 1 January 1995

Created by: Uruguay round negotiations (1986-94)

Reach: Members countries representing more than 95% of world trade

Head: Director General

Structure: The WTO has 193 members accounting for over 97% of world trade. Decisions are made by the entire membership. This is typically by consensus. A majority vote is also possible but it has never been used in the WTO and was extremely rare under the WTO's predecessor, GATT. The WTO's agreements have been ratified in all members' parliaments.

The WTO's top level decision-making body is the Ministerial Conferences which meets at least once in every two years. This is followed by General Council (normally ambassadors and heads of delegation in Geneva, but sometimes officials sent from members' capitals) which meets several times a year in the Geneva headquarters. The General Council also meets as the Trade Policy Review Body and the Disputes Settlement Body.

At the next level, the Goods Council, Services Council and Intellectual Property (TRIPs) Council report to the General Council. Numerous specialized committees, working groups and working parties deal with the individual agreements and other areas such as, the environment, development, membership applications and regional trade agreements.

Secretariat

The WTO secretariat, based in Geneva, has around 600 staff and is headed by a Director-General. It does not have branch offices outside Geneva. Since decisions are taken by the members themselves, the secretariat does not have the decision making role that other international bureaucracies are given.

The secretariat's main responsibility is to supply technical support for the various councils and committees and the ministerial conferences, to provide technical assistance for developing countries, to analyze world trade and to explain WTO affairs to the public and media. The secretariat also provides some forms of legal assistance in the dispute settlement process and advises governments wishing to become members of the WTO.

2.1.1 Objectives: The major objectives of WTO are:

a) To ensure optimum utilization of world resources.

b) To protect the environment.

c) To improve the standard of living of people in the member countries.

d) To ensure full employment and broad increase in effective demand.

e) To enlarge production and trade of goods.

f) To increase the trade of services.

g) To accept the concept of sustainable development.

2.1.2 Functions: The main functions of WTO are discussed below:

1) To implement rules and provisions related to trade policy review mechanism.

2) To provide a platform to member countries to decide future strategies related to trade and tariff.
3) To provide facilities for implementation, administration and operation of multilateral and bilateral agreements of the world trade.
4) To administer the rules and processes related to dispute settlement.
5) To assist international organizations such as, IMF and IBRD for establishing coherence in
6) Universal Economic Policy determination.

2.2 WTO AND INDIAN AGRICULTURE

After years of negotiation, the Uruguay Round multilateral trade negotiations was concluded on December 1993 and were formally ratified in April 1994 at Marrakesh, Morocco. The WTO agreement on agriculture was one of the main agreements which were negotiated during the Uruguay round.

2.2.1 Agreement on agriculture (AoA)-perspective of developing countries

Agriculture is seen as a source of growth and means of livelihood by the developing countries. The extent of economic development for any nation thrives on the performance of agriculture sector. This sector has received special treatment in every aspect for its importance in food security program, large dependence of rural areas, prevalence of socio-political landscape, etc. However, the same treatment has resulted in distorted trade practices. Under the regime of GATT, international trade in agriculture faced issues like limited market access due to high import barriers, over production of template crops due to large domestic subsidies, dumping practices caused by export subsidies, etc. Pre-Uruguay rounds, the commodity prices in agriculture were depressed, and farm exporters from the developing countries found it difficult to compete in the international market against produce of developed nations.

The main aim of AoA's was to induce discipline in the agricultural trade by asking member countries to reduce tariffs, convert non-tariff barriers to tariff barriers, and calling for cuts in domestic support and export subsidies. It was expected that with AoA's proposed structural change, the international trade will deepen with increasing share of exports from developing countries, transparency in trade, and spatial distribution of agricultural production.

However, as observed from the comparison in the agricultural trade between developing and developed countries, AoA have fallen short of expectations. The international prices declined due to large export subsidies and domestic support provided by the developed countries to its producers. It is argued that the failure of AoA in liberalizing agricultural trade lies in its design and implementation schemes. It fails on three frontiers of market access, domestic support and export subsidies.

2.2.2 The WTO Agreement on Agriculture

The WTO Agreement on Agriculture contains provisions in three broad areas of agriculture

1. Market access.
2. Domestic support.
3. Export subsidies.

2.2.2.1 Market access

- This includes tariffication, tariff reduction and access opportunities.
- Tariffication means that all non-tariff barriers such as -
    - Quotas
    - Variable levies
    - Minimum import prices
    - Discretionary licensing
    - State trading measures

AoA provisions on market access

- Prohibition of quantitative restriction on import
- Tariff binding and reduction
- Bound versus Applied tariffs
- Tariff Rate Quota
- Special safeguard measures

2.2.2.2. Domestic Support - WTO uses a traffic light analogy to group program

- Green box (non-trade distorting)
- Blue box (production limiting)
- Amber box (market distorting)

Measure be placed in green box

- It must be publicly funded govt. program and does not involve transfers from consumers.
- It must not have the effect of price support to producer
- Or it must comply to these criteria:
  - A general service e.g. pest and disease control, training, extension, advisory services, health, safety, etc.
  - Stockholding of product for food security
  - Domestic food aid
  - Income insurance or income safety program
  - For natural disaster relief etc.

Measure be placed in blue box

- Be based on fixed area and yield
- Be made of 85% or less of the base level of production
- If livestock payments, be made on fixed number of head

Amber box

- Product specific domestic support
- Non-product specific domestic support

2.2.2.3. Export subsidy: An export subsidy reduce the price paid by foreign importer, which mean domestic consumer pay more than foreign consumer

Export subsidy in Agricultural Sector:

- Direct export subsidies contingent on export performance
- Sale of non-commercial product on less prices than domestic market
- Producer financed subsidy
- Cost reduction measures

WTO Issue: AoA could not deliver as envisaged mainly for developing countries. Countries like India have also expressed its reservations on issues, like

- As per the original Agreement on agriculture (AoA), the developed and developing countries have to keep their Amber box subsidies within De-minimus level i.e. 5% and 10% of their agriculture production in 1986-88 respectively.
- India opposed this base year and limits, because it would make the implementation of food security programs for the poor and MSP for the farmers impossible.
- India wants the subsidy computation methodology to reflect current international prices not 1986.
- Hence, as a measure of temporary relief, in 2013 Bali summit a "peace clause" for the AoA was enacted.

2.3 FARM SUBSIDIES IN INDIA

Various type of subsidies provided by India to its farmers include, input subsidy, power subsidy, fertilizer subsidy, seed subsidy, irrigation subsidy and credit subsidy. Recently, US has questioned India at the WTO on its move to increase minimum support prices (MSPs) for Kharif crops in the current year. India said that its main objective for increasing MSP for pulses and oilseeds was:

- To cover the increasing gap between the demand and domestic supply of these crops.
- Leguminous pulses have environmental benefits as they consume less water and reduce soil degradation.
- MSPs are intended to reduce distress sales by poor farmers.

2.4 WHY INDIA NEEDS TO SUBSIDIZE ITS FARMERS

- India is basically an agrarian economy with over 50% of population directly or indirectly attached to agriculture though it doesn't contributes very high in GDP.
- One third of population lives below the poverty line or near it.
- The developed nations see India as a huge market for food grains and other products.
- There is a threat of dumping by countries producing a particular product in huge quantities.
- Large size of population is employed in agriculture. If they drop out of agriculture, some other mean should be there to absorb them otherwise it would lead to heavy unemployment

2.5 LET'S SUM UP

India, a fast developing economy in the world, has been benefitted for being a founding member of World Trade Organization. The country at large has seen many significant changes which have taken place after the formation of WTO. Though, there still are a few issues to be sorted out. By and large, things are falling in shape for the economy of developing countries in general and India in particular.

2.6 CHECK YOUR PROGRESS

1. What are the objectives of WTO? Kindly explain the different functions of the organization.
2. What do you mean by AoA? Explain its different components.
3. What is the impact of AoA on Indian Agriculture? Discuss in brief.

2.7 FURTHER READINGS/ REFERENCES

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UNIT 3:

FINANCE AND RISK

Highlights of the Unit

- Objectives
- Introduction
- Importance of Agriculture Finance
- Role of finance in agriculture
- Sources of Agricultural Finance
- National Bank for Agriculture and Rural Development (NABARD)
- Schemes for financing agriculture sector
- Strategy to improve the agricultural finance
- Collateral Management Agreement (CMA)
- Agricultural insurance
- Let's sum up
- Check Your Progress
- Further readings/ References/ Links

3.0 OBJECTIVES

After completing the chapter, the learner would be able to

- To understand the significance of agricultural finance
- To know the various sources of agricultural finance
- To understand the importance of insurance in agriculture

3.1 INTRODUCTION

Agricultural finance generally refers to the study, examination and analysis of different financial aspects related to farm business. The financial aspects include money matters relating to production of agricultural produce and its disposal.

Agricultural finance can be dealt at both micro level and macro level. Microfinance deals with different sources of raising funds for agriculture as a whole in the economy. It is also concerned with the lending procedure, rules, regulations, monitoring and controlling of different agricultural credit institutions. Macro- finance is related to financing of agriculture at aggregate level.

Micro-finance refers to financial management of the individual farm business units. It is concerned with the study as to how the individual farmer considers various sources of credit, quantum of credit to be borrowed from each source and how he allocates the same among the alternative uses within the farm. It is also concerned with the future use of funds.

3.2 IMPORTANCE OF AGRICULTURE FINANCE

Agricultural finance is important for overall development of the sector for various reasons, like –

- ❖ Agricultural finance plays key role in the agro – socio – economic development of the country both at macro and micro level.
- ❖ It acts as a catalyst in strengthening the farm business and augmenting the productivity of scarce resources.
- ❖ It enhances the access to new technology which leads to increase in agricultural productivity.

- Growth in farm assets and farm supporting infrastructure provided by large scale financial investment activities results in increased farm income levels leading to increased standard of living of rural masses.
- Farm finance can also reduce the regional economic imbalances and is equally good at reducing the inter–farm asset and wealth variations.
- Farm finance is like a lever with both forward and backward linkages to the economic development at micro and macro level.
- As Indian agriculture is still traditional and subsistence in nature, agricultural finance is needed to create the supporting infrastructure for adoption of new technology.
- Massive investment is needed to carry out major and minor irrigation projects, rural electrification, installation of fertilizer and pesticide plants, execution of agricultural promotional programs and poverty alleviation programs in the country.

3.2.1 Farmers access to finance: Farmers access to farmers in important mainly in an environment where more than 85 percent of the farmer are small and marginal and have poor access to technology and inputs.

Some of the benefits of improving farers access to finance are listed below:

- Buying agricultural inputs like seeds, fertilizers, plant protection chemicals, feed and fodder.
- Supporting families during difficult period of crop failure.
- To make an improvements on the land, to clear old debt and purchase agricultural machinery.
- Increasing the farm efficiency, facilitated by hiring of irrigation water lifting devices, labor and machinery.

3.3 ROLE OF FINANCE IN AGRICULTURE

Agricultural finance is a subset of rural finance dedicated to financing agricultural related activities such as input supply, production, distribution, wholesale, processing and marketing. The modern agriculture has increased the use of inputs especially seed, fertilizers, water, machineries and implements, which has increased demand for agricultural credit. The adoption of modern technology, which is capital intensive, has commercialized agricultural production in India. Besides, the farmer’s income is seasonal while his working expenses are spread over time. In addition, farmer's inadequate savings require the uses of more credit to meet the increasing capital requirements. Furthermore, credit is a unique resource, since it provides the opportunity to use additional inputs and capital items now and to pay for them from future earnings.

3.5 SOURCES OF AGRICULTURAL FINANCE

Various sources of agricultural finance can be categorized in institutional and non-institutional, as explained below:

3.5.1 Non-Institutional sources are the following

(a) Moneylenders
(b) Relatives
(c) Traders
(d) Commission agents and
(e) Landlords

3.5.2 Institutional sources

(a) Cooperatives
(b) Commercial Banks
(c) Regional Rural Banks (RRBs)

3.5.3 Cooperatives

- Primary Agricultural Cooperative Societies (PACSs) provide short and medium term loans.
- PCARDBs provide long term loan for agriculture.

3.5.4 Commercial banks: Commercial banks, including RRBs, provide both short and medium term loans for agriculture and allied activities. The National Bank for Agriculture and Rural Development (NABARD) is the apex national level institute for agriculture credit.

3.5.5 Regional Rural Bank: The Working Group on Rural Banks (1975) recommended the establishment of Regional Rural Bank (RRBs) to supplement the efforts of the commercial banks and the cooperatives in extending credit to weaker sections of the rural community, small and marginal farmers, landless laborers, artisan and other rural residents of small means. The intention was to have an institutional device which combined the local feel and familiarity with the rural problems which the cooperatives possessed and the degree of business organization and modernized outlook which the commercial banks had, with a view to reaching the rural poor more extensively.

3.6 NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

The most important development in the field of rural credit has been the setting up of the National Bank for Agriculture and Rural Development (NABARD) in July 1982. It took over from Reserve Bank of India all the functions that the latter performed in the field of rural credit.

Functions of NABARD

The main functions of NABARD are as follows:

- To work as an open body to look after the credit requirement of the rural sector.
- To oversee the functioning of the cooperative sector through its Agricultural Credit Department.

- To provides short-term credit (up to 18 months) to State Cooperative Banks
- To provides medium-term credit (18 months to 7 years) to State Co-operative Banks and RRBs.
- To provides medium and long-term credit (not exceeding 25 years) for investment in agriculture under schematic lending to State Cooperative Banks, Land Development Banks, RRBs and commercial banks.
- To provides long-term assistance in the form of loans to state governments (not exceeding 20 years) for contribution to share capital of cooperative credit institutions.
- To inspectthe District and State Cooperative Banks and RRBs.
- To promote research in agriculture and rural development so that projects and programs can be formulated and designed to suit the requirement of different areas.

3.7 SCHEMES FOR FINANCING AGRICULTURE SECTOR

Differential Rate of Interest Scheme (DIR): All the commercial banks under public sector implemented DIR scheme since 1975 and private sector banks also volunteered to participate in the scheme from 1977 onwards. Under DIR scheme, loans are being extended to the landless, marginal, small farmers and weaker sections of the society, who do not possess tangible assets to put as security, at a concessional rate of 4 per cent per annum. The commercial banks are required to advance 0.5 to 1.00 per cent of their aggregate lending towards this scheme and forty per cent of total amount available under the scheme should be made available to SC and ST borrowers.

Integrated Rural Development Program (IRDP)

IRDP is basically an action-oriented and time bound program. IRDP is popularly called as anti-poverty program. The main objective of IRDP was to increase the productivity of land by providing the inputs in required quantities at right time, thereby raising the productivity and production in agriculture. Under this program, in addition to small and marginal farmers, agricultural laborers, landless agricultural workers, artisans, schedule castes and schedule tribes and others living below poverty line (BPL) were covered.

Ganga Kalyan Yojana (GKY)

It was a centrally sponsored scheme launched in the year 1997. The objective of the scheme is to provide irrigation through exploitation of ground water by tube wells and bore wells to individual as well as group of beneficiaries belonging to small and marginal farmers, falling below poverty line (BPL). Under the Scheme, there is provision to provide financial assistance to the farmers to build bore well.

Swarnajayanti Gram Swarozgar Yojana (SGSY)

It was launched by Government of India in the year 1999 with the objective of poverty alleviation through self-employment. SGSY focused on group financing by organizing the rural poor into self-help groups (SHGs).

Self Help Groups (SHGs)

In the year 1992, the National Bank for Agriculture and Rural Development (NABARD) introduced a pilot project for linking 500 Self-Help Groups (SHGs) with banks, after thorough discussions with the RBI, commercial banks and non-governmental organizations (NGOs).

3.8 STRATEGY TO IMPROVE THE AGRICULTURAL FINANCE

- **Improve financial institutions' understanding of the agricultural markets and their capacity to assess business opportunities.** This implies a shift towards a value chain approach. This approach would allow financial institutions to acquire knowledge about input providers, traders, processors, wholesalers and other value chain actors as well as informal service providers who hold a unique informational advantage due to their direct business engagement within the value chain.

- **Establish strategic partnerships with non-financial service providers, for transferring non-financial costs to specialized entities.** Non-financial costs are mostly related to the technical assistance needed to strengthen the organization and coordination among several actors in the field of agriculture. It includes capacity-building of farmers, cooperatives and SMEs in different areas such as governance, financial management and marketing.
- **Identify alternatives to guarantees based on physical collateral.** Farmer generally lack security to offer. Integrating farmers into the financial system will require innovations not only in products but also in processes. Some successful experiences have shown that an effective way to reduce risks is to identify processes and indicators that give relatively less weight to guarantees, instead focus on performance.
- **Integrated approach:** A comprehensive approach facilitating integration of different agencies is essential for achieving the financial inclusion and ensuring the best use of credit in productive way and for the purpose for which it was barrowed.
- **Collateral management:** Collateral management is a process which mainly deals with granting, verifying and giving advice on collateral transactions in order to reduce credit risk in financial transactions.

3.9 COLLATERAL MANAGEMENT AGREEMENT (CMA)

Financing under collateral management agreement is a method of securing finance against physical commodities. CMA is formed between the financing party, the borrowing party or the owner of the commodities and collateral manager. Collateral management provides greater flexibility for import and export trade. Collateral management services consist of receiving physical commodities into storage and retaining control over the said commodities until such time as collateral manager is instructed by the parties to release them in accordance with the terms of the agreement. Financing under CMA is useful for agriculture commodities, coal, petroleum products, etc.

Functions of collateral: Collateral is a fundamental building block of financial markets and affects economic growth and financial stability. It lowers risks for lenders and borrowers alike, by providing protection to lenders and allowing borrowers to receive more credit at better rates, and plays a major part in a variety of market functions especially in the field of agricultural finance. Collateral is an asset pledged to a lender until a loan is repaid. If the loan isn't repaid, the lender may seize the collateral and sell it to pay off the loan. Obvious forms of collateral include houses, cars, stocks, bonds and Negotiable Warehouse Receipt (NWR). Things that are readily convertible into cash to realize the loan amount.

3.9.1.1 Negotiable Warehouse receipt (NWR): A warehouse receipt system enables farmers to deposit storable goods in exchange for a Negotiable Warehouse Receipt (NWR). A NWR is a document issued by warehouse operators as evidence that specified commodities of stated quantity and quality have been deposited at a particular location, for which the warehouse is the Bailee. Usually prices slump right after harvesting time. By deciding to sell the goods at a later time, when prices have picked up, the depositor can avoid price risk. These receipts have been made negotiable under Warehouse (Development and Regulation) Act, 2007 and are regulated by Warehousing Development and Regulatory Authority (WDRA) established under the Act.

3.9.1.2 e-NWR: The Ministry of Consumer Affairs, Food and Public Distribution launched web portal of Warehousing Development and Regulatory Authority (WDRA) & Electronic Negotiable Warehouse Receipt (e-NWR) System under Digital India program. These initiatives aims at simplifying Warehouse Registration Rules, digitizing entire process of registration, monitoring and surveillance as well as creation and management of NWRs in electronic form.

e-NWR will eliminate any chances of tempering, mutilation, fudging, loss or damage and also no possibility of any multiple financing. Hence, it will not only facilitate an easy pledge financing by banks and other financial institutions but also smooth trading on various trading centers like commodity exchanges, electronic National Agriculture Markets (e-NAM) and other electronic platforms.

e-NWR will also help to save expenditure in logistics as stocks could be traded through multiple buyers without physical movement and can be even split for partial transfer or withdrawal.

3.9.1.3 Benefits of NWRs

- NWRs issued by warehouses registered with WDRA help farmers to seek loans from banks against NWRs and this way NWRs become a prime tool of trade.
- NWRs provide farmers with an instrument that allows them to extend the sales period of modestly perishable products well beyond the harvesting season.
- When delivering the product to an accredited warehouse, the farmer obtains a warehouse receipt that can be used as collateral for short-term borrowing to obtain working capital.
- Farmer does not need to sell the product immediately to ease cash constraints. This way NWRs can avoid distress sale of agricultural produce by the farmers in the peak marketing season when there is glut in the market.
- NWR allow transfer of ownership of that commodity stored in a warehouse without having to deliver the physical commodity. These receipts are issued in negotiable form, making them eligible as collateral for loans.
- NWRs can enhance banks' interest in lending in respect of farm goods deposited by farmers in the registered warehouses which can increase liquidity in the rural areas and encourage scientific warehousing of goods.

3.10 AGRICULTURAL INSURANCE

Agriculture in India is highly susceptible to risks like droughts, floods, disease, pest attack, etc. Therefore, it is essential to protect the farmers from natural calamities and ensure their credit eligibility for the next season. For this purpose, the Government of India has introduced a number of agricultural insurance schemes.

3.10.1 Importance of agricultural insurance: Some of the benefits of buying agriculture insurance are as listed below:

1) **Farmer's perspective**: Insurance helps farmers to take necessary risks, afford loans and keep away from debt traps that most of the time results in distress and suicides.
2) **Government Perspective:** India is agrarian nation and welfare of the state depends on the welfare of farming communities. Insurance coverage increases the confidence of farming community in the government. It also help the government to make necessary intervention and ensure that farmers do not suffer at the cost of natural calamities.
3) **Market perspectives:** Once the farmer is insured he can make arrangements for next crop in case of any crop failure and keeps food market stable and does not leads to inflation in food prices in case of drought, flood or other natural calamities.
4) **National Perspective**: Farming is the backbone of rural economy. Insurance can encourage the farmers to invest in other allied activities like fishery and dairy products. This can help in overall growth of the nation.

3.10.2 Major schemes for agricultural insurance

Comprehensive Crop Insurance Scheme (CCIS)

It was introduced by GIC in the year 1985. This scheme covers all farmers who availed the crop loan but limited to cereals, oilseeds and pulses. Crop insurance risk is taken by GIC and the respective state governments in 2:1 ratio. The sum insured was limited to

Rs. 10000 /- per farmer for all insurable crops irrespective of the quantum of loan taken by the farmer.

National Agricultural Insurance Scheme (NAIS)

It was launched in the year 1999 with an objective of to cover all crops. Irrespective of the size of land holdings, the NAIS provided insurance facilities to all farmers.

Weather Insurance

Weather insurance was developed by government of India in association with the World Bank and launched in 2007.Under the scheme, an insurance cover was available against crop losses incurred due to unfavorable weather conditions such as deficit, excess or untimely rainfall or variations in temperature. Weather insurance provides protection to the farmers, banks, micro-finance lenders and agro-based industries.

Pradhan Mantri Fasal BimaYojana (PMFBY)

PMFBY is a new crop insurance scheme. It was announced by the Government of India on 13thJanuary 2016. Under this scheme the farmers will have to pay a premium of only 2% of the sum insured for Kharif crops, 1.5% for Rabi crops and 5% for horticulture and cash crops.

3.11 LET'S SUM UP

Agriculture sector need credit and insurance for investment and smoothening out seasonal fluctuations in earnings. Since cash flows and savings in rural areas for the majority of households are small, rural households typically tend to rely on credit. Rural households need access to financial institutions that can provide them with credit at lower rates and at reasonable terms than the traditional money-lender and thereby help them avoid debt-traps that are common in rural India. A good coverage of credit and insurance to agriculture sector is inevitable for sustainable agricultural growth.

3.12 CHECK YOUR PROGRESS

1. Why is agricultural finance important? Kindly differentiate between micro and macro finance.
2. What are the different intuitional and non-institutional sources of agricultural finance?
3. What is NABARD and its important functions? How has it helped in changing Indian agriculture?
4. What is negotiable warehouse receipt? What are its benefits mainly to the farmers?
5. Why is insurance important for Indian agriculture? Kindly explain some of the major insurance schemes introduced in Indian agriculture.

3.13 FURTHER READINGS/ REFERENCES/LINKS

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