

A study on role of the RBI in growth of Indian Dairy Industry

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Abstract

The dairy industry is a critical component of the Indian economy, providing employment opportunities to millions of people and contributing significantly to the country's agricultural GDP. The Reserve Bank of India (RBI), as the country's central bank, plays a crucial role in shaping the development of this industry. This article aims to explore the impact of RBI on the growth and development of the Indian dairy industry.

The article begins by providing a brief overview of the Indian dairy industry, highlighting its importance in the country's economy. It then delves into the role of RBI in facilitating the growth of this industry. The article examines the various initiatives taken by the RBI, such as providing loans to dairy farmers, setting up specialized banks, and implementing policies that promote the development of the dairy sector.

The article also discusses the challenges faced by the Indian dairy industry, such as low productivity, lack of infrastructure, and limited access to markets. The RBI's efforts to address these challenges, including providing support for infrastructure development, promoting technological innovation, and facilitating market access, are also discussed.

Overall, the article highlights the crucial role played by the RBI in the development of the Indian dairy industry. It concludes by emphasizing the need for continued collaboration between the RBI and other stakeholders in the dairy sector to ensure sustained growth and development of this critical industry.

Keywords: RBI (Reserve Bank of India), Indian dairy industry, Agricultural loans, Financing, Credit policies, Interest rates, Rural credit, Microfinance, Cooperative banks, Financial inclusion.

Introduction

The Reserve Bank of India (RBI) is India's central bank and plays a crucial role in the country's economic development. RBI is the apex financial institution in India, responsible for regulating the country's monetary policy and banking sector. While its primary focus is on maintaining price stability and ensuring financial stability, the RBI also plays a crucial role in supporting the development of various industries in India, including the dairy industry.

Dairy is one of the fastest-growing sectors in India, contributing significantly to employment, income generation, and the country's GDP. The dairy sector has immense potential to provide livelihood opportunities to rural communities and contribute to the country's economic growth. The RBI, through its various policies and initiatives, has been instrumental in the development of the dairy industry in India.

Role of RBI in growth of Indian Dairy Industry:

1. **Financing and Investment:** The RBI plays a vital role in financing and investment in the Indian dairy industry. The central bank provides funds to banks and financial institutions, which, in turn, lend to dairy farmers and businesses. The RBI also offers refinance facilities to financial institutions that provide credit to the dairy industry. This helps to ensure a steady flow of funds and investment in the sector, enabling

its growth and development. This helps to ensure a steady flow of funds and investment in the sector, enabling its growth and development.

2. **Regulatory Framework:** The RBI sets the regulatory framework for banks and financial institutions, ensuring they comply with various rules and regulations governing the dairy industry. It supervises and monitors the lending activities of banks and financial institutions, ensuring that they follow prudent lending practices and maintain healthy loan portfolios. This helps to reduce the risk of loan defaults and ensures the stability of the financial sector, which is crucial for the growth of the dairy industry.

3. **Risk Management:** The RBI plays a critical role in managing risk in the dairy industry. It has set up a Credit Information Bureau (CIBIL), which provides credit reports on borrowers to banks and financial institutions. This helps them assess the creditworthiness of borrowers, reducing the risk of loan defaults. The RBI also requires banks and financial institutions to maintain adequate capital buffers to absorb any losses that may arise from their lending activities.

Role of RBI in providing financial support to the Indian Dairy Industry

The RBI is the central bank of India, responsible for regulating the country's financial system and ensuring its stability. One of the many sectors that the RBI plays a crucial role in the development of is the Indian dairy industry.

One of the significant contributions of the RBI to the dairy industry is through its agricultural credit policy. The RBI has been consistently encouraging banks to increase their lending to the agricultural sector, which includes the dairy industry. The central bank's credit policy offers various incentives to banks to increase their lending to agriculture, including the dairy industry. The RBI even introduced a priority sector lending target, where a certain percentage of bank lending is mandated to be allocated to the agricultural sector, including the dairy industry. This has enabled farmers and dairy entrepreneurs to access credit at lower interest rates and with more flexible repayment terms.

Apart from the credit policy, the Central Bank has also been involved in promoting the development of infrastructure for the dairy industry. The RBI has also facilitated the establishment of various dairy processing units by providing financial support through its priority sector lending scheme. This has enabled the dairy industry to move from a traditional, unorganized sector to a modern and organized sector. The RBI has been actively involved in promoting the development of cold chain infrastructure for the dairy industry. The cold chain infrastructure is essential to ensure that dairy products are transported and stored under proper temperature conditions, ensuring the quality and safety of the products.

The RBI has also been involved in promoting the development of the Indian dairy industry through its monetary policy. The RBI has been proactive in maintaining an accommodative monetary policy stance, which has enabled the dairy industry to access credit at lower interest rates. The RBI has also been involved in managing inflation, which has a significant impact on the dairy industry. Inflation can lead to higher input costs for dairy farmers, making it challenging for them to maintain their profitability. The RBI's efforts to manage inflation have enabled the dairy industry to operate under more stable economic conditions.

Policy measures by RBI in providing financial support to the Indian dairy Industry: The RBI has taken many policy measures and provided financial support to the Indian dairy industry for its growth and upliftment. Following table shows the policy measures by RBI and its impact on the Indian dairy industry:

Table 1: RBI's Role in Providing Financial Support to the Indian Dairy Industry

Year	Policy Measures	Impact
1970	Establishment of NABARD, which provides credit to dairy farmers	Increased access to credit for dairy farmers, leading to increased investment in the sector
1988	Introduction of Priority Sector Lending (PSL) norms	Banks were required to lend a certain percentage of their total loans to the priority sector, which includes agriculture and dairy. This ensured that the dairy sector received adequate credit.
2004	Introduction of Kisan Credit Card Scheme	Provided credit to small farmers, including dairy farmers, at a subsidized interest rate. This led to increased investment in the sector and improved the financial position of small farmers.
2010	Introduction of the Interest Subvention Scheme for Short-Term Crop Loans	Provided an interest subsidy on short-term crop loans, including those taken by dairy farmers. This reduced the cost of borrowing for dairy farmers and increased their access to credit.

Table 1 shows the various policy measures introduced by the RBI to provide financial support to the dairy industry. The establishment of NABARD in 1970 was a significant step towards providing credit to dairy farmers. This led to increased investment in the sector, which resulted in the growth of the industry.

The introduction of Priority Sector Lending (PSL) norms in 1988 ensured that the dairy sector received adequate credit. The Kisan Credit Card Scheme and the Interest Subvention Scheme for Short-Term Crop Loans provided credit to small farmers, including dairy farmers, at a subsidized interest rate, which led to increased investment in the sector and improved the financial position of small farmers.

RBI's Role in Promoting Dairy Cooperatives: Dairy cooperatives in India have played a significant role in generating employment opportunities in rural areas. RBI has been instrumental in promoting the formation and growth of dairy cooperatives in India. These cooperatives have provided small and marginal farmers with a platform to collectively market their milk, obtain access to credit and inputs, and negotiate better prices for their produce. The RBI has provided support to these cooperatives by facilitating the establishment of milk collection centres, providing credit, and promoting the formation of dairy federations.

Table 2: RBI's Role in Promoting Dairy Cooperatives

Year	Policy Measures	Impact
1965	Formation of National Dairy Development Board (NDDB)	The NDDB was established to promote the development of dairy cooperatives in the country.
1973	Introduction of Operation Flood	The Operation Flood program was launched to promote the development of dairy cooperatives in the country. This led to the growth of the industry and the emergence of large-scale dairy cooperatives.

Year	Policy Measures	Impact
1981	Introduction of Dairy Development Fund (DDF)	The DDF was established to provide financial assistance to dairy cooperatives for infrastructure development and modernization.
2004	Introduction of Microfinance Schemes	Provided credit to small dairy farmers and dairy cooperatives at a low-interest rate. This helped to promote the development of dairy cooperatives in rural areas.

Table 2 shows the various policy measures introduced by the RBI to promote dairy cooperatives in the country. The establishment of the National Dairy Development Board (NDDB) in 1965 was a significant step towards promoting dairy cooperatives in the country.

Role of RBI in Financial Inclusion:

RBI has played an important role in the development of the Indian dairy industry through its financial inclusion initiatives. The RBI has been promoting the use of digital banking services, which has enabled farmers and dairy entrepreneurs to access financial services easily. The RBI has also been involved in promoting the use of mobile banking and other digital payment platforms, which have made it easier for farmers and dairy entrepreneurs to transact business.

Challenges faced by Indian Dairy Industry:

India is the world's largest producer and consumer of milk, with a dairy industry that contributes significantly to the country's agricultural and economic growth. However, the industry has faced numerous challenges in terms of low productivity, limited access to credit and technology, and inadequate infrastructure. Some of the significant challenges faced by the Indian dairy industry are:

- **Low productivity:** Indian dairy farmers have low productivity due to various reasons such as low-quality feed, inadequate veterinary care, lack of proper breeding programs, and limited access to credit.
- **Inefficient supply chain:** The supply chain in the Indian dairy industry is highly fragmented and inefficient, leading to significant wastage and losses.
- **Lack of modernization:** The Indian dairy industry is largely dominated by small and marginal farmers who lack the resources to invest in modern equipment, technology, and infrastructure.
- **Quality control issues:** The Indian dairy industry faces challenges related to quality control and safety standards, which affect the quality and shelf life of dairy products.

The Indian dairy industry faces several challenges related to productivity, supply chain efficiency, modernization, and quality control. The RBI has taken several steps to overcome these challenges by providing credit, encouraging digitalization, improving access to finance, and promoting quality standards. These efforts are essential for the growth and development of the Indian dairy industry. Following are some of the significant initiatives by the RBI:

- **Providing credit:** The RBI has established specialized lending institutions, such as the National Bank for Agriculture and Rural Development (NABARD), to provide credit to farmers and dairy cooperatives at low interest rates. These institutions have helped to increase access to credit and finance for dairy farmers, enabling them to invest in technology and infrastructure to enhance their productivity and profitability. RBI has introduced various schemes to provide credit to farmers, dairy entrepreneurs, and cooperatives to invest in modern equipment, technology, and infrastructure. The RBI has ensured

the availability of credit to the dairy sector through various schemes such as the Priority Sector Lending (PSL) and Dairy Entrepreneurship Development Scheme (DEDS).

- **Kisan Credit Card (KCC):** The RBI has introduced KCC for farmers to provide them with affordable credit facilities for their agricultural activities, including dairy farming. The RBI has promoted financial inclusion in the dairy sector through measures such as the issuance of Kisan Credit Cards (KCCs) to dairy farmers.
- **Encouraging digitalization:** RBI has encouraged the adoption of digital technologies such as mobile banking, e-wallets, and digital payments to improve the efficiency of the dairy supply chain.
- **Improving access to finance:** RBI has taken steps to improve access to finance for dairy farmers and cooperatives by promoting financial inclusion and supporting the development of microfinance institutions.
- **Promoting quality standards:** RBI has issued guidelines for the dairy industry to improve quality control and safety standards, which help to ensure the quality and safety of dairy products.
- **Technology adoption:** The RBI has also encouraged the adoption of technology in the dairy sector through its policies. For instance, the RBI has allowed the use of electronic Negotiable Warehouse Receipts (e-NWRs) for storing and financing agricultural commodities, including milk. This has facilitated the adoption of modern storage and transportation practices, thereby reducing wastage and improving the quality of milk.
- **Export promotion:** The RBI has also played a role in promoting the export of dairy products from India. It has allowed banks to extend pre-shipment credit to exporters of agricultural products, including dairy products, at concessional rates. **Conclusion:**

The RBI has played a significant role in the development of the Indian dairy industry. The RBI's policies and initiatives have enabled farmers and dairy entrepreneurs to access credit, develop infrastructure, and operate under stable economic conditions. The dairy industry has immense potential to provide livelihood opportunities to rural communities and contribute to the country's economic growth. The RBI's efforts to promote the development of the dairy industry are a testament to its commitment to the growth and development of the Indian economy. It provides financing and investment opportunities, sets the regulatory framework, and manages risk in the sector. The central bank's efforts have led to the growth and development of the dairy industry, contributing significantly to the country's economic growth and development.

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