

1. Accessibility to raw materials is the first upstream requirement for food processing industry. What role Contract Farming can play in improving the supply and quality of raw materials? Is it feasible according to Indian agriculture scenario? (150 Words)

**Answer:**

- Contract farming refers to the production and supply of agricultural produce under advance contracts, the essence of such contracts being a commitment to provide an agricultural commodity of a type, at a time and a price, and in the quantity required by a known buyer. It basically involves four things - pre-agreed price, quality, quantity or acreage (minimum/maximum) and time.
- The contracts could be of three types; (i) procurement contracts under which only sale and purchase conditions are specified; (ii) partial contracts wherein only some of the inputs are supplied by the contracting firm and produce is bought at pre-agreed prices; and (iii) total contracts under which the contracting firm supplies and manages all the inputs and the farmer becomes just a supplier of land and labor.
- Food processors can minimize their overhead costs per unit of production by operating their plants at or near fully capacity by obtaining assured, stable and quality raw material supplies from farms under contracts.
- For a processor, contracts are more flexible in the face of market uncertainty, make smaller demands on scarce capital resources and impose less of an additional burden on management.
- They also overcome land constraint for corporate firms, reduce production risk, and are politically more acceptable than corporate farming.
- Contracting can give a positive image to the company as it may be perceived as progressive especially if it works with small farmers, and can help it get access to state or donor funds.
- At more macroeconomic level, contracting can help to remove market imperfections in produce, capital, land and labor markets, remove intermediaries and therefore make upstream value chain (agricultural marketing) more efficient, and can help in better co-ordination of local production activities as it often involves initial investment in processing, extension, etc.
- Contract farming would generate gainful employment in rural communities, particularly for small holders and landless agricultural labor and promote rural self-reliance in general by pooling locally available resources & expertise to meet new challenges.
- But in present Indian agriculture scenario in which small farms contribute around 30-35% to the total agricultural output; Contract farming has not benefitted in a meaningful way due to information asymmetry, weak bargaining power and legal ambiguities which create insurmountable hurdles to producer-buyer relationships.
- However Contract farming is the need of the hour in the Indian agricultural scenario due to the whole gamut of benefits it provides not only to the immediate

parties involved but also to society as a whole. Contract farming would reduce the load on the central & state level procurement system by increasing private sector investment in agriculture. It would bring about a market focus in terms of crop selection by Indian farmers and generate a steady source of income at the individual farmer level.

## PRACTICE QUESTIONS

### **Answer the following Questions**

1. The efforts to improve science and R&D in India need to go beyond questions of expenditure. Comment. (150 words)
2. Adopting a mission mode approach for developing energy storage systems will be crucial for realizing India's electric mobility ambitions as well as achieving our renewable energy targets. Analyze. (150 words)