CHAPTER X: CONCLUSIONS AND SUGGESTIONS

The conclusions in the following pages have been drawn out from the previous chapters where the detailed arguments and the supportive facts and figures are available with references. For further details and the underlying evidences the concerned chapters may be referred.

FROM CHAPTER I:

Present study has found that the backward integration in the food industry has emerged to provide a rationale for the growing trend towards vertical integration in terms of private efficiency gains that integration entails. The past studies generally assume a bilateral setting and thus ignore the possibility of great impact on the farming community; but it may be very significant particularly in cases where the upstream or the downstream market is highly concentrated. The backward integration by a processing firm provides for better protection against input supply constraints and demand uncertainty. Since product differentiation, in general, leads to greater concentration; this suggests that backward integration is likely to lead to further increase in downstream concentration. Earlier studies have looked at the growing trends towards vertical integration, product differentiation and concentration in isolation. Current study suggests that, under certain conditions, there might be a synergistic link between these variables that needs to be explored further.

Many of the options for agro food businesses and potential routes to more sustainable food supply chains can create benefits both for the businesses involved and for others in the supply chain, from farm to dining table.

The agriculture sector is shifting from a supply driven economy to a demand driven economy. The sector has undergone a transformation by the adjustment in the policies that contributed to the past success and is facing the new pressures as consumer income is rising and pattern of expenditure in consumer budget is shifting to more of non cereals. The post liberalization's era in India has brought a revolution in the Indian agro-food system. There is growing evidence that organized food supply chains in the form of backward integration for food supply will act as one of the alternative strategy for the domestics firms as well as multinational companies.

There is an optimistic note on the potential for reducing poverty through contract farming. Successfully implemented Contract farming is considered by many...
Conclusions And Suggestions

as a crucial means for industrializing agriculture. It can be a viable venture for the producer (farmers) as well as for the manufacturers (industrialists). It is regarded as a strategy for agricultural transformation in developing countries because it has the potential to solve agricultural marketing problems. Contract Farming has been promoted in the recent three decades as an institutional innovation to improve agricultural performance in less developed countries. This system was accepted and used as one of the promising institutional framework for the delivery of price incentives, technology and other agricultural inputs. Local Governments, private local firms, multinational companies, some international aid and lending agencies etc. have been involved in these contract farming schemes. Although there are different types of it, contract farming usually involves a central processing or exporting unit which buys the growers' harvest.

The recent growth and diversification of consumer demand and the expansion of organized agricultural processing and marketing ventures in India have the potential to boost the market opportunities, productivity, and income to farmers, including small holders. Among these institutions and innovations are various models of contract farming, including those led by cooperatives, by farmer groups, and by various types of private sector resource intermediation that develop backward linkages to growers. The challenge and the opportunities lie in linking the two ends and ensuring viable business opportunities for both farmers and agri-businesses, which will further strengthen the food sustainability of India in particular and global community in general.

There is fragmentation at the bottom of the Supply Chain in agriculture production; the trend in India is towards fragmentation rather than consolidation of the land holding. The average size of landholdings declined from 2.2 hectares in 1970-71 to 1.06 hectares in 2003. Nearly 88 percent of the farmers have less than 2 hectares of land, and account for about 44 percent of the operated area. Although these farms are small, indications are that they are more efficient than larger farmers in terms of land productivity, presumably due to a high share of family labour on small farms.

The drive for efficiency and the just-in-time philosophy used by the food industry has progressively reduced stock levels throughout the supply chain - with the resulting damage to its resilience when an emergency occurs. The consolidation of
distribution networks by food manufacturers and the trend towards using 3PL (Third Party Logistics) providers, and reducing distribution sites means that the loss of a site due to events such as a fire or flood could also cause a disruption in the supply chain.

To gain the competitive advantage, a company needs to examine its activities in relation to the comparative advantage, which is available in different countries. Correspondingly these activities and the sourcing decisions with the imposed conditions of any particular country can lead to gain in cost, quality, lead time and perhaps innovation.

FROM CHAPTER II:

The Problems of farmer in India, related to agricultural activities have been tried to be solved through welfare measure approach by the state and central government in the form of several legal (land reforms, land consolidations schemes) and welfare measures. However these efforts of government have not yielded the desired results. The various other state intervention strategies as well as efforts by Non-Governmental Organizations to arrest rate of rising poverty and migration of the rural masses, which include promotion of income generation activities, have not succeeded in reversing this trend. The situation is growing alarming due to several problems of Indian society such as farmer’s suicide, insurgencies and unrest among the farmers. These are associated directly with the problems of agricultural policies and mismanagement. One of the strong reasons is the lack of well established forward and backward linkages, such as extension advice, mechanization services, and supply of seeds, fertilizers and credit to farmers. It should guarantee a remunerative agriculture and make the markets profitable for the farmers.

FROM CHAPTER V:

Major factors which are responsible for the vertical integration between sellers and buyers are needed for products with the following characteristics. Vertical coordination is more likely when customers (e.g., processors, retailers) are willing to pay a premium for a product, variety or attribute.

Consolidation at the top of the Value Chain in India is currently riding a tide of organized retail expansion, especially in the food and grocery segments, which have been growing at annual rates between 16 and 50 percent over the past few years.
The study has found that development of efficient and inclusive food value chains will enhance urban–rural linkage, allowing supply of safe and affordable food to increasing numbers of urban-poor people. Most of the road corridors have weak backward and forward linkages, with very little progress in adding value to agricultural production. Constraints such as the lack of storage, efficient transport services, and marketing systems prevents ethnic minorities and poor households headed by women from taking advantage of economic opportunities brought about by road projects. In the 1960s, 2 inhabitants in 10 in Asia lived in cities, whereas it is estimated that close to 60% of the population will be living in urban areas by 2025. Supplying the growing cities with adequate and affordable food will be a major challenge, requiring massive investments in food distribution, storage, and marketing facilities.

FROM CHAPTER VI:

Food security exists when all people, at all times, have physical, social, and economic access to sufficient safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life. Ensuring food security — the availability of basic staples at affordable prices — for a large and growing population has been one of India’s biggest economic and political challenge. Since 1960s, food policies have sought to balance producer and consumer welfare by focusing on increasing wheat and rice production, supporting prices, maintaining buffer stocks, and broadly distributing subsidized grain to consumers. With improved food grain supplies, the focus is now turning to reducing the high cost of public food grain management and improving the safety net for the poor. In addition, significant new challenges have emerged as rising income shifts demand patterns in favour of high value foods such as fruit, vegetables, milk, meat, and eggs, and away from cereals.

Diversification of agricultural production and marketing now offers the primary opportunity to strengthen lagging growth in farm output and rural employment. However, achieving diversified growth with equity also requires new measures to increase investment and provide the market institutions needed to develop India’s inefficient food processing and marketing sectors, and to ensure that the transformation to higher-value agriculture is inclusive of India’s large number of marginal and small farmers.
The most striking transformation occurring in Indian agriculture is the shift from a food grain-oriented supply led framework which is dominated by the public sector, to a more diversified and demand driven framework with an expanding role for the private sector. Against this backdrop, the study has found the emerging dynamics and challenges in India’s agricultural sector, including managing improvements in food access for the poor, facilitating a private sector led transformation to more efficient agricultural markets, and effectively linking small farmers to these increasingly diverse markets.

Significant progress needs to be made in developing efficient and equitable markets for large number of small surpluses of perishable goods, and in managing the limited risk bearing capacity of small farmers. India’s agricultural markets are crowded with middlemen and commission agents who receive high fees and margins that eat into the farmer’s incomes. Part of the problem lies in lack of adequate storage and transport infrastructure and integration between growers and markets which result in large postharvest losses.

The marketing regulations have historically prevented direct links between farmers and agribusinesses, a great deal needs to be done to build integration between the growers and processing and marketing firms, and to develop contract farming models and other market institutions to link small producers with the markets.

Small farmers primarily engaged in the traditional grain cultivation also typically lack incentives, capital, and expertise to venture into high value markets, and have limited ability to cope with the risks that may be associated with new enterprises. Although the potential gains from diversification are higher than for producing grains alone, measures are needed to mitigate potential price, production, and marketing risks.

Indian agricultural policy must balance a changing food security landscape with the emerging need to diversify farms and markets towards high value commodities. On the food grain front, where the focus has been on increasing productivity, the current challenges are to reduce the cost and inefficiency of public food grain operations by the FCI, and to ensure an effective food safety net for low-income households. A key policy option is to shift responsibility for procuring, handling, and transporting operational supplies of wheat and rice to the private sector and confine the role of the FCI to holding buffer stocks.
The government should give, on priority, a policy support, legal protection, financial, informational and organizational assistance to the small farmers and traditional retailers as they are capable of greater employment generation and equitable income distribution. Large number of small farmers and retailers fragmenting across the regions of the country are always desirable over the mega-malls or other developmental plans which are coming around the metropolitan or more concentrated urban areas only. For the region-wise and operation-wise integration of backward linkages through the agents of Food Supply Chain, malls and the small retailers both are the desirable components of the system.

After the economic liberalization India has increased its involvement into the affairs of World Trade Organization. This has also intensified and brought to fore the role of the agribusiness firms who are entering into contract with primary producers and farmers for supplying raw material. This awareness on the part of small and big agro firms provides a broader picture of effects of international trade expansion in food products on the economic and social environment in India as well as in the developing countries. This study has shown that market liberalization has changed the pattern of agricultural production in terms of on-farm crop and livestock mixes, increasing total production in physical and value terms and changed the types of food products entering international markets. Further the study has also shown that traditional values and habits in agriculture products have undergone a change replacing by transactions that increasingly reflect a ‘cash culture’

Whether the above developments have benefited to farming community is disputed on one or the other ground. Many argue in relation to benefits of contract farming that since the primary producers or the farmers lack the bargaining capacity to negotiate the contract, they often end up on the losing side by entering into contracts that are detrimental to their interests. Contract farming has also been used to promote new high value crops which are more input intensive, risky, high-tech, and market dependent for profitability, to lower costs either by yield improvement or cutting input costs through better extension, and to raise returns by value addition to farmers.
FROM CHAPTER VII

The retail market in India is offering great opportunities to the business leaders. This sector is promising a spectacular growth to both organized and unorganized retailers in urban as well as rural parts of the country. Both will coexist and prosper without causing any threat to the other. The traditional retailers will however have to struggle for revamping their business. They need to redefine their role and professionalize themselves to obtain a strategic edge over the organized retailers. A policy intervention, legal protection, financial and managerial support and a cooperative joint operation for promotion of backward food integration and supply chain development will make them strong and competitive. FDI in retailing should be restricted or tied up with decentralization and protection of traditional retailing. The organized sector should be forced to contribute to infrastructure development and help the small, traditional and rural players in modernization and upgradation. A national commission may be set up to coordinate the efforts of all public and private agencies to this end.

The available evidence implies that there is tremendous scope for private and public agencies to participate in the regulations of food production and processing and also to exercise control on the maintenance of food safety rules and quality control. There is also a strong need of cooperation among the different agencies at national and international level to develop synergy so that the interest of farming community and that of all different stake holders are properly guarded. In addition to international standards (FAO Codex Alimentations, SPS agreement), the national agencies for grades and standards are also to play their role with responsibility.

Workings for the betterment of food quality and quantity, different players are coming across with different interests and often they clash on one or the other ground for the regulation of food production. For example sometimes practice of one public group competes with another private rule for Good Agricultural Practices (GAP). Public regulation may involve normative codes regarding health and safety, but also includes compliance with labour and environmental standards. The latter are strongly advocated by (inter)nationally operating non-governmental organizations, like Greenpeace, IUCN, Oxfam and others. The corporate social responsibilities of
firms are further driving forces for following the rules of government and also to maintain harmony with environment and pollution norms.

The initiatives for pronouncing fair and ethical trade practices intend to make food SCM and its trading more transparent and try to mobilize consumers and other group for these issues related to food problems. Another aspect of the legal framework refers to ownership rights and the supply chain governance structure. The studies have analysed that as long as the agro operations of Indian firms remain limited to production activities and having marginal or fractional role in value addition of food products, the India firms will not be able to exercise governance power and will receive a minor share of the food industry market.

Joint ventures and strategic alliances between local and international firms in the form of FDI or franchisee may enable producing firms to acquire business practice and learn best international practices. Other options for reinforcing collective action are in the form of contract farming and allied activities and allowing the entry of organised retails market of international level. The entry of giant players like Wall Mart, Carrefour etc. will set new rules of competition for the Indian farmers and other actors who are involved in the marketing and production process.

There is a need to bring reforms in government interventions mechanism to make the agricultural sector grow effectively in the light of changing structure of production, consumption and marketing. The current state of agricultural output requires efforts on all fronts including social and cultural factors. The responsible factor for the current poor state of affairs is educational backwardness on the part of Indian farming communities. The present literacy rate adds to the problems of cropping. A study has shown that the improvement in standards of rural literacy leads to growth in adoption of technology, use of modern inputs like machine, fertilizers, and yield. In case of rice and wheat in India, literacy is found to have a positive and significant relation with crop productivity and a strong link with farm modernization. Rural education contributes to improvement in adoption of high yield variety seeds by about 25-47 percent, fertilizer use by 18-22 cent, about 6-8 per cent to modernization and 5-8 per cent to improvement in yields for rice and wheat.

Although the federal laws of India hold that the agricultural activities come under the purview of state government. The provisions still give immense opportunities and prospects for better agricultural development. But mere legal and
policy reforms will not bring major changes in the Indian agricultural system. There must be infusion of public and private players, a system popularly known as Public Private Partnerships (PPPs). There is widespread recognition of the potential for PPPs in agricultural development and this may be an important way of developing the capacity of agricultural innovation systems. Underpinning this potential is significant and growing investments made by the private sector in agricultural pursuits are noticed. The trend is encouraging and supported by market friendly polices arising from a decade or so of economic liberalization and the growing role of the private sector in many developing countries is evident.

FROM CHAPTER VIII:

The present study has found that creating niche markets for more sustainable locally produced, conserved foods and some manufactured foods can result in significant social, environmental and economic benefits for those involved, greater overall gains could undoubtedly be made by improving the sustainability of mainstream agriculture and international supply chains. Thus it will be wise on the part of policy makers to have holistic view of the whole development of agro food supply chain set up. Undue apprehensions should not be developed for the integration of international food supply chain along with the domestic ones.

Multi-stakeholder initiatives, where food businesses work together with farmers, academics, innovators, governments and NGOs, are important for raising the baseline for near-commodity and commodity food supply chains, including those important for manufactured foods. Strengthening institutions like Contract Farming is an option to provide risk-mitigating services, and enable farmers to make the transition from traditional grain crops to higher value commodities.

Private actors of the agribusiness sector should refrain from practices that constitute an undue exercise of buyer power, as identified by the states in which they operate in their relationships with workers. They should use their influence on suppliers to ensure that wages and working conditions improve, rather than degrade, as a result of their suppliers joining global value chains. It can be done by seeking to international framework agreements with global unions, guided by the principles stated earlier by considering unilateral undertakings to monitor compliance with ILO standards in the supply chain, while supporting their suppliers in achieving
compliance. They should engage in chain-wide learning to assure that participation in the chain is profitable for all involved, including small-scale producers. In their relationship with smallholders the agro-firm should involve smallholders in the elaboration of and compliance with food safety, labour or environmental standards and facilitate their access to global supply chains. At a minimum, they should ensure that the imposition of private standards do not exclude smallholders from certified food chains (by assessing the impact of private standards on the right to food). Further they should negotiate contract farming arrangements that respect the right to food for smallholders and the criteria of social justice outlined earlier. The firms must promote fair trade through increased shelf space and by running information campaigns highlighting the unique importance and contribution to fair trade.

The present study has analyzed the role of government legislations in general and judiciary in particular in the process of sustainable development. The role of government legislations/ actions of judiciary in case of non-compliance of the environmental legislation could be an important weapon to achieve the goal of sustainability. Though government legislations and intervention of judiciary is not the only way to move towards sustainable development, but it may be an important component of policy framework for the sustainable development, particularly in the era of globalization. To substantiate the above hypothesis the present study has discussed some of the landmark judgments on environment degradation by the Indian Apex Court during the recent past. Further the study has highlighted that in the face of continuous depletion of natural resources and environmental degradation the Indian judiciary has come forward to check such unsustainable developments.

The enforcement of agricultural contracts is an important pre-condition for efficient exchange and investments in economic activities in general and in agro-food in particular. When a breach of contract happens, one or both the parties might wish to enforce the agreement on its terms.

In developing countries enforcement institutions are often weak or absent. India is not an exception to this rule. Government interventions to address such a shortcoming are needed as a pre-condition for the development of a favourable climate for business investments. Effective enforcement mechanism is important for successful Contract Farming. Mediation, reconciliation, arbitration etc. should be made to exhaust first before resorting to civil court for dispute resolution. A flexible
contract may allow renegotiations and thus enable parties to adjust the contract to changes in the environment.

FROM CHAPTER IX:

There are pertinent findings which suggest that if contract farming is rooted in appropriate policy, statutory and institutional legal framework, the CF has tremendous potential to help the agricultural community in general and the small and marginal farmers in particular.

There is a need to have a comprehensive statutory protection from the ill effects of contract farming for the farmers. But the practice of contract framing alone can also not be overemphasized and advocated vehemently. The agricultural cooperatives, the Non Governmental Organizations (NGOs) and the civil societies should also be given chance and the legal and regulatory system should enable them to play a prominent role in protecting the interests of farmers in contract farming.

Indian society being predominantly agriculture-based has undergone transformation from traditional agriculture of mere sustenance to realizing the optimum potential for commercialization and export oriented agribusiness. At present, commercial agriculture emphasizes on high productivity and the production is linked with markets. Indian farmers are trying to compete with global market. Many internationally reputed agri-business corporations either alone or through joint ventures have entered Indian agribusiness which in turn has an impact on rural society in the form of employment opportunities, farmers empowerment, absorption of labour force, building economic base among rural folks resulting in better standard of living and supporting the farmers' welfare schemes run by Government of India. However this is one side of the coin. The Agribusiness activities have great bearing on not only different areas of agriculture like food processing, horticulture and seed business but also erode our capacity for sustainable growth for future generations.

Sustainability is regarded as a much broader phenomenon, embracing ethical norms for the survival of living matters, the right of future generations and the institutions responsible for ensuring that such rights are fully taken into account in policies and actions. Moving towards sustainability will, therefore, oblige a concerted process of change.
However, if we accept that sustainability involves a concern for the social as well as environmental changes that take place in relation to human activities then compliance to legislations which confronts the structure and approach of past (unsustainable) practice to build a new structure required for a (sustainable) future could be an approach if we want to move towards sustainability.