
**CONTRACT FARMING IN INDIA: AN ECONOMIC PARTNERSHIP
FOR AGRICULTURAL DEVELOPMENT**

Haris Manzoor, MBA Agri-business,

Institute of Agri-business Management,
S. K. Rajasthan Agricultural University, Bikaner, India.

ABSTRACT

Contract farming has been in existence for many years as a means of organizing the commercial agricultural production of both large-scale and small-scale farmers. Interest in it continues to expand, particularly in countries that previously followed a central planning policy and in those countries that have liberalized marketing through the closing down of marketing boards. Changes in consumption habits, such as the increasing number of fast-food outlets, the growing role played by supermarkets in many countries, and the continued expansion of world trade in fresh and processed products; have also provided the impetus for further development of this mode of production. Contract farming is proving to be a viable option for overall agricultural development in India.

Introduction

Contract farming is an agreement between the farmers and firm/contracting agencies where farmers agree to grow crops specified by the firm and supply the produce to the firm for a predetermined agreement. The phenomena of contract farming revokes around three main needs i.e. (a) Predetermined quantity, (b) Predetermined quality, (c) Predetermined price.

In an age of market liberalization, globalization and expanding agribusiness, there is a danger that small-scale farmers will find difficulty in fully participating in the market economy. In many countries such farmers could become marginalized as larger farms become increasingly necessary for a profitable operation. A consequence of this will be a continuation of the drift of populations to urban areas that is being witnessed almost everywhere. (FAO, 2001)

The Indian agri-food system is undergoing rapid transformation and there is growing evidence that contract farming will have an important role in this transformation. An important concern in Indian agriculture is that while “front end” activities – including

wholesaling, processing, logistics, and retailing – are rapidly expanding and consolidating, the “back end” activities of production agriculture have been continuously fragmenting. The challenge lies in linking the two ends and ensuring viable business opportunities for both farmers and agri-businesses (Gulati, 2008).

The Government of India's National Agricultural Policy envisages that private participation will be promoted through contract farming and land leasing arrangements to allow accelerated technology transfer, capital inflow and assured market for crop production, especially of oil seeds, cotton and horticultural crops. National Agricultural Policy of GoI has also recognised contract farming as an important aspect of agri-business and its significance for small farmers. The Inter -Ministerial Task Force on Agricultural Marketing reforms observed that contract farming was becoming increasingly important.

The contract farming system should be seen as a partnership between agribusiness and farmers. To be successful it requires a long-term commitment from both parties. Exploitative arrangements by managers are likely to have only a limited duration and can jeopardize agribusiness investments. Similarly, farmers need to consider that honouring contractual arrangements is likely to be to their long-term benefit.

Contractual arrangement between parties varies according to the depth and complexity of the provisions in each of the following three areas:

- (a) Market provision: The grower and buyer agree to terms and conditions for the future sale and purchase of a crop or livestock product.
- (b) Resource provision: In conjunction with the marketing arrangements the buyer agrees to supply selected inputs, including on occasions land preparation and technical advice.
- (c) Management specifications: The grower agrees to follow recommended production methods, inputs regimes, and cultivation and harvesting specifications.

Contract Farming in India

Contract Farming in India started back in colonial period when commodities like Collin Indigo were produced by the Indian farmers for English factories. Seed production has been carried out through contract farming by the seed companies quite successfully for more than four decades in the country. ITC introduced cultivation of Virginia tobacco in Coastal Andhra

Pradesh in the 1920's incorporating most elements of a fair contract farming system and met with good farmer response. The Pepsico introduced tomato cultivation in Punjab in the 1990's under contract farming to obtain inputs for its paste-manufacturing facility established as a pre-condition to its entry in to India. Contract Farming was the strategy of choice for almost all food processing projects contemplated in the 1980's and 1990's.

The Government of India's National Agriculture Policy 2000 envisages that private sector participation will be promoted through contract farming and land leasing arrangements to allow accelerated technology transfer, capital inflow and assured market for crop production, especially of oilseeds, cotton and horticultural crops.

Agricultural Produce Marketing Committee (Development and Regulation) Act, 2003 laid down the foundation of a model contract agreement. Procedures and form of contract farming agreement were laid down in this act which led to the effective follow up of the agreements.

Table 1: State-wise total cropped area and area under contract farming in India

States/UTs	Total Cropped Area (2003-04) (In ' 000 Hectare)	Area under Contract Farming (2007) (In Hectare)	Area under Contract Farming (As on April, 2010) (In Percentage)*
Andhra Pradesh	12366	-	66** (of total horticultural area)
Assam	3962	160	-
Bihar	7882	20	-
Chhattisgarh	5707	-	-
Goa	169	1924	-
Gujarat	11311	2000	-
Haryana	6388	1416	0.24 (of total area under Barley)
Mizoram	98	2447	-
Orissa	8637	5900	28.30*** (of total area under Cotton)
Punjab	7931	121457	1.05
Tamil Nadu	5316	236610	Negligible (Oil Palm only)
West Bengal	9707	-	Negligible
India	190641	425834	-

Note: *: As reported by different states, **: Under horticulture crops, ***: Area under cotton.

Source: <http://www.indiaagristat.com/table/agriculture/2/agriculturalarealanduse/152/426251/data.aspx>

Some Contract Farming Initiatives in India

1. The Classic Case of Pepsi Foods Ltd.

Launching its agro-business in India with special focus on exports of value-added processed foods, Pepsi Foods Ltd. ('PepsiCo' hereafter) entered India in 1989 by installing a ₹22 crore state-of-the-art tomato processing plant at Zahura in Hoshiarpur district of Punjab. The company intended to produce aseptically packed pastes and purees for the international market. The PepsiCo model of contract farming, measured in terms of new options for farmers, productivity increases, and the introduction of modern technology, has been an unparalleled success. The company focused on developing region- and produce-specific research, and extensive extension services. It was thus successful in bringing about a drastic change in the Punjab farmers' production system towards its objective of ensuring supply of right produce at the right time in required quantities to its processing plant.

2. Appachi's Integrated Cotton Cultivation: Innovative Model

Appachi Cotton Company (ACC), the ginning and trading house from Pollachi (Coimbatore district of Tamil Nadu, India) hit the headlines in May 2002 for the street play it employed to encourage farmers in the Nachipalayam village in Kinathukadavu block of Coimbatore to sow cotton seeds in their fields. The singer in the street play assured cotton farmers that, unlike in the past, they would not be disappointed if they cultivated cotton on their fields, as they would be backed by a model called the Integrated Cotton Cultivation (ICC), which would guarantee a market-supportive mechanism for selling their produce.

3. Ugar Sugar's experience with barley

The story of the Belgaum (Karnataka)-based Ugar Sugar Works Ltd., which established a successful backward linkage with farmers of Northern Karnataka for supply of barley for its malt unit, is quite interesting and insightful. Farmers surrounding Ugar Sugar in Belgaum, who had been cultivating sugar under intensive irrigation found themselves with the problem of salinity in soils. Ugar Sugar took this opportunity to begin creating awareness among the farming community about alternative crops suitable for saline soils. Of these, barley was known to give economic yields of good quality in saline soils. The company assured the farmers of a market for their produce if they agreed to grow barley, as well as the required technical and input support.

Implications of Contract Farming for Indian Agriculture

The Government of India runs the largest contract farming model. The Green Revolution of 19 was a resounding success which led to introduction of improved varieties and hybrids, assured availability of agricultural inputs, controlled pricing for fertilisers, guaranteed procurement of final produce, attractive and ever increasing output minimum support prices.

The results of this revolution were assured food security, boomed farm incomes, import substitution, safeguarding of Indian public distribution system and employment for rural landless people. Research and Development can assist Indian agriculture to reinvent itself. A partnership approach is called for between private sector contract farming initiatives and government research infrastructure. Agricultural universities, ICAR and its associates do the location specific research trials. Extension services provided by the private sector are also a boost for the Indian agriculture. Fair and equitable distribution of expenditure and revenues between the partnering members build the confidence of the partnership. Benefits will however, percolate down to the grass root farmers.

Contract farming ensures exposure of farmers to world class mechanised agricultural technology and obtains an assured up front price and market for the produce. Crop monitoring on a regular basis and technical advice regarding farming operations are provided free of cost at the doorstep of farmers. Supply of healthy disease free nursery, agricultural Implements and technical Bulletins are also provided to the farmers.

The companies involved in contract farming enjoy uninterrupted and regular flow of raw material, protection from fluctuation in market pricing, long term planning made possible, builds long term commitment, dedicated supplier base and generates goodwill for the organisation.

Success however comes at a cost and there are various factors adversely affecting the Indian agriculture. Agriculture in India is currently not much diversified due to overemphasis on cereals and sugarcane by contract farming and low or no focus on pulses & oilseeds. Productivity of crops has also been affected due to lack of incentives. Minimum support price becomes a benchmark reference pricing rather than a farmer safety net. Mono-culture, over fertilisation and excessive water usage leads to soil degradation.

Preconditions for Successful Contract Farming

No contract farming venture should be initiated unless some basic preconditions are met. These preconditions include the market profitability, physical and social environment and a proper government support. Market profitability includes an identified market for the planned production for sponsor, which can be profitable on a long-term basis. The farmer must find potential returns more attractive than returns from alternative activities and must find the level of risk acceptable. Farmers must have potential returns demonstrated on the basis of realistic yield estimates.

The physical environment must be suitable in general and in particular for the product to be produced. Utilities and communications must be suitable for both farming, e.g. feeder roads, and for agro-processing, e.g. water and electricity. Contracted farmers require unrestricted access to the land they farm and sources of inputs need to be assured for them. Social considerations such as cultural attitudes and practices should not conflict with farmers' obligations under the contract and managers must develop a full understanding of local practice.

Government needs to provide its support in terms of suitable laws of contract and other laws as a part of an efficient legal system. Governments need to be aware of the possible unintended consequences of regulations and should avoid the tendency to over regulate the agreements. Governments should provide services such as research and extension services for boosting the contract farming in India. Governments can take steps to bring together agribusiness and suitable farmers for their effective contracts.

Policy Initiatives for Contract Farming

Recognising the potential and benefits of contract farming arrangements in the agriculture sector, NABARD took the important initiative of supporting such arrangements by the banking sector and developed a special refinance package for contract farming arrangements (within and outside Agri-Export Zones) aimed at promoting increased production of commercial crops and creation of marketing avenues for the farmers.

- a) Financial Interventions
- b) Special Refinance package for financing farmers for contract farming in AEZs
- c) 100% refinance to disbursements made by CBs, SCBs, RRBs and select SCARDBs (having net NPA less than 5%).
- d) Term facility for repayments (3 years).
- e) Fixation of higher scale of finance for crops under contract farming.

- f) Extension of refinance scheme for financing farmers for contract farming in AEZs to contract farming outside AEZs besides coverage of medicinal and aromatic plants.
- g) Extension of Refinance scheme for contract farming under Automatic Refinance Facility.
- h) Preparation of banking plan for financing Diesel Gensets to Gherkin farmers in Karnataka with a total fund outlay of ₹1.71 crore.
- i) Area Development Project for grapes in Nashik District, Maharashtra with total fund outlay of ₹ 402 crore
- j) Refinance support extended for contract farming within AEZs and outside to various financing agencies during 2004-05 and 2005-06 was to the tune of ₹ 774 crore and ₹ 268 crore respectively.

Future Outlook for Indian Agriculture

There needs to be a radical change in the way the Indian agriculture will be looked upon in coming years. Contract farming is the possible solution for the growth of commercialized agriculture in India. New markets and newer marketing strategies need to be developed in order to boost the profitability of Indian agriculture. Promoting investment and building capabilities in agriculture is need of the hour. Technology enhancements should improve the lot of our farmers. Broad based contract farming programs can be one possible solution.

India needs to advance from the traditional model of food security to the modern market demand oriented agricultural model. A sequenced value chain needs to be developed for the agricultural production which will enhance the benefits acquired from the agriculture in India. Unsuitable ecological practices associated with the contract farming need to be noted and eliminated for the better and sustainable contracts.

Conclusion

To bring Indian agriculture on a developmental track that ensures food and nutrition security to a population of over a billion, raw material for its expanding industrial base, surpluses for exports, and a fair and equitable rewarding system for the farming community, commitment driven contract farming is no doubt a viable alternative farming model, which provides assured and reliable input service to farmers and desired farm produce to the contracting firms. Co-ordination and collaboration and acting in an organized manner are advisable for

both sides. The success of contract farming depends on the existence of a responsive legal framework and institutional support. Several Indian and multinational companies have already begun such initiatives in India and have demonstrated repeated success. The successful cases should encourage the rest of the producing and the consuming enterprises to emulate them for mutual benefits in specific and Indian agriculture in general.

References :

1. Deshpande, C.S., (2005). *Contracting farming as means of value-added agriculture*. National Bank for Agriculture and Rural Development
2. FAO. (2001), *Contract farming: Partnerships for growth*. FAO Agricultural Services Bulletin 145, ISSN 000-000
3. Gulati, Ashok. 2008. *Fragmenting Bottom and Consolidating Top: India's Changing Food System and Implications for Small Holders*, in *India: Some aspects of Economic and Social development* (eds.) S. Mahendra Dev and K.S. Babu. Academic Foundation, India. 2008.
4. Gummagolmath, K.C., (2008). *Contract Farming in India, Problems and Prospects A Case Study of Gherkin in Karnataka*. In CCS National Institute of Agricultural Marketing,
<http://www.ccsniam.gov.in/research/Dr.%20K.%20C.%20Gummagolmath>
5. Jayati Ghosh, (2003). *Corporate agriculture: The implications for Indian farmers*. In *Macros can*. Retrieved from http://www.macrosan.org/fet/dec03/pdf/Corp_Agri
6. Mukesh Pandey, Deepali Tewari. (2010). *The agribusiness book*. IBDC publishers.
7. Nagaraj, N. et al., (2008). *Contract Farming and its Implications for Input-supply, Linkages between Markets and Farmers in Karnataka*. *Agricultural Economics Research Review*, 21, 307-316
8. Shoja Rani, B.N., (n.d.). *Globalization and Contract Farming in India-Advantages and Problems*. In DSpace@IIMK. <http://dspace.iimk.ac.in/bitstream/2259/520/1/637-647+>
9. Singh, Roopam, (2009). *Effectiveness of contract farming practices for agriculture development and equity*. In Consortium for Trade and Development. Retrieved from <http://www.centad.org/resources/books-and-reports/807-effectiveness-of-contract-farming-practices-for-agricultural-development-and-equity.html>.
10. Spice: MANAGE Hyderabad, Vol. 1 No. 4 : March 2003

