

CONTRACT FARMING FOR AGRICULTURAL DEVELOPMENT IN INDIA

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ABSTRACT

Contract farming is agricultural production carried out according to an agreement between a buyer and farmers, which establishes conditions for the production and marketing of a farm product or products. Typically, the farmer agrees to provide established quantities of a specific agricultural product, meeting the quality standards and delivery schedule set by the purchaser. In other words- Contract Farming is defined as a system of production and supply of agricultural/horticultural produce under forward contracts between producers/ suppliers and buyers. The essence of such an arrangement is the commitment of the producer to provide an agricultural commodity of a certain type, at a time and a price, and in a quantity required by a known and committed buyer.

Key words: Contract farming; Agricultural production; Production; Marketing; Committed buyer.

Introduction

Indian agriculture, as it exists today, has come a long way from its hitherto image of being non-commercial and traditional in its methods of farming. With the increasing demand for value added and high quality niche products, Indian agriculture has been forced to step up and adopt commercially, technically and economically viable agribusiness solutions. Business and investment opportunities in this sector have suddenly jumped manifold. However, so far only a few successful efforts have been made by corporate to enter into the sector through contract farming.

The present era of globalization and liberalization has witnessed significant changes in agriculture the mainstay of Indian economy. These changes include cropping technology as well as cropping patterns. Export oriented products and processed food items occupy a vital position in the market these days. Such value added agricultural product needs heavy dose of costly inputs, improved crop varieties, and advanced technology to comply with the quality standards set by international organizations like WTO. Contract farming proves to be beneficial to and fulfills the desired demand of both farmers and companies. In India most of the farmers belong to small and marginal categories, and are found resource poor. At the same time the agro processing farms are lacking in possession of land for cultivation of high valued crops. That is why these companies come forward with contracts in providing such costly inputs, improved crop varieties and advanced technology to the resource poor farmers. Hence, contract farming has attained a greater place in today's agriculture and it continues to play a major role in commercializing it.

Agriculture is already overcrowded due to rapid growth of population and non-availability of employment in rural areas. A major proportion of labour force needs to find alternative employment opportunities in agriculture sector. In the same period contract farming system has been originated. The contract farming system is the new dimensions in the Indian agriculture sector. Therefore, the need for contract farming, which would hopefully promote the linkages to the small-scale farming community to grow crops on commercial terms.

The Concept of Contract Farming

Contract farming is generally defined as farming under an agreement between farmers and a Sponsor (processor, exporter, and marketing firm) for the production and supply of agricultural products under Forward Agreement often at pre-determined prices. The basis of the relationship between the parties is a commitment on the part of the farmer to provide a specific commodity in quantities and in quality standards determined by the purchaser and an undertaking of the sponsor to support farmer's the production and to purchase the commodity. It has the potential of combining small farmer efficiency, utilizing corporate management skills, providing assured markets and reducing transaction costs in the value chain by ensuring vertical integration. Contract farming is a win-win situation for both the parties and leads to building a platform for improvement of farm incomes, development of agro-processing and expansion of rural economy. Recent years have witnessed a shift to diversify higher value products such as fruits, vegetables, eggs, meat, dairy, fish and flowers in India through contract farming. Contract Farming System has the potential of addressing most of the urgent and critical needs of the Indian Agriculture Sector. It offers, perhaps, the only way to make small scale farming competitive by enabling small farmers to access technology, credit, marketing channels and information while lowering transaction costs. At the same time, it offers a feasible and viable model of private sector participation in agriculture on a massive scale. Contract farming has the potential to be an effective instrument to work as an aggregator at the grassroots level of small and marginal farmers by giving them access to technology, inputs, capital, and extension and risk management. Successful contract farming also provides a platform for supply of reliable agricultural produce of specified quality for the establishment and development of processing sector and reliable and competitive channel for supply of exports as well.

Contract farming can be defined as "an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under a forward agreement, generally at predetermined prices". The agreements also allow the purchaser to provide a degree of production support through inputs and technical guidance for the crop cultivation. From the farmer's side, there is a commitment to produce the specified agricultural products within the quality and quantity standards prescribed by the purchaser, and the firm supports, in turn, the farmer's production, and also purchases the produce. The contractual

agreement encompasses three areas viz., market (grower and buyer agree for future sale and purchase), resource (buyer agrees to supply inputs and technical advice) and management specifications (grower agrees to follow the recommended practices for the crop cultivation). (S. Earappa 2006)

Contract farming is a written commitment or an agreement made between the farmer and the buyer for cultivation and sale of specific quality, grade and variety of commodity at pre-determined price. The farmer enters into a contract with a processing/marketing firm to supply pre-arranged quantity and quality of produced at a pre-arranged price and time. The contract could be of three types: (1) Procurement contract under which only sale and purchase conditions are specified; (2) Partial contract wherein only some of the inputs are supplied by the contracting firm and produce are bought at pre agreed price. (3) Total contract under which contracting firm supplies and manages all the inputs on the farm and the farmer becomes only the supplier of the land and labor. The relevance of each type varies from product to product and from time to time. (Singh Sukpal 2000)

Review of Literature:

Arunkumar (1976) studied the economics of hybrid jowar seed and potato production (a major competitive crop) in Devanahally taluk of Bangalore district and indicated that the total cost of hybrid jowar seed production was Rs. 6,242.75 per hectare, while it was Rs. 10,354.99 for potato. Seed was a major item of cost in potato cultivation (26%). Manures and fertilizers together accounted for nearly 33 per cent of the total cost of production of both jowar and potato. The gross return from jowar was Rs. 7,997.40 and the net return was Rs. 1,981.53. In potato, these figures were Rs. 7,997.40 and Rs. 1,754.65 per hectare, respectively.

Sukpal Singh (2000) looks into the “role of contract farming in agricultural diversification and development in terms of its practices and implications for producers and the Punjab economy”. The paper focuses on the nature of contracts, studies the perceptions of both the farmer and the firm of the working of the contract system and its effect on the local economy. He highlights that the summary of the studies on contract farming “helped farmers for the better, gave more reliable incomes, generated employment especially for women, provided new skills in

farming, and did away with the patron-client relationship between large and small producers” (Glover and Kusterer:1990, Fulton and Clark: 1996). Contract farming has several disadvantages too: poor extension services, low prices to farmers due to haphazard pricing of the produce, inherent higher risk to cultivators, frequent delays in payment (Glover and Kusterer: 1990, Ghosh: 1994), weak bargaining power of farmers, sole dependence on companies for inputs as also credit (Fulton and Clark: 1996), over-exploitation of ground water and the threat of the environmental (Siddique: 1998) and finally, the fact that companies often move to new pastures (virgin plots) to exploit land and water resources at the least cost ,(Torres: 1997) leaving former cultivators high and dry.

Rangi and Sidhu’s (2003) paper, “Contract Farming in Punjab”, examines some of the policy issues related to contract farming in the Punjab State Scheme. The data was culled out of the report of Punjab Agro-Food grain Corporation Ltd, Chandigarh, and covers many advertisements in the newspaper on contract farming as also responses of the few contract farmers who were interviewed. Again after a gap of 16 years, the S.S.Johl committee has been reconstituted. The committee recommended that in 10 lakh hectares now under paddy and wheat crops, crop rotation should be introduced to replace paddy/wheat by crops that consume less water to check the adverse effects on the ecology and also to meet the demand for such produces in the country. “Vegetable crops are more labour intensive and can provide 4-5 times more employment opportunities in rural areas, as compared with wheat and paddy crops”, says the report.

Objectives

- To study the need and benefit of contract farming in Indian agriculture.
- To assess the impact on income and employment generation for contract farmers and their perceptions on the continuation of the same.

Methodology

The study is based on secondary data and information.

Reasons for contract farming

The production, marketing and distribution of agricultural products are becoming increasingly sophisticated for i) Modern advances in technology have made it feasible for agricultural products to be produced to specifications and preserved in a fresh condition ii) The optimum scale of operations has been increasing, especially in processing and distribution iii) New selling methods have emerged, emphasizing a brand image based on consistent quality. On the demand side, due to raising income, consumers are increasingly discriminating their tastes and especially all time availability of the quality products. This has made complexity in consumer demand which gives an added impetus to search for improving the co-ordination of production, processing and distribution, especially with regard to timing and quality control (Hill and Ingersent, 1982). This provides a strong rationale, from the demand side for the contract farming as a means of raw material supply. During the 1950's and 1960's 'Contract Farming' emerged as an important phenomenon in the western developed countries. By 1980, about one-third of the total US farm output and as much as 100 per cent poultry meat, milk and certain vegetables were produced under contracts (Little Peter *et al.*, 1994). Even in Tasmania Island of Australia, by the mid 1990's, ninety per cent of the potato production was under contracts compared with almost nil in the 1950's (Fulton and Clark, 1996). On the other hand, in the developing countries, the multinational corporations (MNCs) brought in the system of contract farming during the late 1970's and the early 1980's. Besides private and multinational enterprises, contract farming is also practiced by Statal and Parastatal agencies in many countries in different commodities sectors like tea in Kenya, tobacco and livestock in Thailand, rubber in Malaysia, coconut in Indonesia, palm oil in Philippines and seed in India (Nanda and Meera, 1999; White, 1997; Shiva *et al.*, 1998). Contract farming had been promoted in the recent three decades as an institutional innovation to improve agricultural performance in under developed countries, sometimes as a key element of rural development and/or settlement projects (Ghee and Dorall, 1992). This system was accepted and used as one of the promising institutional framework for the delivery of price incentive technology and other agricultural inputs. Wide support has been received for contract farming under the Structural Adjustment Programme (SAP) and liberalization policies everywhere by the International Development Agencies like the World bank, the United States Agency for International Development (USAID), the International

Finance Corporation (IFC) and the Common Wealth Development Corporation (CDC, 1989) (Little and Watts, 1994 and White, 1997).

Sugar mills in Karnataka were practicing the contract farming since many decades, where farmers were growing sugarcane at the specified pre-agreed price. In the same manner, corporate sector has introduced it to horticultural and medicinal crops. Similarly, contract farming in coleus was first introduced in districts like Chamarajnagar, Kolar, Mysore, Tumkur and Bangalore rural, Belgaum by Semi-Labs Pvt. Ltd., a private sector in 1999-2000. It has its forskolin oil extracting unit at Bangalore.

Importance of Contract Farming

The followings are the major importance of the contract farming. They are, stable income, higher income than non contract farming, market certainty, delivery service for inputs, ease of obtaining input, loan made available through financial institutions, learning new technology, infrastructure: road and ditch, information, news and networking, quality development, risk uncertainty is less, improved access to local markets, assured markets and prices (lower risks) especially for non-traditional crops, assured and often higher returns, enhanced farmer access to production inputs, mechanization and transport services, and extension advice, provision of inputs and production services, access to credit, introduction of appropriate technology, skill transfer, guaranteed and fixed pricing structures etc.

Why Contract farming in India?

- In our country the farmers face the problems of traditional technology and management practices, little bargaining power with input suppliers and produce markets, inadequate infrastructure and market information, lack of post-harvest
- Management expertise, poor package of produce and inadequate capital to grow a quality crop. They are waiting for change for better living standards.
- Contract farming helps small farmers to participate in the production of high value crops like vegetables, flowers, fruits etc and benefit from market led growth.

- Extensive areas are required by the Agro-processors for an intensive cultivation to build a uniform method of cultivation that would reduce their production and transaction costs with the growers.
- Effective & efficient monitoring of production operations, extension activities and credit delivery in a conjugal area is easy in Contract farming.
- Contract farming will maximize the profits to the farmers and minimize risk in farming like production related risks, transfer price risk and produce risk.
- There is a tendency amongst the users to go in for environmental friendly, value added quality agro products in their daily life.
- The farmers find it easy to get under one roof inputs, technological & extension services, postharvest processing facilities and more importantly, the marketing of their produce with assured cash returns.
- Contract farming facilitates more and more private Companies to develop backward linkages with the farmers.
- Access to crop loans at attractive terms through tie-ups with Banks is facilitated through contract farming.
- There is a tendency amongst farmers to go in for an alternate cropping system for better monetary returns.

Advantages for farmers

The prime advantage of a Contractual agreement for farmers is that the sponsor will normally undertake to purchase all produce grown, within specified quality and quantity parameters. Contracts can also provide farmers with access to a wide range of managerial, technical and extension services that otherwise may be unobtainable. Farmers can use the contract agreement as collateral to arrange credit with a commercial bank in order to fund inputs. Thus, the main potential advantages for farmers are:

- Provision of inputs and production services
- Access to credit
- Introduction of appropriate technology

- Skill transfer
- Guaranteed and fixed pricing structures and
- Access to reliable markets.

Advantages for sponsors

Companies and government agencies have a number of options to obtain raw materials for their processing and marketing activities. The benefits of contract farming are best examined in the light of the other alternatives, namely spot market purchases and large-scale estates. The main potential advantages for sponsors can be seen as:

- Political acceptability
- Overcoming land constraints
- Production reliability and shared risk
- Quality consistency

Table No: 01

The main agricultural products of India under contract farming

Food Grain	Rice, Wheat, Pulses, Cereals, Corn, Maize, Rice Bran Extractions, Sorghum, Soy meal, Suji, Parmal, Lentils, Jowar, Bajra, Chick pea
Fruits	Bananas, Beans, Cherry, Cucumbers, Dried Fruits, Dried Truffles, Carrots, Lemon, Mandarins, Mango, Meslin, Shallots, Apples, Asparagus, Grapes, Oranges, Gherkins, Turnips, Oranges, Papaya, Pineapple
Nuts	Cashew Kernels, Cashew Nut, Cashews, Almonds, Roasted Dry Fruits, Peanuts, Groundnut, Walnut Kernels, Walnuts, Indian Peanuts, HPS Groundnuts

Vegetables	Potatoes, Bitter gourd, Stripe Gourd, Pumpkin, cauliflower, Cabbage, Tomato, Onion, Green Pepper, Drum Sticks, Lady's finger, Banana, Papaya, Spinach, Cucumber, Mushroom, Mushroom Spawn, Radiata, Seeds, Buds, Plantation & Related Products - Basil Seed, Cumin seeds, Dill Seed, Buds, Celery Seed, Hybrid Seeds, Sesame Seeds, Sesbania Seed, Sunflower Seeds, Mustard Seeds, Oil Seeds, Plant Products, Plantation, Plants, Psyllium Seed, Fennel Seed, Fenugreek Seed, Herb Seeds, Tamarind Seed, Vegetable Seed
Spices	Black Pepper, Chilly, Cinnamon, Cloves, Coriander Powder, Cumin, Dry Ginger, Dry Red Chilly, Cardamom, Anise, Salt, Pepper, Fenugreek, Clove, Ginger, Turmeric, Turmeric Powder
Tea & Coffee	Black Tea, Coffee, Coffee Beans, Darjeeling Teas, Assam Teas, Instant Coffee, Leaf Coffee, Leaf Tea, Packaged Tea, Green Tea, CTC Teas
Tobacco & Tobacco products	Betel nut Leaves, Betel nut, Bidi Leaves, Chewing Tobacco, Arecanut, Snuff, Opium, Pan, Jute, Tobacco, Rubber etc

Source: Working Group Report of the Sub-Committee of National Development Council (NDC) on Agriculture and Related Issues – Nov. 2006, Planning Commission, New Delhi.

Table No: 02

States/Corporate involved in different crops in Contract Farming in India

State	Crops	Company/Corporate
Karnataka	Ashwagandha	Himalaya Health Care Ltd.
	Dhavana	Mysore S.N.C. Oil Company
	Marigold and Caprica chilies	AVT Natural Products Ltd.
	Coleus	Natural Remedies Private Ltd.
	Gherkins	25 Pvt. Companies
	Medicinal Plants	Sami Labs Limited, Bangalore
Maharashtra	Soybean	Tinna Oils and Chemicals
	Several fruit, vegetables, cereals, spices and pulses	Ion Exchange Enviro Farms Ltd. (IEEFL)
	Potato	M/s Mahindra Sulabh
	Sugarcane, Orange	Cooperative Societies
	Onions	Jain Irrigation Systems Ltd
Madhya Pradesh	Wheat, Maize and Soybean	Cargill India Ltd.
	Several fruit, vegetables, cereals, spices and pulses	Ion Exchange Enviro Farms Ltd. (IEEFL)
	Soya bean	ITC-IBD
	Soya bean	M/s Mahindra Sulabh
	Garlic and White onion	M/s Garlico Industries Ltd
	Tomato and Chilly	Nijjer Agro Foods Ltd.
	Barley	United Breweries Ltd.

Punjab	Basmati, Maize	Satnam Overseas Sukhjit Starch (Mahindra Shubhlabh Services Ltd.)
	Basmati	Satnam Overseas, DD Intl. Incorp., Amira Foods India Ltd. (Escorts Ltd. and Grain tech)
	Basmati, Groundnut, Potato and Tomato	PepsiCo India Ltd.
	Green vegetables and exotic vegetables	Punjab Agro Foods Park Limited, a joint venture of Punjab Agro Export Corporation and IDMA, a corporate body.
Tamil Nadu	Cotton	Super Spinning Mills
	Maize	Bhuvi Care Pvt. Ltd.
	Paddy	Bhuvi Care Pvt. Ltd.
	Cotton	Appache Cotton Company
	Marundu Koorkan (Tamil) (Medicinal Plant) (Coleus Forskholii)	-
	Maize, Gherkins	M/s Mahindra Sulabh
Chhattisgarh	Safed Musli	Ms Larsen and Toubro
	Tomato	BEC Co.
Uttaranchal	Guar Gum	M/s Mahindra Sulabh
Haryana	Turmeric, Mentha, Sunflower, White Musli	HAFED
Andhra Pradesh	White Viagra	Nandan Farms (P) Ltd. Hyderabad Joint venture Spearhead National Products SARI of Switzerland
	Fruit, Vegetables and flowers	Horticulture Department
	Cocoa	Cadbury India Ltd.

	Oil palm	M/s Godrej, Palm Tech., SICAL, Simapuri Industry and Radhika Vegetables Oil Industries.
Gujarat	Processing of Medicinal Plants and Alovera	Reliance Group
Orissa	Seeds (Paddy, Raggi, Green Gram, Arhar, Groundnut, Seamum, Niger and vegetables seeds)	Orissa Seeds Production Corporation
Sikkim	Spices	M/s High Altitude Spices Rabongla
	Orange	M/s Bulk Consumer, Government Fruit Preservation factory, Singtom.
Kerala	Pineapple	M/s Agreenco, Paliikunnu, Kanur
	Safed Musli, Steevia	M/s Herbs India, Calicut
West Bengal	Potato	M/s Fritto India Ltd.
	Pineapple	M/s Dabur India Ltd.

Source: Working Group Report of the Sub-Committee of National Development Council (NDC) on Agriculture and Related Issues – Nov. 2006, Planning Commission, New Delhi.

CONCLUSION

Contract Farming is not a panacea to solve all related problems of agricultural production and marketing systems. But contract farming could be evaluated as a way of providing earlier access to credit, input, information and technology and product markets for the small scale farming structure. Contract farming might also be seen as a way or as a part of rural development and promoted to improve agricultural performance especially in Third World Countries. Besides farming to both sides, there is some problems. For successful implementation of contract farming, having co-ordination and collaboration consciousness and acting in an organized manner are advisable for both sides. On the Other hand, Government attitudes and incentives are also important aspects. Therefore the present need is, Government must promote contract farming by developing the necessary legislation and provide financial support – engage consultant and Research to investigate the suitability of various raw commodities for contract

farming and to develop small-scale technologies. It is essential need for identification of key players in coordinating contract farming and to investigate the potential of contract farming as a possibility of promoting and increasing productivity through the inclusion of small-scale farmers in the agric-business demand and supply chains.

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