Popular Kheti
Volume -1, Issue-2 (April-June), 2013
Available online at www.popularkheti.com

ISSN:2321-0001

Contract Farming in India

Sita Ram* and R. C. Kumawat
Department of Agricultural Economics, SKN College of Agriculture,
SK Rajasthan Agricultural University, Bikaner, Campus Jobner 303 329
***Email of corresponding author: mahala2007@rediffmail.com**

Private sector participation in agriculture is envisaged through promotion of contract farming and land leasing arrangements, which will accelerate the technology transfer process and bring more cash inflows to the cash strapped farm sector. There are several types of contract farming ranging from just buying certain quantity at a pre-determined price to having complete control over production from supply of seed to harvesting. However, basically, there are two types of contracts *viz.*, marketing and production contracts.

Introduction

The importance of agriculture in a country's economy lies in that it provides ecological and livelihood security and ensures its national sovereignty. In India, agriculture is facing a complex situation in the present era of globalization and liberalization, more than ever before. Farm sector's contribution to National GDP (Gross Domestic Product) has declined over the years. The contribution of farm sector to the National GDP has declined from 30.3 per cent in 1993-94 to 13.9 per cent in 2011-12. However, two thirds of the population still depends on agriculture. Incidentally, in the post economic reforms period, growth of agricultural sector has declined. The growth rate of GDP of agriculture and allied sector declined from 9.6 per cent in 1996-97 to 6.2 per cent in 1998-99 and further to 3.6 per cent in 2011-12 (Anonymous, 2012-13).

This trend clearly indicates that Indian economic reforms process has not boosted the agriculture sector. Enhancing agricultural growth to targeted 4 per cent seems to be a difficult task. Agriculture in India is not just an industry but is a way of life. The social aspect, especially employment provided by the sector, can not be ignored. It also provides agricultural inputs to the agriculture based food industries. Timely and adequate quantity of good quality agricultural inputs is a *sine qua non* for smooth functioning of the agro industries. This underlying paradox of the Indian agricultural scenario has given birth to the concept of contract farming, which promises to (i) provide a proper linkage between the farm and market (ii) promote high degree of competition at the supply and market end, and (iii) minimize intermediaries in order to increase farmers' income.

Contract farming is defined as those contractual arrangements, between farmers and companies, whether oral or written, specifying one or more conditions of production and / or marketing of an agricultural product (Roy, 1963).

The new agricultural policy of 2000 announced by the Government of India seeks to promote growth of private sector participation in agribusiness through contract farming and land leasing arrangement to accelerate technology transfer, capital inflow and assured market for crops. There are several agricultural and horticultural crops such as tomatoes, potatoes, chillies, gherkin, baby corn, rose, onions, cotton, wheat, barley, basmati rice, groundnut, flowers, medicinal plants etc. produced in some form of contractual arrangements with the farmers in India. Big corporate houses such as Hindustan Lever, Pepsi Foods, A.V. Thomas, Daburs, Thapars, Marico, Godrej, Mahindra, Wimco, SAB miller etc. undertake contract farming for many crops apart from several small players (Ashokan and Singh, 2003).

Types of Contracting Farming

There are several types of contract farming ranging from just buying certain quantity at a pre-determined price to having complete control over production from supply of seed to harvesting. However, basically, there are five models of contract farming that are accepted globally (Eaton and Shepherd, 2001).

1. Centralized model
2. Nucleus Estate model
3. Multipartite model
4. Informal model
5. Intermediary model

Centralized model: The contracting company provides support to the production of the crop by smallholder farmers, purchases the crop from the farmers, and then processes, packages and markets the product, thereby tightly controlling its quality. This can be used for crops such as tobacco, cotton, barley, sugar cane, banana, coffee, tea, cocoa and rubber. This may involve thousands of farmers. The level of involvement of the contracting company in supporting production may vary.

Nucleus Estate model: This is a variation of the centralized model. The promoter also owns and manages an estate plantation (usually close to a processing plant) and the estate is often fairly large in order to provide some guarantee of throughput for the plant. It is mainly used for tree crops, but can also be used for, e.g., fresh vegetables and fruits for export.

Multipartite model: The multipartite model usually involves the government, statutory bodies and private companies jointly participating with the local farmers. The model may have separate organizations responsible for credit provision, production, processing, marketing and management of the produce.

Informal model: This model is basically run by individual entrepreneurs or small companies who make simple, informal production contracts with farmers on a seasonal basis. The crops usually require only a minimal amount of processing or packaging for resale to the retail trade or local markets, as with vegetables, watermelons, and fruits. Financial investment is usually minimal. This is perhaps the most speculative of all contract-farming models, with a risk of default by both promoter and farmer.

Intermediary model: This model has formal subcontracting by companies to intermediaries (collectors, farmer groups, NGOs) and the intermediaries have their own (informal) arrangements with farmers. The main disadvantage in this model is it disconnects the link between company and farmer.

Advantage of Contract Farming

(A) 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:

1. Provision of inputs and production services
2. Access to credit
3. Introduction of appropriate technology
4. Skill transfer
5. Guaranteed and fixed pricing structures and
6. Access to reliable markets.

(B) 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:

1. Production reliability and shared risk
2. Overcoming land constraints
3. Promotion of farm inputs
4. Quality consistency and
5. Political acceptability

Disadvantage of Contract Farming

(A) Disadvantage for farmers

For farmers, the potential problems associated with contract farming include:

1. Increased risk
2. Unsuitable technology and crop incompatibility
3. Manipulation of quotas and quality specifications
4. Corruption
5. Domination by monopolies and
6. Indebtedness and over reliance on advances.

(B) Disadvantage for sponsors

The main disadvantages faced by contract farming developers are:

1. Land availability constraints
2. Social and cultural constraints
3. Farmer discontent
4. Extra-contractual marketing and
5. Input diversion.

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 are 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.

References

Anonymous 2012-13. Economic Survey. Govt. of India, Ministry of Finance Economic Division.

Ashokan RS and Singh G. 2003. Role and constraints of contract farming in agro-processing industry, *Indian Journal of Agricultural Economics*, 58(3): 566-575.

Eaton C and Shepherd AW. 2001. Contract Farming: Partnerships for growth. FAO Agricultural Services Bulletin, Rome. ISBN 92-5-104593-3 (pp.41-56).

Roy EP. 1963. Contract Farming-USA. The Interstate Printer and Publishers, Inc. Illinois, 3; 462.

Acknowledgement: Author is thankful to DST, New Delhi for providing **INSPIRE Fellowship** during study period and also thankful to anonymous referee for his valuable suggestions.