

Contract Farming Practice In India: A Review

Rajendra Madhav Wagh

Assistant Professor

School of Agricultural Sciences

Yashwantrao Chavan Maharashtra Open University

Dnyangangotri Near Gangapur Dam, Nashik-422222, Maharashtra(India).

Email: wagh_rm@ycmou.digitaluniversity.ac

ABSTRACT

In India, 70-80% population of the country depends directly or indirectly to farming. So this field is very much important for research and the concept of contract farming is more portant for farmers and other persons who are joined with this. There are so many models of contract farming and many of them are explained by authors in this paper. Many advantages and issues related to contract farming are also discussed by authors here.

Key words: Contract Farming, Contract Farming Models, Registration of Contracts, Types of Contract Farming.

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INTRODUCTION

There are so many definitions of contract farming and one of them is explained here by authors here. The concept of 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 turn, the buyer commits to purchase the product, often at a pre-determined price. In some cases the buyer also commits to support production through, for example, supplying farm inputs, land preparation, providing technical advice and arranging transport of produce to the buyer's premises. Another term often used to refer to contract farming operations is 'out-grower schemes", whereby farmers are linked with a large farm or processing plant which supports production planning, input supply, extension advice and transport. Contract farming is used for a wide variety of agricultural products.

Contract farming is one of the different governance mechanisms for transactions in agri-food chains. The use of contracts (either formal or informal) has become attractive to many agricultural producers worldwide because of benefits such as the assured market and access to support services. It is also a system of interest to buyers who are looking for assured supplies of produce for sale or for processing. Processors are among the most important users of contracts, as they wish to assure full utilization of their plant processing capacity. A key feature of contract farming is that it facilitates backward and forward market linkages that are the cornerstone of market-led, commercial agriculture. Well-managed contract farming is considered as an effective approach to help solve many of the market linkage and access problems for small farmers.

Objectives - following are the objectives of this study

1. To discuss about importance Contract farming.
2. To find out advantages and disadvantage of Contract farming.
3. To discuss various types of Contract farming

RESEARCH METHODOLOGY

This is descriptive study based on secondary data. Various Research Journals, Books, Websites & various reports which is related to contract farming were studied to draw the conclusions.

RESULTS AND DISCUSSIONS

In this Paper importance importance Contract farming, advantages and disadvantage, various types / Models (Centralized model, Nucleus Estate model, Multipartite model, Informal model, Intermediary model,) of Contract farming, Contract farming framework etc. are discussed as follows.

Contract Farming System Caters Economic Security to the Farmers

In India, agriculture is facing a complex situation in the present era of globalization and liberalization, more than ever before. The importance of agriculture in a country's economy lies in that it provides ecological and livelihood security and ensures its national sovereignty. Farm sector's contribution to National GDP (Gross Domestic Product) has declined over the years. 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 6.0 per cent in 2005-06 (Economic survey, 2006-07).

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, cannot 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)."

There are several agricultural and horticultural crops such as tomatoes, potatoes, chillies, gherkin, baby corn, rose, onions, cotton, wheat, 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, pepsu foods, A.V. Thomas, Daburs, Thapars, Marico, Godrej, Mahindra, Wimco, etc. undertake contract farming for many crops apart from several small players. Contract farming system provides economic security to the farmers by providing assured price for agricultural produce. Endeavours of contract farming by Pepsi in Punjab and Hindustan Lever Limited (HLL) in Karnataka are some of its examples. Punjab Agro revealed that better and reliable assured income through contract farming reduced the risk and uncertainty in the commodity price fluctuation. Growers are ensured stable and sustained market for their produce.

Contract farming framework that must be considered when planning and implementing such venture (FAO, 2001)

Types of Contracting Farming

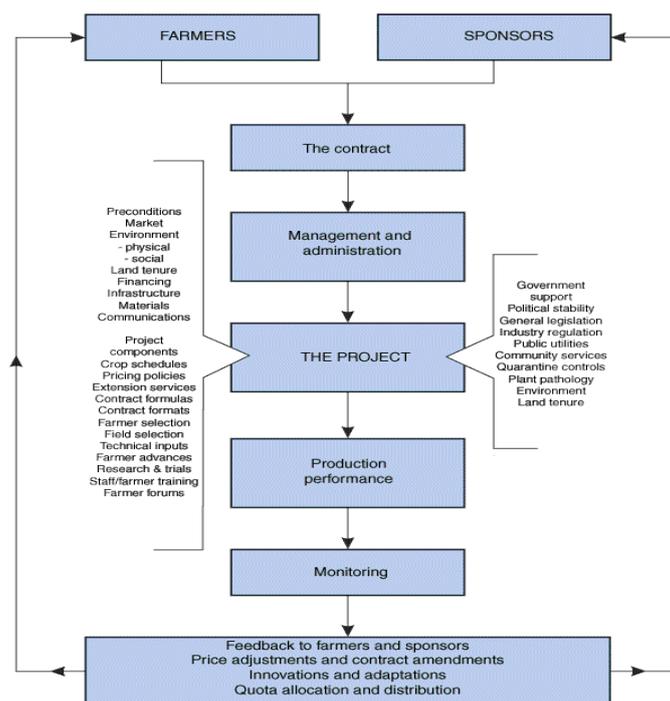
There are several types of contract farming ranging from just buying certain quantity at a pre-determined price to having complete control over production from supply of seed to harvesting. However, basically, there are five models of contract farming that are accepted globally.

1. 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, sugarcane, 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.

2. 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.



3. 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.

4. 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.

5. 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 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.

Disadvantage of Contract Farming 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.

How can contract farming be successful?

1. It will work if the farmers have better bargaining power.
2. They have to be legally protected.
3. Furthermore, in contract farming, it is extremely important to understand the contracting operations.
4. The terms and conditions of the contract are crucial. The contracts need to be more transparent.
5. It has been found that quite often the farmer had not even seen the contract and did not know what the terms and conditions were.

CONCLUSION

In Present situation contract farming is more advantages for big farmers meaning the farmers having more land and having political influence, they are having more contracts of farming. But the small farmers having small piece of land, are not having contracts of farming.

The contract farming is very important for Indian farmers, but the government should take some right steps so that the companies will give right price for the product of farmers and it should be given to all categories of farmers. The Survey in this paper shows that the contract farming is increasing very fast in last decade, but in comparison of population this increase is not sufficient, so more impact of government should be on contract farming.

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