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CONTRACT FARMING IN THE CONTEXT OF INDIAN AGRICULTURE

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The agrarian system of India has undergone major transformations in production, processing as well as the distribution process for maintaining the parity with the changing food habits and preferences of the consumers. However, fragmented "back end" activities (*i.e.* production aspects) have always been considered an important concern for the Indian agriculture sector (Gulati, 2008). The major challenge lies in connecting the link between farmers and agri-businessmen for enabling the profit generating opportunities at both the ends as well as enhancing the strength of the country's economy. The recent diversifications in agricultural production, as well as the marketing sector, has gradually led to establishing "farm-firm" linkages for increasing productivity, profit as well as the income level of the farmers. Contract farming is considered as one of the most important "farm-firm" linkages prevailing in India, having immense potential to boost the agribusiness sector of the county.

Contract farming can be defined as a system for production and supply of a particular commodity by the producers at a pre-agreed price, time, quality and quantity as per the advanced contract signed between the producer and the buyer. So, basically, contract farming provides a linkage between the farmer/producer and the agribusiness farm through an agreement regarding various predetermined conditions on production and marketing aspects of the commodity. However, contracts can be classified as production contract (firm manages all the input supply and the farmer becomes just a supplier of land and labour) and procurement contract (only sale and purchase conditions are specified).

History of Contract Farming in India

In the 1990s, contract farming in India has introduced by PepsiCo which set up a factory in Punjab in order to procure tomatoes from the farmers for their processing and value

addition. Tomato productivity had shown an increasing trend from 7 T/acre to 20 T/acre as a result of this intervention. It also adopted various scientific and modern technologies for reducing the cost of production as well as enabling the farmers to realize the higher profit. Currently, there are numerous private/public companies which are associated with contract farming of specified products like poultry (Coimbatore hatchery), Pulpwood (ITC), Mushrooms (NAFED) and so on.

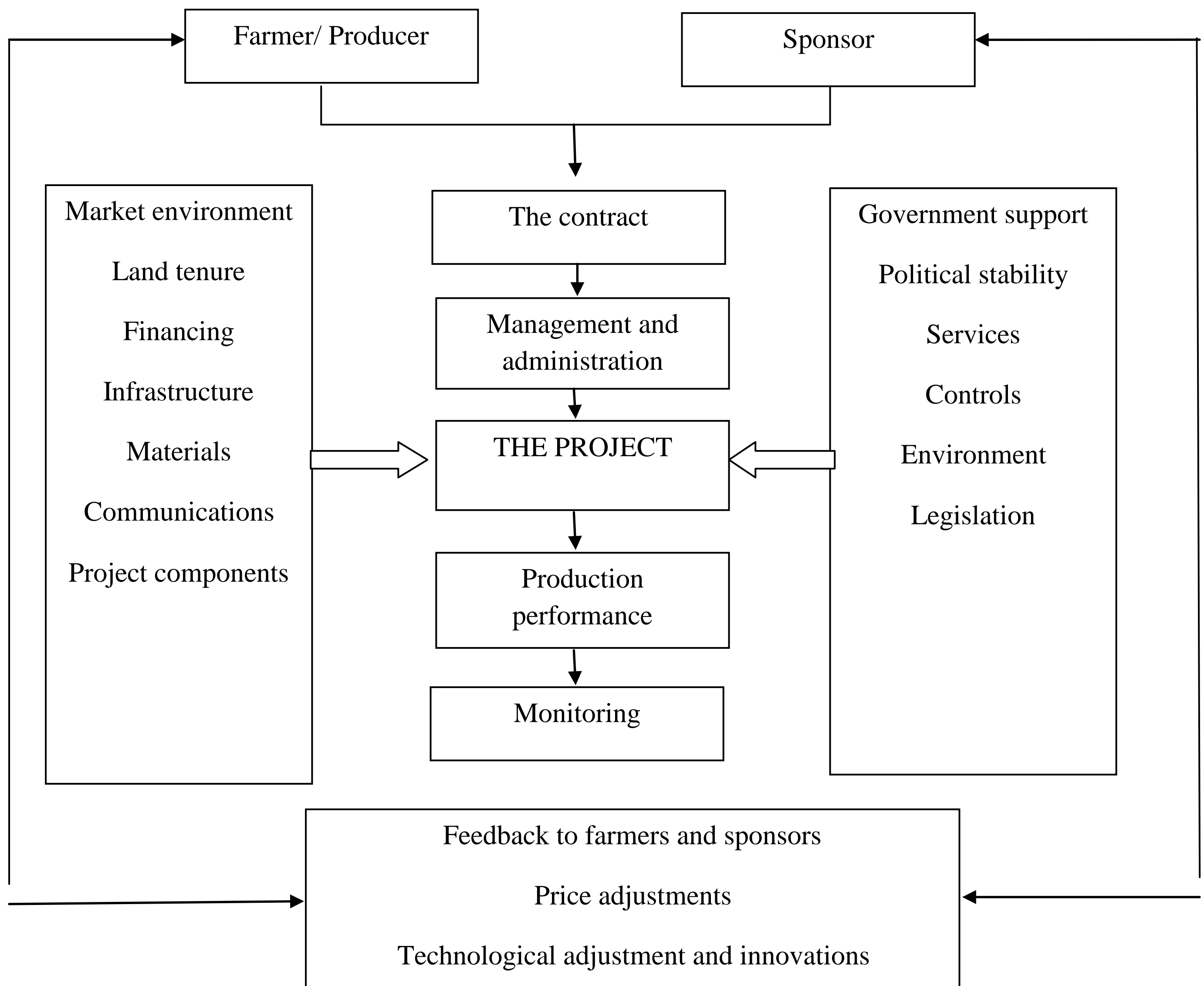

Fig.1: Framework of contract farming

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Contract Farming Models

There are five types of model based on operations. Such is

a. Centralized model

It is the most classical contract farming model, which is characterized by a direct agreement between a single firm and a large number of producers.

Special features: The quantity is usually predetermined at the beginning of sowing season with strict enforcement of quality standards. The buyers' involvement may vary from minimal input provision (e.g., specific varieties) to control of most production aspects (e.g., from land preparation to harvesting). The coordination between farmers and the contractor is vertically organized. Products under this contract are sugarcane, cotton, vegetables, tea, coffee, *etc*.

b. Nucleus estate model

This is a modified version of the centralized model in which the buyer procures the produce directly from contracted farmers as well as maintains his own estates. This model is also called a "out-grower model".

Special features: This model ensures regular supply of crop with significant investment by the buyers in land, labour, machines and management. Important for research and demonstration purposes. It ensures cost-efficient utilization of installed processing capacities. Products under this contract: Perennials.

c. Multipartite model

This model includes multiple participants such as joint venture between governmental statutory bodies, public and private companies as well as financial institutions.

Special features: The agreement is complemented with several 3rd party service providers like consultancy, finance, extension, training and logistics. There is the provision of equity shares for the producers. Farm-firm linkages depend upon the discretion of the firm and often affected by political interferences.

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d. Informal model

This is the most speculative one among all the contract farming models, with a high risk of default at both the ends. Trustful relationship, as well as honesty in case of both the parties, may have a chance to reduce the risk.

Special features: Small farmers make informal and seasonal agreements with small firms. There is less chance of advancement in technology in terms of processing, value addition and distribution. There is limited delivery of input, credit and information facilities. Products under this contract: fresh fruits/vegetables in daily markets.

e. Intermediary model

The buyer subcontracts an intermediary (collector, aggregator or farmer organization) who formally or informally contracts farmers (It is a combination of the centralized/ informal models).

Special features: The intermediary provides several incentives in the form of training and credit facilities to the buyer against service charges. This model can bear disadvantages for providing incentives to farmers (buyers may lose control of production processes, and there is also a risk of price distortion and reduced incomes for farmers).

Advantages and disadvantages related with contract farming

Contract farming is associated with significant pros and cons for both the parties, some of which are listed below.

Advantages:

a) For farmers-

1. Farmer is often supplied with the input and production services by the sponsor.
2. Contract farming helps the farmers to adapt advance technological skills.
3. Sponsor also provides credit and other institutional facilities to the farmer.
4. Farmers' price risk gets reduced as well as there is advancement in market opportunities.

b) For sponsors-

1. There is assurance in terms of quantity, quality as well as timely production of the commodity.
2. There will be an uninterrupted flow of raw materials for the processing plant so as to raise the profit level of the sponsor.
3. There will be a negligible chance of land and labour constraints as it is abundantly available at the producer's level.
4. Sponsor company can diversify the product base and encourage the farmers to produce a wide range of products.

Disadvantages:

a) For farmers-

1. Inefficient management as well as the adoption of unfamiliar crops or varieties, lead the farmer to face both production and market failure risk.
2. Sponsor companies may exploit the farmers by manipulating the quality standards of commodities
3. Due to low production, market failure as well as improper guidance, the farmers become indebted in the long run.

b) For sponsors-

1. A farmer may breach the contract to sell the produce in different markets for getting a higher price than the predetermined price.
2. The farmers may divert the inputs towards other crops as a result of which the expected level of production is not realized.
3. There may be various socio-cultural constraints which may restrict the farmer to attain a desirable production level.

Conclusion

Contract farming is a medium for providing linkage between producer and agribusiness firm. In India, where distress among farmer is a common practice, contract farming provides an opportunity to reduce the price risk faced by the farmer. The role of the farmer is to provide quality products, while the role of the sponsoring agency is to provide

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support to farmers in terms of inputs and technical assistance. There exist, several models of contract farming, as discussed, and all are relevant to India based on the situations. Despite several disadvantages of contract farming, there is a wider scope for improvements and opportunities for the betterment of Indian farmers.

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