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CONTRACT FARMING: A WIN-WIN FOR BOTH FARMERS AND BUYERS

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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.

Attempts by governments and development agencies to arrest this drift have tended to emphasize the identification of "income generation" activities for rural people. Unfortunately, there is relatively little evidence that such attempts have borne fruit. This is largely because the necessary backward and forward market linkages are rarely in place, i.e., rural farmers and small-scale entrepreneurs lack both reliable and cost-efficient inputs such as extension advice, mechanization services, seeds, fertilizers and credit, and guaranteed and profitable markets for their output. Well-organized contract farming does, however, provide such linkages, and would appear to offer an important way in which smaller producers can farm in a commercial manner. Similarly, it also provides investors with the opportunity to guarantee a reliable source of supply, from the perspectives of both quantity and quality.

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 forward agreements, frequently at predetermined prices. The intensity of the contractual arrangement varies according to the depth and complexity of the provisions in each of the following three areas:

- **Market provision:** The grower and buyer agree to terms and conditions for the future sale and purchase of a crop or livestock product;

- **Resource provision:** In conjunction with the marketing arrangements, the buyer agrees to supply selected inputs, including on occasions land preparation and technical advice;
- **Management specifications:** The grower agrees to follow recommended production methods, inputs regimes, and cultivation and harvesting specifications.

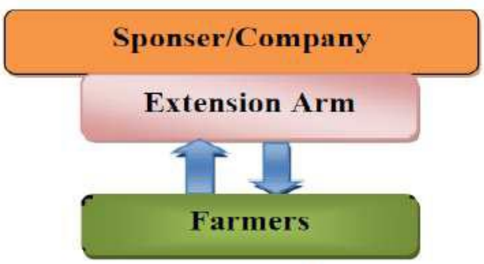
Contract Farming Has Four Important Ingredients As

i. Predetermined quantity of produce
ii. Predetermined quality of produce
iii. Pre-agreed price of produce
iv. Delivery of produce at particular point of time

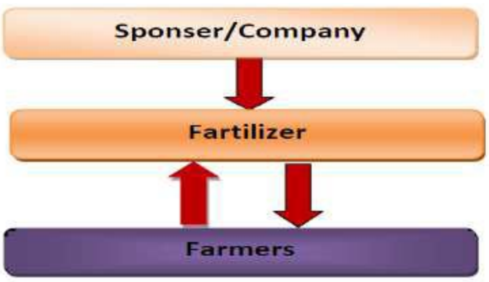
Contract Farming Models

1. **The centralized model**: Involves a centralized process and/or packer buying from a large number of small farmers. Generally, it is used for tree crops, annual crops, poultry and dairy.
2. **The nucleus estate model:** It is a variation of the centralized model where the sponsor also manages a central estate or plantation i.e., no intermediary is found.
3. **The multipartite model:** It may involve different types of organizations.
4. **The informal model:** It is characterized by individual entrepreneurs or small companies. It involves informal production contracts, usually on a seasonal basis but generally, it requires government support, and it may involve greater risk.
5. **The intermediary model:** Involves sponsor in subcontracting linkages with farmers to intermediaries. This model has disadvantages that the sponsor may lose control over production and quality as well as prices received by farmers.

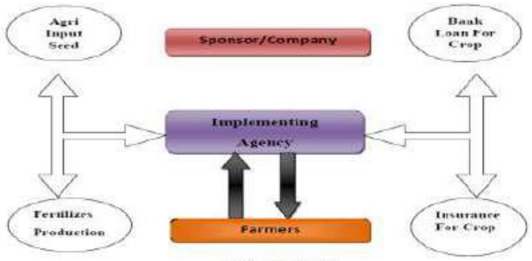
In agriculture, contract farming is most commonly found in tomato, tea, basmati rice, sugarcane etc.



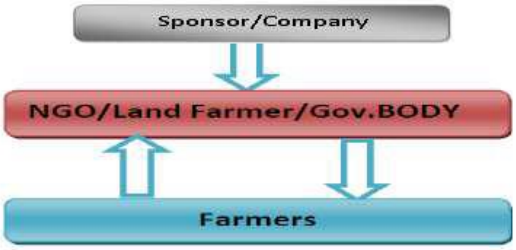
Centralized model



Multipartite model



Informal model



Intermediary model

Advantages for Farmers

- Inputs and production services are supplied by the sponsor.
- Timely availability of credit from the sponsor.
- Often introduces new technology and also enables farmers to learn new skills.
- Farmers price risk is often reduced.
- Contract farming can open up new markets which would otherwise be unavailable to small farmers.

Problems Faced by Farmers

- Particularly when growing new crops, farmers face the risks of both market failure and production problems.
- Inefficient management or marketing problems can mean that quotas are manipulated so that not all contracted production is purchased.
- Sponsoring companies may be unreliable or exploit a monopoly position.
- The staff of sponsoring company may be corrupt.
- Farmers may become indebted because of production problems & excessive advances.

Advantages for Sponsors

- More consistent quality can be obtained than if purchases were made on the open market.
- Timely availability of produce.
- Production is more reliable than open-market purchases.
- Working with small farmers overcomes land constraints.
- Risk can be diverted or transferred.

Problems Faced by Sponsors

- Contracted farmers may face land constraints due to a lack of security of tenure, thus jeopardizing sustainable long-term operations.
- Social and cultural constraints may affect farmers ability to produce to managers specifications.
- Poor management and lack of consultation with farmers may lead to farmer discontent.
- Farmers may sell outside the contract.
- Farmers may divert inputs supplied on credit to other purposes, there by reducing yields.

Summary and Conclusion

Contract farming is one of the possible solutions to establish an agrarian economy that ensures food and nutrition security to a billion populations. It is a viable alternative farming model in India, which can provide assured and reliable input services to the farmers and desired farm produce to the contracting firms. However, in the present context, for both the companies and the farmer's contract farming is a win-win situation. The prospects of contract farming in India is fairly encouraging due to increasing consciousness about food safety and quality among the rising middle-class population and the quality demands of the export market in the developed countries. It offers a possible solution to the present situation by providing market guarantees to the farmers and insuring supply to the traders. Therefore, the government should establish a monitoring mechanism and a dispute settlement body to ensure that both parties adhere to the terms of the contract.

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