

A Study on Contract Farming

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ABSTRACT

The structure of Indian agriculture underwent rapid changes during nineties both due to pressure of commercialization and increased dependence on trade. This was fuelled by many overt and covert changes in the sector, but the diversification of crops along with the advent of WTO and liberalization policies were the main players in the structural change. One of the important bottlenecks, highlighted by many analysts of Indian agriculture refers to the small size of holdings and the inability of the Indian farmers to compete with the large scale farming of the West.

One of the ways to deal with small scale farm operation is to bring small and marginal holders together in a production system so as to deal with a particular product. In order to facilitate industries to produce specific quality of agro-commodity directly from the farmers the state government keeping in tune with the reforms of model act 2003, adopted 'contract farming' scheme from 31/3/2005

While adopting contract farming, the prime focus of the Gujarat government is two prongs: firstly, farmers of Gujarat can get benefit of latest farming technology, improve quality and quantity of commodity, and get price security and an opportunity to diversify in other crops. On the other hand, processors can get quality and variety of commodity as per their market requirement at specific stable price.

INTRODUCTION

One of the crucial requirements of agro industry is to get the supply of consistent and quality raw material as per their specifications. At present, raw material is procured by such industry from market place, which often has variable quality and also at times required quantity is not available. This situation has resulted in discouraging optimum size of processing units to come up and have advantage of economy of scale. Besides, small units in food sector are unable to create brand equity and therefore often suffer in market place. The Industry has also represented from time to time that unless quality and consistent raw material is available as in tea, rubber or sugarcane, large units in food processing sector, particularly in fruits and vegetables sector are unlikely to be set up.

In consideration of above, agro processing industries will be encouraged to enter into contract farming arrangements either directly or through group of farmers, value added centres, agro service centres or cooperatives.

WHAT IS 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.

Contract farming 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 grassroot level of small and marginal farmers by giving them access to technology, inputs, capital, 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.

THE BROAD OBJECTIVES OF PROMOTING CONTRACT FARMING WOULD BE:

- To reduce the load on the central & state level procurement system.
- To increase private sector investment in agriculture.
- To bring about a market focus in terms of crop selection by Indian farmers.
- To generate a steady source of income at the individual farmer level.
- To promote processing & value addition, thereby generating gainful rural employment.
- To reduce migration from rural to urban areas.

ADVANTAGES AND PROBLEMS

Contract farming has significant benefits for both the farmers and sponsors. However, with these advantages also come the problems.

<i>FARMERS</i>	
<i>Advantages</i>	<i>Problems faced</i>
Input and production services are often supplied by the sponsor	Farmers face the risk of both market failure and production problems
Contract farming is usually done on credit through advances from sponsor	Inefficient management or marketing problems can mean that quotas are manipulated so that not all contracted production is purchased
Contract farming often introduces new technology	Sponsoring companies may be unreliable or exploit a monopoly position
Farmer's price risk is often reduced as many contracts specify prices in advance	The staff of sponsoring organization may be corrupt, particularly in the allocation of quotas
It can open up new markets which would otherwise be unavailable to small farmers	Farmers may become indebted because of production problems and excessive advances

<i>SPONSORS</i>	
<i>Advantages</i>	<i>Problems faced</i>
Contract farming with small farmers is more politically acceptable than production on estates	Contracted farmers may face land constraints due to lack of security of tenure
Working with small farmers overcomes land constraints	Social and cultural constraints may affect farmers' ability to produce to managers' specifications
Production is more reliable than open market purchases and the sponsoring company face less risk by not being responsible for production	Poor management and lack of consultation with farmers may lead to farmer discontent
More consistent quality can be obtained than if purchases were made on the open market	Farmers may sell outside the contract thereby reducing processing factory throughput
	Farmers may divert inputs supplied on credit to other purposes, reducing yields.

MANY SAFEGUARDS FOR THE BUYERS AS WELL AS FARMERS IN THE "CONTRACT FARMING" IN GUJARAT

Tripartite Agreement: Three parties viz. Contract Sponsor, Farmer and concerned Market committee shall be signing the Agreement to ensure that all the parties adhere to the terms and conditions of the contract.

APMC as a Facilitator: APMCs having long standing relationship of trust with local farmers shall play the facilitative role in mobilizing farmers, make them understand the concept and explain the clauses of the Agreement. APMCs in Gujarat are very strong, having multi facilities at the yard. As a local body they have better knowledge of local farmers, terrain, soil, climate, irrigation & other agriculture scenario of the surrounding area

Period of contract: The period of contract can be seasonal, 1 year or upto 5 yrs. In case of Long-term crops, it can extend for more years as mutually agreed between farmer and purchaser, surrounding area.

Technical and Financial support: The farmers can get advantage of technical research done by sponsor and may also get financial support in form of seeds, fertilizer, including harvesting techniques.

Details of Commodity: For the smooth transaction of the deal and preventing future decent, the agreement contains all-important details like type & quality of commodity, crop insurance, payment terms, etc

Dispute Redressal system: All Disputes to be settled only through "**Arbitration**". Judgment on dispute between farmer and purchaser is to be given within 1 month. The Managing Director of Gujarat State Agricultural Marketing Board shall act as an "**Arbitrator**".

SCHEME OF CONTRACT FARMING IN GUJARAT

An efficient agricultural marketing is essential for the development of the agriculture sector as it provides outlets and incentives for increased production. & Contributes greatly to the commercialization of subsistence farmers. Worldwide Governments have recognized the importance of liberalized agriculture markets. The task Force on Agricultural Marketing Reforms set up by the Ministry of Agriculture & Co-Operation had suggested promotion of new and competitive Agricultural Market in private and cooperative sectors to encourage

- a) Direct marketing and contract farming programmes.
- b) Facilitate industries and large trading companies to undertake procurement of agricultural commodities directly from the farmer's fields
- c) To establish effective linkages between the farm production and retail chains. There is therefore a need to integrate farm production with national and international markets to enable farmers to undertake market driven production plan and adoption of modern marketing practices.

The Government of India has adopted the recommendations of the Task Force and has made several suggestions to the State Government, especially with regard to agricultural markets. A model Agreement for contract farming has been circulated to states. The State Government has considered the Model Agreement. The rates of cess levied by the Agricultural Produce Marketing Committees in Gujarat are much lower than in other states.

THE DARK SIDES

It is a good indication that agricultural scientists have discussed the issue of contract farming at a time when supermarkets and food chains are threatening to drive out the small next door retail shops. Fears have been expressed that the rejection rate of agricultural produce by retail chains was high. The farmers then have to bear the extra cost. As the tie-up between retail chains and farmers is in the infant stage, it will take some time for the farmers to ensure high quality in their farm produce. Hence the supermarkets and retail chain stores should provide the required agricultural expertise and credit at a low rate of interest to the farmers. Contract farming in the country has not benefited the farmers. Appropriate institutional arrangements, legal provisions and government intervention are needed to protect the interests of farmers. Contract farming is one mode of capitalist penetration of agriculture for capital accumulation and exploitation of farming sector by the agribusiness companies. New concept is the result of the recent developments in marketing, food habits, technology and agriculture in the new economic environment. The new changing dynamics of contract farming was the grouping approach. It noted a general monopoly of corporate and contracts being loaded against the interests of farmers.

FUTURE: GROWTH

Organic farming: consumers are becoming conscious and critical about the quality of food and byproducts that affect their health though the toxicity depends, to some extent, on the type of food consumed. The organic agriculture includes growing of crops by a set of guidelines that prohibit the use of synthetic products/chemicals such as fertilizers, pesticides, plant growth promoters and livestock additives.

There is an increasing demand throughout world for organic food and fiber. In India, efforts are being made for organic crop production through contract farming. Experiences showed that farmers are benefited from technical guidance, supply of quality farm inputs and assured purchasing at remunerative price. This venture, executed by a tripartite agreement, would bring about favorable changes in the present conventional agriculture to make it sustainable and commercial. Likewise, consumers would get certified Organic products at reasonable price. Since the average growth for organic farming is about 20–25% and higher prices (15–50%) are possible in the international trade, export of organic food produced by contract farming will certainly increase in near future, as India is recognized as an international agricultural hub.

FUTURE: THE DARK SIDE

The green revolution is part of India's history. Grey revolution is the future. At least that's what the blue print for agricultural reforms. Agricultural reforms being introduced in the name of increasing food production and minimizing the price risks for farmers will actually destroy the production capacity of the farm lands and lead to further marginalization of the farming communities. Encouraging contract farming, future trading in agriculture commodities, land leasing, forming land-sharing companies, allotment of homestead-cum-garden plots, direct procurement of farm commodities and setting up of special purchase centers' will drive out a majority of the 600 million farmers out of subsistence agriculture

Already contract farming has done irreparable damage to agriculture in countries like the Philippines, Zimbabwe, Argentina and Mexico.

CONCLUSION

Contract Farming is not a solution to all the 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 India where productivity is lesser than many other developed countries. More over the corporate, farmers and government must realize that the practice will not be sustainable if all the parties are not benefited. The model is good but can be made better with more favorable government policies,

The experience of Contract farming across the globe suggests that it is not the contract per se which is harmful as a system but how it is practiced in a given context. If contracts are well designed and implemented, they can certainly lead to a betterment of all the parties involved, especially farmers. But, there can not be a single blue print or CF model for all situations. Even for individual farmers, it is not contract per se but the relationship it represents which is crucial as the divergence between the two may prove crucial in determining the development of Contract farm in an institution.

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