

Contract Farming: An Approach for Agriculture Development

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ABSTRACT

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 other words- Contract Farming is defined as a system of production and supply of agricultural/horticultural produce under forward contracts between producers/ suppliers and buyers. The essence of such an arrangement is the commitment of the producer to provide an agricultural commodity of a certain type, at a time and a price, and in a quantity required by a known and committed buyer.

Key words : Contract farming; Agricultural production; Production; Marketing; Committed buyer;

Contract farming is one of the different governance mechanisms for transactions in agrifood chains. The use of contracts (either formal or informal) has become attractive to many agricultural producers world-wide 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.

Recently, Union Agriculture Minister Sharad Pawar said contract farming is emerging as an important institutional arrangement in India that promotes coordination between production and marketing activities.

Kolkata: Riding on high sales of its snacks brands like Lays and Uncle Chips, PepsiCo has engaged 12,000 farmers across the country for contract farming of potato. "There are 12,000 farmers doing contract farming of potato for us involving 16,000 acres of land," "Out of the 12,000 farmers, 6,500 of them are in West Bengal working 2,600 acres." Executive Vice-president

of PepsiCo Holdings (agro-business) Nischint Bhatia said. Mar 24,2010, Times of India.

Why Contract farming in India ?

- * In our country the farmers face the problems of traditional technology and management practices, little bargaining power with input suppliers and produce markets, inadequate infrastructure and market information, lack of post-harvest
- * Management expertise, poor package of produce and inadequate capital to grow a quality crop. They are waiting for change for better living standards.
- * Contract farming helps small farmers to participate in the production of high value crops like vegetables, flowers, fruits etc and benefit from market led growth.
- * Extensive areas are required by the Agroprocessors for an intensive cultivation to build an uniform method of cultivation that would reduce their production and transaction costs with the growers.
- * Effective & efficient monitoring of production operations, extension activities and credit delivery in a conjugal area is easy in Contract farming.
- * Contract farming will maximize the profits to the farmers and minimize risk in farming like production related risks, transfer price risk and produce risk.
- * There is a tendency amongst the users to go in for environmental friendly, value added quality agro products in their daily life.

- * The farmers find it easy to get under one roof inputs, technological & extension services, postharvest processing facilities and more importantly, the marketing of their produce with assured cash returns.
- * Contract farming facilitates more and more private Companies to develop backward linkages with the farmers.
- * Access to crop loans at attractive terms through tie-ups with Banks is facilitated through contract farming.
- * There is a tendency amongst farmers to go in for an alternate cropping system for better monetary returns.

Need for Contract Farming

- * Overcome inadequate linkages with markets
- * Presence of fragmented land holdings
- * Lack of capital, poor infrastructure, inadequate information dissemination, etc
- * Loss/wastage of large quantities of fruits and vegetable
- * Agri-based and food industry's inability to acquire timely and adequate good quality agricultural produce
- * Closing down of marketing boards
- * Changes in consumption habit
- * Increasing number of fast-food outlets
- * The growing role played by supermarkets
- * Continued expansion of world trade in fresh and processed products

Key benefits of contract farming : The key benefits of contract farming for farmers can be summarized as:

- * Improved access to local markets.
- * Assured markets and prices (lower risks) especially for non-traditional crops.
- * Assured and often higher returns.
- * Enhanced farmer access to production inputs, mechanization and transport services, and extension advice.

Types of Contract Farming: These are a few of the models of contract farming that are accepted globally:

- * Centralized model
- * Nucleus Estate model
- * Multipartite model
- * Informal model
- * 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, paprika, sugar cane, banana, coffee, tea, cocoa and rubber. This may involve tens of 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 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, management, processing and marketing 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.

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:

- * Provision of inputs and production services;
- * Access to credit;
- * Introduction of appropriate technology;
- * Skill transfer;
- * Guaranteed and fixed pricing structures; and
- * Access to reliable markets.

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:

- * Political acceptability;
- * Overcoming land constraints;
- * Production reliability and shared risk;
- * Quality consistency

Limitations of Contract Farming: Theoretically, farmers stand to gain from contractual agreements that provide lower transaction costs, assured markets, and better allocation of risks. On the other hand, contracting firms have the advantage of more assured supplies, and reasonable control over quality and other specifications.

Contracting agreements are often verbal or informal in nature, and even written contracts often do not provide the legal protection in India that may be observed other countries.

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 is 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.

Therefore the present need is, Government must promote contract farming by developing the necessary legislation and provide financial support – engage consultant and Research to investigate the suitability of various raw commodities for contract farming and to develop small-scale technologies.

It is essential need for identification of key players in coordinating contract farming and to investigate the potential of contract farming as a possibility of promoting and increasing productivity through the inclusion of small-scale farmers in the agric-business demand and supply chains.

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