



# INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

## A Study of Viability of Contract Farming as a way for Ameliorating Agriculture in India

Dr. Ranjana Sahu

Assistant Professor

G. S. College of Commerce & Economics, Nagpur

### Abstract:

If India has to develop, it has to take the development of Agriculture as its priority and farmers' interest should be at the centre of all the policies for agricultural and rural development. Even amidst COVID-19 pandemic, agriculture sector in India has shown a positive growth of 3.4% GVA in 2020-21 and our villages absorbed thousands of migrants from cities. Its contribution to country's GDP is around 18% (Statista Research Department, Jan 8, 2021). Government of India has passed New Farm Acts to bring reforms in this sector. One of the three acts so passed relates to 'Contract Farming'. A nation where livelihoods of 60% populace are directly and indirectly dependent on agriculture and allied activities, it is of paramount importance to understand whether contract farming this time is going to benefit the farmers society at large or it is just an old wine in new bottle. This paper aims to identify the prospects of growth and challenges involved with contract farming where agrarian distress and incidences of farmers suicides are on surge.

### Keywords:

Contract Farming, small and marginal farmers, agriculture, contractor, inclusive sustainable development.

### Introduction:

Government of India has passed three Acts - the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020; Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020, and the Essential Commodities (Amendment) Act, 2020 which is termed as new farm laws to bring about reforms in Indian Agriculture and to minimize the agrarian distress. The second Act relates to contract farming where corporate entities can enter into different types of contracts with the farmers which may be for the supply of inputs and marketing of agricultural produce to facilitate agri-business in India.

Contract farming in India is not a new concept. Advent of contract farming in India dates back to 1989 with the setting up of a plant to procure tomatoes by Pepsico. Contract farming is nothing but an agreement between growers and land owners, termed as Adhiya in Madhyapradesh and Chhattisgarh in India wherein all the input costs are born equally by both the parties and profits are also equally distributed by them. There is another way of contract farming wherein the land owner gives his land to tillers and tillers bear all the cost; profit % is decided well in advance and is shared with the land owner after reaping the harvest.

**Research Methodology:**

Research Methodology is as under:

**Research Design:**

Descriptive research design has been used for conducting this study.

**Objective:**

This study aims to find out viability of contract farming for sustainable inclusive development in place of subsistence agriculture.

**Hypothesis:**

Contract farming is a viable alternative for development of agriculture and farmers in India?

**Methods of data collection:**

Both primary data and secondary data sources have been used for the purpose of data collection. Primary data in the form of questionnaire has been collected from 100 farmers from Bhendara village, Pauni tehsil, Bhandara district.

**Case Study:**

Chintamani Agro based company located in Bhendara village, Pauni tehsil, Bhandara district has entered into contracts with farmers for growing turmeric, chilly, coriander which is powdered into mills and supplied to all other states of India. 700-800 small and marginal farmers are parties to this contract with the company Chintamani. Seeing the profits resulting out of contract farming, many paddy growers of this region have been gradually shifted to contract farming and have started growing green vegetables like lady finger, capsicum, carrot etc. to meet the requirements of contractor/company, growing needs of the society and also to earn profits.

**Findings of the study:**

- Age group: 85% of the farmers under the age bracket of 18 to 45 years are very much interested in contract farming while only 20% of the farmers aged above 45 years showed interest for contract farming.
- Size of land holdings: 95% of small farmers having small and medium size of land holdings are willing to do contract farming while 80% of the farmers owning big size of land holdings are interested in contract farming.
- Lack of irrigation facilities: 90% of the Paddy growers seem interested in contract farming for overcoming the problem of irrigation facility.
- Shortage of labourers: 85% of the farmers agreed that they face non-availability of labourers and to overcome this problem they showed willingness towards contract farming.
- Lack of time: 90% of the farmers who are also employed in nearby cities do not find time for agricultural activities so they wish to outsource it to companies/contractors and put all the owned land by them into cultivation rather than doing only subsistence farming.
- Financial problem: 95% of the farmers do not get credit facility on time to meet the expenses of cultivation on time. They are willing to tie up with contracting companies so that they can bear input cost of cultivation.
- For earning profit: Majority of farmers are willing to take up contract farming as they are offered more amount than the prevalent market price. They are ready to do contract farming for earning profit.

- To minimize the risks: There are several risks associated with agricultural operations as low-quality produce, uncertain weather conditions, risk of low market prices etc. Small farmers wish to do cultivation on their own but in order to mitigate the price risk involved they wish to do contract farming as price is specified in advance by the contractors/companies.
- Switching to different cropping: There are about 95% of farmers who wish to switch over to organic farming and sow varied crops as per the terms of contractor/company. They wish to acquire skills for making agriculture a profitable occupation.
- Marketing problem: There are 70% of farmers who wish to do contract farming to solve the problems of marketing such as non-availability of proper storage, gradation and transportation facility.

### **Problems in Contract Farming:**

- Delay in payment: There exists fear of getting delayed payment without any accrued interests among small farmers after some initial years of entering into contract if company finds difficulty in selling agricultural produce in the market and fail to get desired level of profits.
- Storage/warehousing problem: Majority of farmers have fear of facing the problem of storage and warehouses for their produce till the time it is sold out if contractor refuses to take delivery of the agricultural produce.
- Constraints of land availability: Contractors in order to get economies of large-scale production wish to take up big consolidated piece of land holdings but maximum farmers willing to do contract farming have small size of land holdings that too scattered in different locations which is a problem for contracting companies. Land owners have insecurities whether they would get back their land in the same condition after the completion of term of contract.
- Unsold stock in case of low-quality products: Farmers also have a fear that their produce might not meet the quality standards and may be rejected by the company/contractor resulting in unsold stock in the farmers' hands.
- Mere labourers in their own land: Farmers also have a notion that they would turn out to be mere labourers in their own land due to contract farming. If this happened then the efforts of government for Kisan Samman and making Atma Nirbhar Bharat will go in vain.
- Unequal development of areas: Contractors/ companies prefer areas with developed infrastructure facilities. This may result in imbalanced development of different regions of India.
- Degradation of land: Companies/contractors may make heavy use of HYV seeds, chemical fertilizers to increase productivity and production to earn more profit putting environmental concerns at a stake.
- Low bargaining power of farmers: Small and marginal farmers have to enter into contract with big reputed companies. This may result in exploitation of farmers at a later stage as bargaining power of farmers is low.
- Complex nature: There are no SOPs for contracts. The diverse range of crops, varied nature of crops, vegetables, fruits, cereals, herbs etc. from region to region make the contract and conditions of contract more complex for perishables and non-perishable agricultural produce.

### **Conclusion and suggestions:**

Contract farming can be seen as a viable alternative for ameliorating agriculture and farmers in India provided the prime concern of companies engaged in contract farming is not limited to maximizing their profits only but they also put in their efforts towards sustainable agriculture development of India. It should not result in mere pro-market reform rather a holistic approach for inclusive development of farmers of all parts of India should be focused and attained through contract farming. Region specific solutions should be provided to the farmers through contract farming without compromising their interests. Access to resources and new technology coupled with training to

farmers through contract farming resulting in bringing about sustainability in agriculture produce and incomes is the need of hour to open up new markets which would be otherwise not available.

### Acknowledgement:

My sincere thanks are due to ICSSR/IMPRESS for the sanction of project entitled “A Study of Innovative Measures for Sustainable Agriculture and Rural Development in India (With special reference to Nagpur Division)” under the domain of Agriculture and Rural Development and sub domain: New Developments in Rural Economy with proposal reference number: P2322. This research is carried out as a part of the research project sanctioned by ICSSR/IMPRESS. I hereby declare that no part of this research is published in any form earlier.

### References

1. <https://ijcrt.org/download.php?file=IJCRT2012165.pdf>
2. [www. theindianexpress.com](http://www.theindianexpress.com)
3. [www.thehindu.com](http://www.thehindu.com)
4. <http://www.fao.org/3/y0937e/y0937e03.htm>
5. [www.statista.com](http://www.statista.com)