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COOPERATIVE FARMING VERSES CONTRACT FARMING IN INDIA

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Abstract:

India is basically an agricultural economy giving employment to more than 60 per cent of population contributes one fourth of the GDP. Disguised unemployment is the major type of unemployment exists in agricultural sector. The per capita availability of land is low which is a major hurdle to large scale farming resulting low productivity in agriculture. Lack of sufficient infrastructure in agriculture and changing food habits of the people demanding an organised institutional frame work in agricultural sector. To some extent cooperatives are functioning well. But it is not reducing the unemployment problem in agriculture. Contract farming is also successful in some areas. A judicious mix of these two are necessary in agricultural sector not only to reduce problems in agriculture but also to meet the needs of the society. In this research paper I have discussed the performance of cooperatives and contract farming and examined new agricultural policy of government of India.

Introduction:

India is an agricultural economy, producing more than 260 million tonnes of food grains annually. Agriculture contributes nearly one fourth of GDP and providing employment to nearly 60 percent of population. In India major portion of land holdings belongs to small and marginal farmers which is a major hurdle to implement large scale farming in agriculture. This would not give sustainable income to the farmer and also a threat to the overall productivity of the economy because smaller the farmer lesser the capital and lesser the production. As a result low productivity in agriculture. The per capita availability of land in India has declined from 0.90 hectare to 0.33 hectare in 2001. Further it has declined to 0.28 hectare and projected to slip down to 0.20 by 2030. Over the years the per capita availability of water and fertility of the soil is declining. Another major issue in agriculture is lack of sufficient infrastructure like cold storage facilities, where housing, marketing facilities processing units. Another problem in Indian agriculture is lack of diversification in crops which is the present need of the society because of the changing food habits of the people. It is necessary that a judicious use of natural resources and agricultural land is necessary to maintain our growing population, changing food habit, food security and improving the living conditions of farmers. This calls for an organising institutional frame work in agricultural sector such as cooperative farming contract farming and corporate farming. The present study confined to cooperative farming and contract farming.

Objectives of this study:

1. To study the performance of cooperative and contract farming in India.
2. To examine the government of India's New agricultural policy and how far it is beneficial to cooperatives and contract farming.

Concept of cooperative farming:

Chandy(2001) " A voluntary form of organisation in which farmers and landless cultivators pool their uneconomic holdings and other resources with a view to facilitate the rational use of resources, economies of scale, and adopt scientific methods of cultivation."

Features and advantages of Cooperative farming:

1. All members combine their land and man power and their resources in to a single unit.
2. Land ownership is continued with the individuals.
3. A society is formed with land owners voluntarily and run cooperative principles.
4. Remuneration will be given to the members according to their work and land contributed for joint cultivation.
5. At any time members will have the option to leave the organisation.

The first advantage of cooperative planning is it serves as an instrument of planning in agriculture. It also develops democratic spirit among people. Cooperative farming reduces cost of production and increases agricultural production through the advantage of economies of large scale production. In cooperative farming there is an accessibility of services and technology. Agriculturist will get more bargaining power and he commands price in the market. Maharashtra, Andhra Pradesh , Karnataka are widely practicing this practice.

Contract farming:

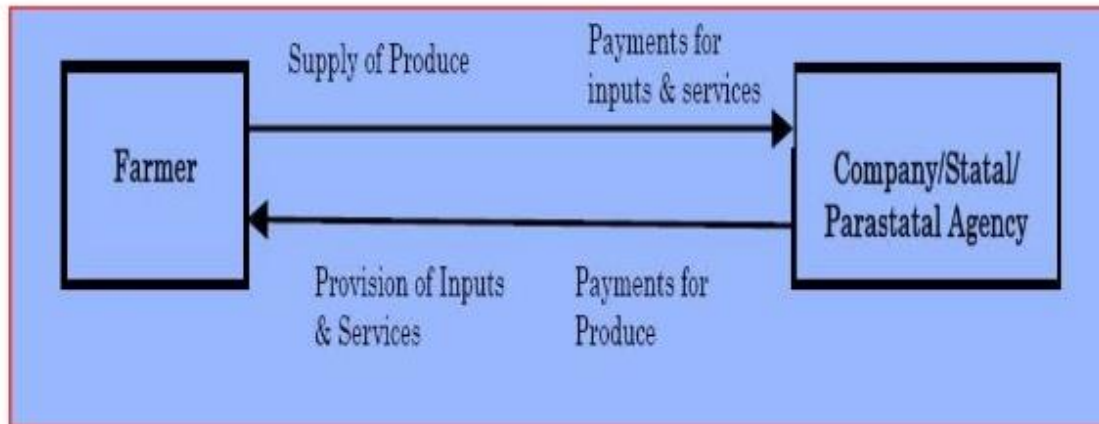
Singh (2006). Contract farming is an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at predetermined prices.

Models of contract farming:

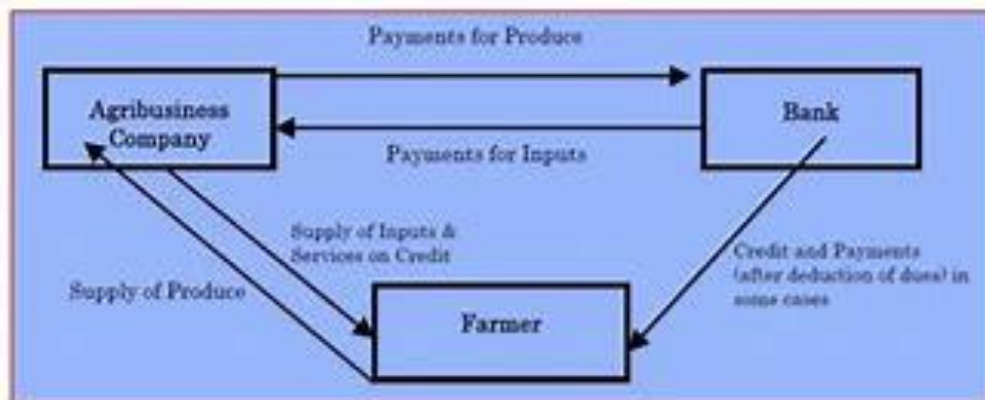
There are three models of contract farming:

1. Bipartite agreement model
2. Tri-partite agreement model.
3. Quad-partite agreement model.

Bipartite Agreement model:



Tri-Partite Agreement Model:



Quad-Partite Agreement Model :



Advantages of Contract farming:

- Contract farming helps the farmer in generating permanent source of income.
- It is source of employment in rural areas. Farmers will get work not only in agriculture but also in other activities.
- It reduces the responsibility of central and state governments.
- The investment of private sector increases in agriculture in contract farming.
- It increases large scale farming in agriculture and also enjoys economies of large scale production in agriculture.
- It reduces migration from rural areas to urban areas because of employment generation in rural areas.

Formula for good contract farming:

An ideal contract exists between farmer and corporate is when they have mutual understanding in agreement. In Contract farming farmers get to know record- keeping efficient use of farm resources, correct method of using fertiliser, marketing, exporting information on the product. They will gain experience in all farming activities. Therefore long term contract can be achieved by transparency in contract through specifying quantity, quality and price.

Nearly six lakh hectares and more than 620 national and multinational companies are under contract farming in India. Punjab and Tamil Nadu are very active in contract farming. Recently Karnataka state is also active in introducing contract farming in India. There are 25 companies established in Karnataka with more than 15000 hectares of land under cultivation.

State -wise area under Contract Farming in India:

| States/Uts | Area Under Contract Farming (in hectares) |
|------------|---|
| Assam | 160 |
| Bihar | 20 |
| Goa | 1924 |
| Gujarat | 2000 |
| Haryana | 1416 |
| Karnataka | 15000 |
| Mizoram | 2447 |
| Orissa | 5900 |
| Punjab | 121457 |
| Tamil Nadu | 236610 |
| India | 475834 |

Source. www.Indiastat.com

Some examples of contract farming:

Contracting in Agriculture in India can be traced back to the Sugar cane sector which was primarily organized under cooperative structure. In 1970's the Dairy sector was benefited through operation flood program. Contract farming is successful in potato production, basmati rice, poultry industry primarily led by corporate firms. Contracting in high value commodities like fruits, mangos, grapes, oranges, vegetables like baby corn, capsicum, tomatoes chilies are quite popular.

Punjab has been a pioneering state in introducing contract farming with the entry of Pepsi company in tomato in 1989. Poultry farms such as Suguna, Santhi, Pioneer Godrez Agro vat and Venkateswara Hatcheries are under contract farming in Andhra Pradesh and Tamil Nadu.

Fruits and Vegetables:

Private firms both multinational and domestic, cooperatives, farmer groups are the leaders of the contract farming in fruits and vegetables. The entry of private firms can be traced back to the operation of Pepsi Company in Punjab in 1989 and later agro processors, few retailers are joined in the example of contract farming.

In a public private partnership , the council for citrus and agri juices in Punjab has ventured into contract farming of citrus orchards to supply "Tropicana" juices a product of Pepsi company. They acquired the land of 5187 acres of which 2700 acres have been planted with sweet oranges. They targeted to cultivate 10,000 acres under citrus cultivation by 2009.

A private company in Andhra Pradesh named San Aristech's engaged in contract farming for mangos, grapes, and pomegranate etc,. Recently Reliance entered into contract farming in vegetables in Madanapalle in Andhra Pradesh.

Dairy:

Dairy sector in India is developed with cooperatives. Operation flood (1970-1996) was major breakthrough in the Indian dairy sector that rendered dairying a profitable occupation for millions of farmers resulting in a significant impact on the livelihoods of small and marginal farmers. With the amendment of MMPO in march 2002 the number of private companies entered into dairy market.

In Punjab Nestle India started its operations with 185 farmers increased to more than one lak contract farmers to source its daily requirements of liquid milk. Nestle follows two types contract agreements. Those who produced milk with more than 25 milk animals it enters into a legal contract.

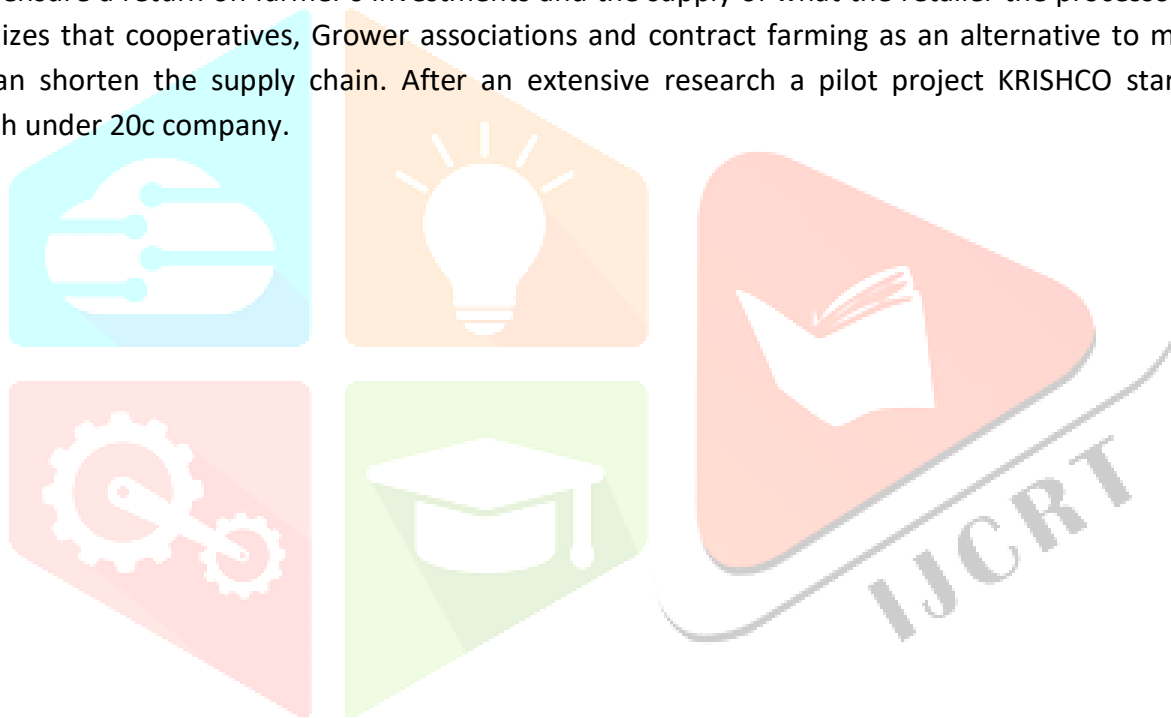
Poultry:

It is highly susceptible to production and marketing risks which affects its profitability particularly in small holdings. Some large firms like venkateswara Hatcheries Ltd, Suguna Poultry firm limited and Godrej agro vet limited entered into contract farming to minimize the risks to the producers and sustain growth and profitability. These firms begin vertically integrating breeding hatchery, feed and veterinary enterprises with broiler production through institution of contract forming in the late 1980s and 1990s.

Venkateswara Hatcheries broiler prices fixed by BROMARK. Suguna's model provided contract growers with quality, feed medicines and technical support and guidance.

Gramin Vikas Thrust and KRISHCO:

GVT recognizes the need for linking farmers to markets under cooperative arrangements as this would ensure a return on farmer's investments and the supply of what the retailer the processor needs. GVT recognizes that cooperatives, Grower associations and contract farming as an alternative to market linking that can shorten the supply chain. After an extensive research a pilot project KRISHCO started in Uttar Pradesh under 20c company.



A comparative study of Cooperative farming contract farming and corporate farming.

| Parameter | Cooperative farming | Contract farming | Corporate farming |
|------------------------|---|---|---|
| Ownership risk sharing | Ownership held by the farmer and collectively born by the group of farmers. | Held by farmer mostly by farmer as most contracts are one-sided. | Held by company entirely born by the company |
| Ease of credit | It is easier than private farming | Easier as contract can be showed as collateral | Easier for the company as banks see lesser risk |
| Capital | Group of farmers invest collectively | Terms of contract dictates whether to invest firm or farmer. | Entirely invested by the company. |
| Market Access. | Farmers gain high bargaining power because of group activity. | Reliable access, assuming no default by the firm. | Total access to the market as farming is done by the firm. |
| Farm-firm flow | Higher bargaining power due to collectivity. | No middlemen between firm and farmer. | Firm directly involved in farm produce. |
| Technology | By collecting funds they can try new technology | Firm introduces new technology by introducing mechanisation in agriculture. | Introduced new technology to increase productivity. |
| Governments role | Providing credit/ seeds/fertiliser at less cost | In facilitating contracts, issue of credit. | Leasing laws and facilitating firms to enter. |
| Tenancy laws | Leasing with collective resources is better than private farmer. | Affect farmer leases short term in nature ,affected by government policies | Affect the firm. Long term in nature affected by government policies. |
| Social Effects. | Unity and cooperation among farming community. | Contracts should be more affective. Otherwise small farmers will affect. | Indiscriminate farming leads suppression of small farmers. |
| Economic effects. | Gives lot of bargaining power and a great boost to earnings | Farmers will become too dependent. But there is a way to gain large scale earnings. | Concentration of power in few MMCs. |

Advantages of contract farming:

- In contract farming farmers will get guaranteed market that increases their ability to produce.
- The company will give good quality products such as seeds, fertilisers, best advisers to give efficient advice to the farmers in production process.
- It reduces unemployment in rural and increases livelihood and standard of living in rural areas because they are engaged in different activities throughout the year.
- Contract farming contributes to gross national product and increases the economic value of the country.

Policies of Government of India:

The Union Finance Minister announced three reforms.

1. Amendments to essential commodities Act of 1955.
2. A central law facilitating farmers to sell their produce anywhere in the country rather than to licence buyers at designated mandis.
3. Contract farming.

Amendments to essential commodities act:

The Government amends the act to remove all agricultural commodities from the list of essential commodities. The government assumes that giving freedom to production distribution, movement and holding will lead to large scale economies of scale. This will attract private sector and foreign direct investment in agricultural sector and helps to drive investment in cold storage facilities and processing units and modernisation of food supply chain. This ordinance will help to achieve price stability and benefit the traders and consumers.

Trade and commerce (promotion and facilitation):

2020 Ordinance, "to promote barrier free inter-state and intra-state trade and commerce outside the physical premises of markets notified under State Agricultural Produce Marketing legislations." it basically aim at creating opportunities to outside state run Agricultural Produce Marketing committee Yards. The Government said that it is a historic step in unlocking of regulated markets in the country. The Government said that it will establish the minimum support price and procurement.

Contract Farming:

The Empowerment and Protection Agreement in Price Assurance and Farm Services Ordinance, 2020 explains a national framework for agreements with the farmer by any third party. With this ordinance government is heading toward contract farming and providing a legal framework for contract farming.

The Government of India is claiming that three ordinances will benefit the farmer. But these ordinances will benefit big corporations and traders. It also aimed at reducing the powers of the state governments and market committees. These ordinances will benefit the agri-input companies, especially seed companies and agro chemical companies. Due to interference of the corporations agricultural imports are likely to increase in a liberalised atmosphere. The result of this is all citizens of the country have to face rise in prices. The central government has decided to throw its weight behind traders, investors, corporations, sellers wholesalers and processors.

Conclusions:

Natural resources are shrinking in India and per capita availability of land is decreasing because of growing population. There is a need for strong institutional approach to protect the farmer from poverty. Organized formal groups are necessary in farming activities. Cooperatives are the one of the organized formal group in agriculture. They are successful in the field of dairy, poultry in India. Contract farming is successful in plantation crops and processing units. Changing consumption patterns and dietary habits globalization have led to structural transformation in agriculture. Traditional agriculture is diversifying towards high value products. There is a vertical coordination in food and marketing system. Indian

agriculture is dominated by small holders. It implies a greater need for a strong linkage between production and markets. Central and state governments are giving fiscal incentives to food processing industry. Business expansion in agriculture requires more transport facilities, cold storage facilities, marketing facilities etc., Integration of small holders on the supply chain is a challenging factor. It is essential to strengthen the institutional mechanism and integrating the small holders to institutions like cooperatives, business groups and contract forming. Strengthening agriculture should be developed to meet the increasing demand for processed products. The Government of India announced a new agricultural policy after COVID19 lock down. In this policy government has liberalized the agricultural policy and gave the way to institutional frame work in agricultural sector.

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