



# Contract Farming potential and opportunities in Rural Karnataka: An Economic analysis

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## **Abstract:**

As per census report of India 2011, more than 49% of the total working population is dependent on agriculture. Since the mid 1960's, the traditional agricultural practices are gradually being replaced by modern technology and farm practices in India and the country has witnessed a 'rainbow of revolution'. Agriculture is regarded as the 'Back bone of Indian Economy' as it provides largest employment opportunities to the working population. Apart from this, it contributes considerably to our export trade from time immemorial. India was and is known for exporting agricultural commodities and especially spices for many ages. Indian agriculture contributes a considerable share to India's national income and it supplies food for people and fodder for animals. Irrespective of how much ever the country is progressed or development of information technology or bio-technology is important, ultimately people wants agriculture for the supply of food grains. Therefore, the concept of country cannot be visualized, without agriculture. The term Agriculture is derived from two Latin words called 'Agri' meaning 'land' and 'Cultura' meaning 'Tillage'. Hence Agriculture means 'Tilling the Land'. Around 2/3<sup>rd</sup> of the world population is still dependent on agriculture for its livelihood. In spite of all these, Indian agriculture faces lot of problems. To solve many of these agricultural problems in India, 'contract farming' has emerged as an effective solution. This method provides assured market to farmers for their products with pre-determined price. Contract cultivation has long term benefits for both farmers and the purchaser given that their long term connection is sufficiently maintained. Contract Farming, in recent decades, has emerged as an institutional innovation for coordinating the agriculture production, processing and marketing operations carried out by different functionaries like farmers, agro-processing firms and marketing agencies. It is an instance of bringing the market to the farmers, which is explored by agribusiness firms. Apart from meeting the needs of farmers and agro-processing firms, empirical research proved that contract farming enhances the agriculture productivity and output. This paper analyzes the different dimensions and possibilities of contract farming.

**Key words:** Farming, Agreement, Agri-business, Farming productivity, Peasant welfare.

### **Introduction:**

Contract Farming, in recent decades, has emerged as an institutional innovation for coordinating the agriculture production, processing and marketing operations carried out by different functionaries like farmers, agro-processing firms and marketing agencies. It is an instance of bringing the market to the farmers, which is explored by agribusiness firms. It is an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, at predetermined prices. The arrangement also invariably involves the purchaser in providing production support through the supply of inputs and the provision of technical advice. The basis of such arrangements is a commitment on part of the farmer to provide a specific commodity in quantities and at quality standards determined by the purchaser and a commitment on the part of the company to support the farmer's production and to purchase the commodity. With effective management, contract farming can be a means to develop markets and to bring about the transfer of technical skills in a way that is profitable for both the sponsors and farmers. Contract farming system establishes a partnership between agribusiness and farmers and rests on building a long-term commitment from both parties. Similarly, farmers need to consider that honouring contractual arrangements bring them long-term benefit. Contract farming is becoming an increasingly important aspect of agribusiness, whether the products are purchased by multinationals, smaller companies, government agencies, farmer cooperatives or individual entrepreneurs. As noted above, the approach would appear to have considerable potential in countries like India, where small-scale agriculture continues to be widespread, as in many cases small-scale farmers can no longer be competitive without access to services provided by contract farming companies. It must be stressed, however, that the decision to use the contract farming modality must be a commercial one. It is not a development model to be tried by aid donors, governments or non-governmental organizations (NGOs) because other rural development approaches have failed.

### **Classification of Contracting Farming**

Contract farming involves mere buying certain quantity of agricultural output at a pre-determined price to purchasing the entire lot and having complete control over production right from supplying the agricultural inputs to harvesting the output. However, there are five pre dominant styles of Contract Farming which is observed in the country. They are:

- **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, processing, marketing and management of the agricultural produce.
- **Nucleus Estate model:** In this system, the promoter 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 for the plant. It is mainly used for tree crops, but can also be used for fresh vegetables and fruits for export trade.

- **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, barley, sugarcane, banana, coffee, tea and rubber. The level of involvement of the contracting company in supporting production may vary.
- **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.
- **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.

### Potential benefits of Contract Farming for farmers

The main advantage of contract farming for farmers is that the sponsor will normally involves an agreement 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:

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

From the farmers' perspective, contractual arrangements can provide them with access to production services and credit as well as knowledge of new technology. Pricing arrangements can reduce risk and uncertainty. Some contract farming ventures give farmers the opportunity to diversify into new crops, which would not be possible without the processing and/or marketing facilities provided by the company.

### Limitations of Contract Farming:

For farmers, the potential problems associated with contract farming include:

- Indebtedness and over reliance on advances
- Corruption
- Manipulation of quotas and quality specifications
- Increased risk
- Unsuitable technology and crop incompatibility
- Domination by monopolies
- Risks associated with the cultivation of a new crop
- The company may fail to honor its commitments and the danger of indebtedness if problems arise.

From the point of view of the sponsoring companies, contract farming may in many cases be more efficient than plantation production and will certainly be more politically acceptable. It can give them access to land that would not otherwise be available and the opportunity to organize a reliable supply of products of the desired quality, which probably could not be obtained in the open market. On the other hand, from the companies' perspective contract farming is not without difficulties. On occasion farmers may sell their outputs to outsiders, even though they were produced using company-supplied inputs. Conflicts can also arise because the rigid farming calendar required under the contract often interferes with social and cultural obligations.

### Research Methodology:

**Statement of the problem:** By promising fixed income and guaranteed returns to the farmers, 'Contract Farming' surely brings mutual benefit for all the stake holders involved. The agro business company, which enters into contract is assured of agricultural output, that too matching their quality expectations. Hence, the concept of 'Contract Farming' is becoming more and more popular in the recent past. Therefore, in this context, understanding and finding answers to questions such as – Is contract farming a boon or bane?, what are the inherent disadvantages of the system? How to overcome those difficulties? What mechanism needs to be devised to make the system completely fool proof? All these questions requires detailed probing. In pursuit of this, the above said research has been undertaken.

### OBJECTIVES

The study has been undertaken with the following specific objectives.

- To understand the concept of contract farming and its implications.
- To compare the socio-economic profile of contract farmers in the study area.
- To offer policy suggestions for the improvement of contract farming.

**Data Collection:** The study is based on both primary and secondary data.

**Primary Data:** The field survey has been under taken and information has been collected through structured pre-tested questionnaire schedule prepared for the contract farmer's with personal interview method. The schedule has both close and open ended questions covering various issues involved in contract farming like, socio-economic background, their economic conditions, occupation and income, standard of living, expenditure patter, history of contract farming and problems faced by them, cultivation aspects etc.

**Secondary Data:** Information about contract farming is collected from standard literature, journals, research articles, news papers, magazines and census reports, administrative reports, reports of the various committees, manuals, gazetteers and directories.

Various other reports like, Ministry of Agriculture and Rural Development, Economic Survey of Karnataka for various years, Directorate of Economics and Statistics, Government of Karnataka, Reports of Ministry of Agriculture and Rural Development, Agriculture census of Government of Karnataka and Government of India, Company Annual Reports and online access etc. have been extensively used to procure the information.

**Sampling design:** Stratified random sampling method.

**Data Analysis:** After completion of field study, collected information was systematically edited and examined to minimize the possible errors. Editing, coding and tabulation are done with the help of SPSS. Suitable formulas such as chi square test, paired 't' test, Mean and percentage is applied to get result.

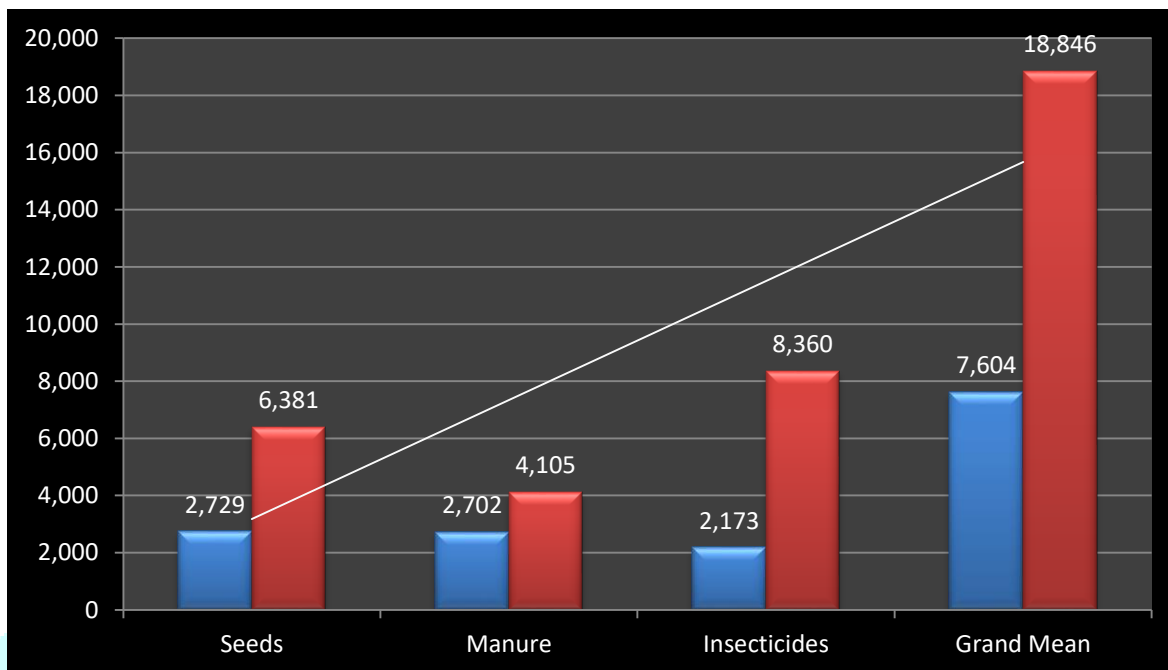
**Inferences:**

**Agricultural inputs cost:**

In contemplate various agricultural activities farmers need to procure different types of inputs. These inputs have vital role in the agriculture production and vary with scale of production of crops. The input costs considered as variable cost. These input cost includes seeds, manures, chemical fertilizers, insecticides etc. The average cost on seeds of respondents before contract farming was Rs. 2,729 and after contract farming was 6,381. Thus, there is almost threefold increase in the average cost of seeds, this is due to inflation and quality of seeds available in market.

The average cost on manures of respondents before contract farming was 2,702 and after contract farming was 4,105. The p .000 value obtained by paired sample 't' statistics test result indicates that, the average cost of manure before and after joining contract farming in Tumakuru district differs significantly. The average cost on insecticides of respondents before contract farming was 2,173 and after contract farming was 8,360. The p .000 value obtained by paired sample 't' statistics test result indicates that, the average cost on insecticides before and after joining contract farming differs significantly. The Grand Mean value average cost of inputs

before contract farming was 7,604 and after contract farming was 18,846. The p .000 value obtained by Paired sample 't' statistics test result indicates that, the average of total cost of inputs before and after joining contract farming differs significantly. As it is evident, the trend line is sloping upwards from left to right.



### Income changes:

Total income includes income from agriculture and animal husbandry of respondents. This means income from crops and allied activities income. The average total income of respondents before contract farming is 2,14,022 and after contract farming is 2,99,346. The p 0.000 value obtained by Paired sample 't' statistics test result indicates that, the average total income before and after joining contract farming is differs significantly. Therefore, contract farming is proved to be economically viable and beneficial to farmers.

### Findings of the study:

- In the case of contract farming, majority of the respondents were involved in agriculture and allied activities. It was a source of survival for them.
- Input supply and fixed price is the most preferred contract practice in study area, as it provides the security for farmers. Most of respondents opined that, they procured information about contract farming from extension agency contract. The extension agency has played important role in spreading information about contract farming. Most of them were practicing contract farming for the first time after company officials personally approached them and motivated them to take up contract farming.
- All respondents had entered into an agreement in Kannada language and not found oral and other types of agreement between contract farmers and the company. This has helped them to read and understand the terms of contract in a much better manner.
- The cost of the contract is fully born by the company involved in contract, as company is interested in gaining the trust of the farmers.

- The result is found that all the respondents received input service, for their contract farm in the form of crop seeds from the company freely. Company has provided seeds freely to all contract farmers to undertake farming, because company wants to take into confidence all the farmers.

### **Suggestions for further improvement:**

- On time payment for the farmers must be ensured.
- Mechanisation in farming activities must be implemented. Contracting companies must provide machines to farmers at an affordable price.
- Proper irrigational facilities such as drip and sprinkler irrigation facilities from the company side, which reduces waste of water and solve irrigational problem.
- The study found that, couple of times, company not pick up the produce on time. This must be fixed.
- The contract farmers are facing the land degradation problem due to over usage of fertilizers and pesticides, so company has to educate the contract farmers in this regard.
- Improvement of the co-ordinations between firm and farmers, will helps to improve the contract farming.

### **Conclusion:**

For successful implementation of contract farming, having co-ordination and collaboration consciousness and acting in an organized manner are advisable for both sides. The impact of the contract farming on the farmers was improved. The profit of famers almost increased after joining contract farming. Savings and investment practice is improved by the farmers. 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. Besides farming to both sides, there are some problems. Finally the research concludes that contract farmers are satisfied by the contract farming practice and the standard of living and income of the farmers was improved after joining contract farming.

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