



Assured Contract Farming System For Stable Market Access

Prof. Rinku Badgujar, Gaurav Zagade, ShriKrushna Suryavanshi, Shrinath Dubey MIT arts,design & technology University , Pune
MIT-ADT University,India

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.

FARMERS	
<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

SPONSORS	
<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 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.

Safeguards for Buyers and Farmers in the Indian "Contract Farming" System

India's contract farming system is designed with several safeguards to protect the interests of both buyers and farmers. These measures aim to ensure trust, transparency, and fairness in agreements, facilitating smooth implementation of farming contracts across the country. The following safeguards illustrate the robust framework:

1. Tripartite Agreement

In the Indian context, the contract involves three parties:

- Contract Sponsor: The entity that agrees to purchase the agricultural produce.
- Farmer: The producer of the crops as per the contract.
- Market Committee (APMC): The committee that oversees and ensures adherence to the contract terms.

This tripartite agreement ensures that all stakeholders are committed to fulfilling their roles and responsibilities, fostering mutual trust and accountability.

2. Agricultural Produce Market Committees (APMC) as Facilitators

APMCs play a crucial role in mobilizing farmers and explaining the nuances of the contract farming system. With their long-standing relationship of trust with farmers, APMCs act as mediators between the contracting parties.

- Education and Awareness: APMCs conduct awareness campaigns to help farmers understand the concept of contract farming, its benefits, and the clauses of the agreement.
- Local Expertise: As local bodies, APMCs have in-depth knowledge of the region's farming practices, soil quality, irrigation facilities, and climate conditions. They use this knowledge to ensure contracts are practical and mutually beneficial.
- Facilities: Many APMCs in India provide infrastructure like warehouses, cold storage, and auction yards to support contract farming operations.

3. Flexible Contract Duration

The duration of contract farming agreements in India is flexible to accommodate various crop cycles:

- **Short-Term Contracts:** These are typically seasonal, lasting for one harvest cycle.
- **Medium-Term Contracts:** Contracts lasting up to five years are common for annual crops.
- **Long-Term Contracts:** For perennial crops like fruits and plantation crops, the contract can extend for several years as mutually agreed upon by the farmer and the buyer.

This flexibility ensures that both farmers and buyers can structure agreements based on the nature of the produce.

4. Technical and Financial Support

One of the standout features of contract farming in India is the support farmers receive from sponsors:

- **Technical Support:** Sponsors often share research-backed agricultural practices, including modern techniques for cultivation, pest control, and harvesting. This helps farmers enhance productivity and maintain quality.
- **Financial Assistance:** Farmers may receive inputs like seeds, fertilizers, and equipment from the sponsors, often as part of the contract. These inputs are either provided on credit or deducted from the final payment.

Such support reduces the financial burden on farmers and ensures adherence to the buyer's quality requirements.

5. Detailed Agreement for Transparency

To prevent disputes and ensure smooth transactions, the agreement contains comprehensive details, including:

- **Type and Quality of Produce:** The agreement specifies the type, variety, and quality standards of the commodity to be supplied.
- **Quantity and Pricing:** The total quantity and agreed price, whether fixed or based on market rates, are clearly mentioned.
- **Payment Terms:** The mode and timeline for payments are outlined to ensure timely disbursal of funds to farmers.
- **Insurance Coverage:** Crop insurance provisions are included to protect farmers from unforeseen losses due to natural calamities or other risks.

This detailed documentation ensures clarity and reduces chances of future disagreements.

Strengthening contract Farming in India

While the existing framework offers several safeguards, further improvements can enhance its effectiveness:

1. **Digital Platforms:** Integrating technology for e-contracts, payment tracking, and real-time monitoring of crops can streamline operations.
2. **Capacity Building:** Providing training programs for farmers to understand contracts and digital tools will improve participation.
3. **Policy Support:** Governments can offer incentives for companies adopting contract farming and provide

subsidies to farmers for better inputs.

4. **Community Engagement:** Encouraging local farmer groups and cooperatives to participate collectively can ensure better bargaining power and reduce exploitation.

How the Safeguards Benefit Farmers and Buyers

For Farmers

1. **Market Assurance:** Farmers have guaranteed buyers for their produce, reducing risks of price volatility.
2. **Access to Resources:** The provision of seeds, fertilizers, and technical knowledge improves productivity and reduces input costs.
3. **Timely Payments:** Clearly defined payment terms ensure that farmers are paid without delays.
4. **Knowledge Enhancement:** Farmers gain exposure to modern agricultural practices and technologies, enabling them to compete in a globalized market.
5. **Risk Mitigation:** Crop insurance included in agreements provides a safety net against losses.

For Buyers

1. **Reliable Supply Chain:** Buyers receive a steady supply of agricultural produce meeting their quality standards.
2. **Operational Efficiency:** Digitalized agreements and APMC support streamline the procurement process.
3. **Enhanced Collaboration:** Close coordination with farmers ensures alignment with production goals.
4. **Reduced Disputes:** The detailed agreement and arbitration mechanisms minimize conflicts, ensuring smooth operations.

LITERATURE SURVEY

3.1 Challenges in Indian Contract Farming

Key challenges in Indian contract farming include the lack of proper dispute resolution mechanisms, payment delays, and exploitative practices by large corporates. Farmers often lack knowledge about contract terms, leading to unequal negotiations.

Lack of Proper Dispute Resolution Mechanisms: One of the most pressing challenges in Indian contract farming is the absence of efficient, accessible dispute resolution mechanisms. Farmers often face difficulties when they are unable to fulfill contract terms due to unforeseen circumstances like crop failure or price fluctuations. Without a clear and fair process for resolving these disputes, farmers may be left at a disadvantage, unable to seek redress for contractual breaches. This creates a power imbalance between farmers and large corporates, undermining the contract farming model's effectiveness.

Payment Delays: Payment delays are a common issue that farmers face in contract farming agreements. Corporations often delay payments or offer them on unfavorable terms, leading to financial strain on farmers who are dependent on timely payments for their livelihood. These delays not only disrupt the farmers' cash flow but

also affect their ability to reinvest in future crops, leaving them vulnerable to economic instability.

MDPI.COM, "Kumar, P., "Problems and Prospects of Contract Farming in India," Indian Journal of Agricultural Economics, 2006."

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Article

Perceptions, Problems and Prospects of Contract Farming: Insights from Rice Production in Vietnam

Mai Chiem Tuyen ^{1,2,3,*}, Prapinwadee Sirisupluxana ², Isriya Bunyasiri ² and Pham Xuan Hung ³

¹ Graduate School, Kasetsart University, Bangkok 10900, Thailand
² Department of Agricultural and Resource Economics, Faculty of Economics, Kasetsart University, Bangkok 10900, Thailand
³ Faculty of Economics and Development Studies, University of Economics, Hua University, Hua 530000, Vietnam
* Correspondence: maichiemtuyen.ttku.th or mtuyen@hueuni.edu.vn; Tel.: +84-94-929-6668

Abstract: Contract farming (CF) is considered a relevant measure to tackle the challenges to sustainable development from the serious effects of climate change and the COVID-19 pandemic. Despite the positive effects of CF, low participation and frequent breaching of contracts remain challenges. Several studies have mentioned the advantages and disadvantages of CF but little is known about their rankings and perceptions of CF from the involved stakeholders. To address these evidence gaps, this study surveys stakeholders, ranks the perceived advantages and disadvantages of CF, and investigates the problems and prospects of CF. The study utilizes data triangulation from three stakeholders: farmers, contractors, and government policymakers. Data include twenty-seven key informant interviews (KIs), seven focus group discussions (FGDs), and two participant observations (POs). Data are analyzed by a mixed method approach with methods of constant comparison, content analysis, and Rank Based Quotient (RBQ). The results indicate that while the main perceived advantage of CF relates to the outputs, the top three disadvantages of CF relate to issues likely to cause a breach of contract. The results also reveal that there seems to be a difference in the perception of CF's advantages and disadvantages among the stakeholders. Despite the problems such as breaching several contract terms, mistrust, or market manipulation from the local collectors, CF in Vietnam is overall promising.

Keywords: contract farming; perception; advantages; disadvantages; prospects; problems; rankings; rice; Vietnam

1. Introduction

Up to the present day, sustainable development, especially sustainable consumption and production—sustainable development goal 12—has been challenged by the serious effects of climate change and the COVID-19 pandemic, and CF is considered a relevant solution to address these challenges [1–7]. In addition, CF has been proposed as an appropriate measure for smallholder farmers to address their problems and constraints, particularly in developing countries [8–12]. Moreover, along with an improvement in living standards, food consumption markets and consumer behaviors move towards high-quality products with sustainable certifications and safety standards [13–17].

A large body of literature indicates that CF positively affects the production and welfare of both the farmers and contractors. CF farmers have higher benefits than their non-CF counterparts in terms of yields [18–23], output quality [24], production efficiency [25–29], revenues [22,30,31], income [10,32–42], profits [43–50], food security [21,51,52] and poverty alleviation [39,53]. Similarly, the contracting companies also gain benefits from CF such as quality consistency, production cost reduction [39,54], a guaranteed supply of quality

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Note:- Survey Report

3.2 Contract Farming for Transforming Indian Agriculture

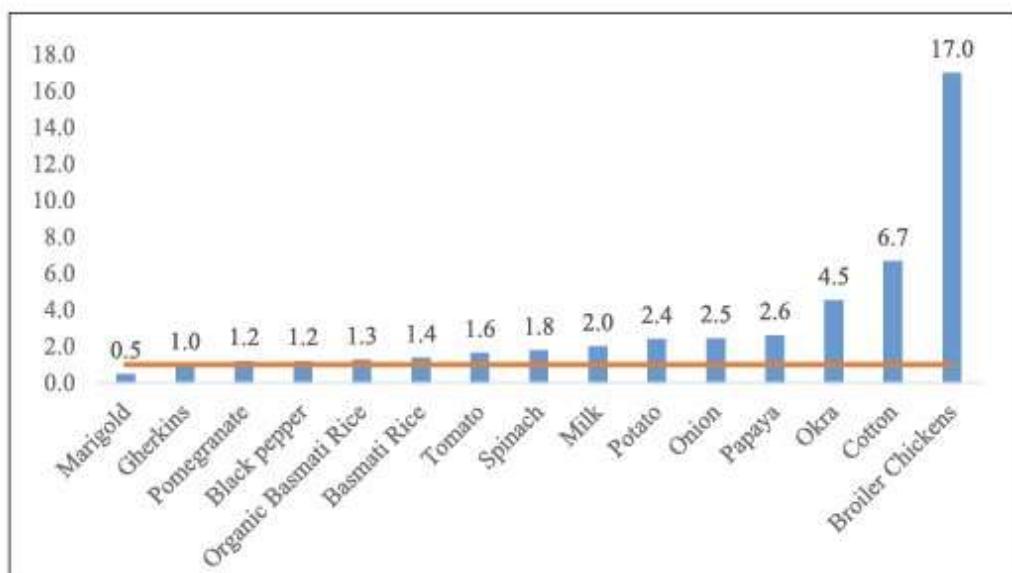
Contract farming meets agricultural commodities' production, processing, and marketing gaps, which otherwise remain unattended in the traditional farming system. This institutional arrangement benefits all stakeholders on the agricultural value chain, viz., farmers, processing firms, distributors or traders, and consumers. It reduces inefficiencies in the value chain, limits price difference between farm gate and retail, minimizes wastage of perishable commodities, and ensures food safety for consumers.

(Roy et al., 2021; Kumar and Tripathi, 2021; Kumar et al., 2019; Kumar et al., 2018a; Kumar et al., 2018b; Kumar et al., 2016a; Kumar et al., 2016b)

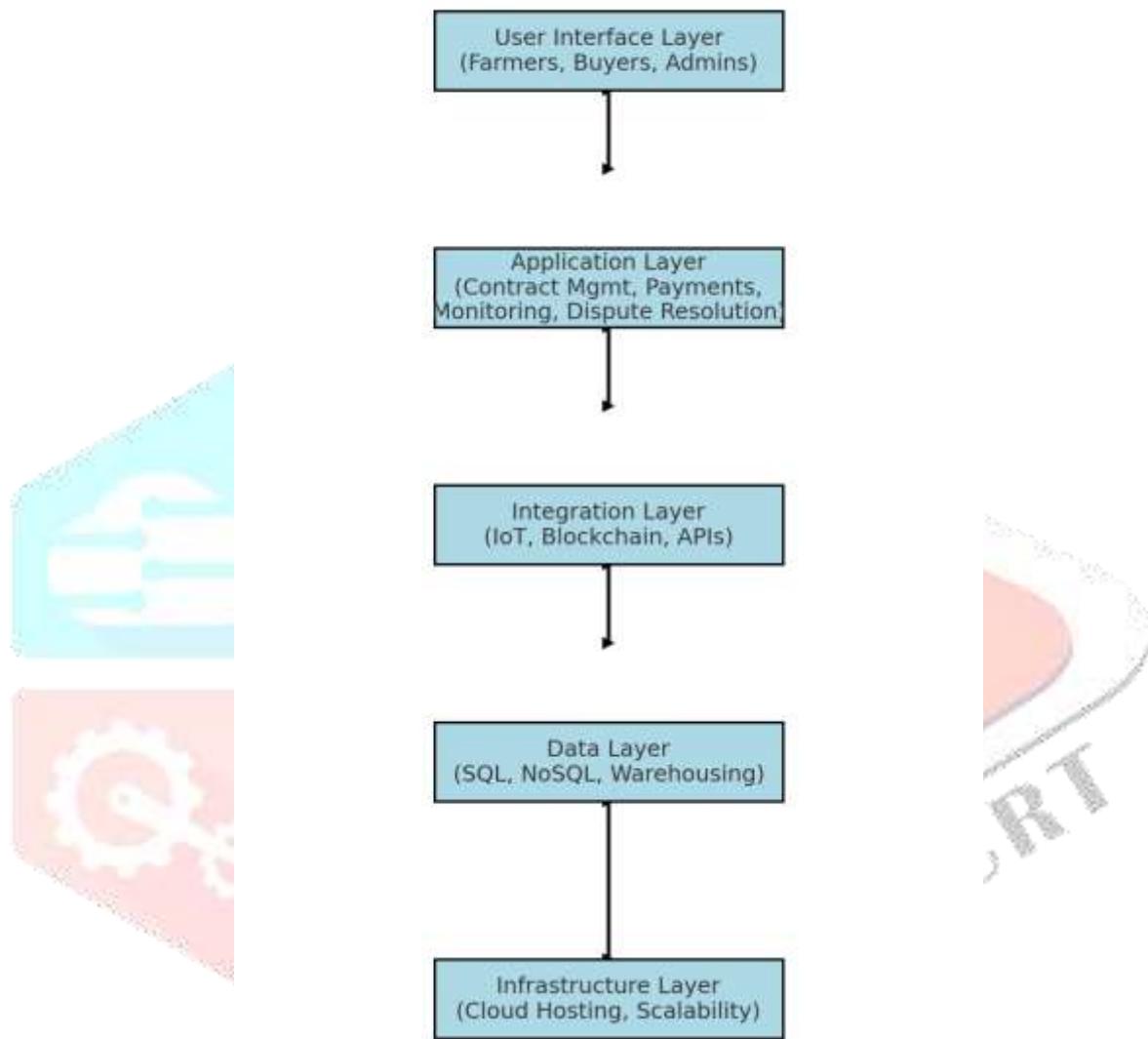
3.3 Evidence from India

Figure 5 shows the response ratio of commodities under contract farming in India. The response ratio ranges from 0.5 for marigolds to 17.0 for broilers. This means broiler farmers benefit more from contracts. Narayanan (2014) shows a 17 times higher net profit from contract farming of broiler chickens over their non-contract counterparts. The response ratio is greater than 2 for milk (2.0), potato (2.4), onion (2.5), papaya (2.6), okra (4.5), and cotton (6.7). However, in the case of marigolds, non-contract farmers benefit more. The response ratio is below 2 for gherkins, pomegranate, black pepper, organic basmati rice, basmati rice, tomato, and spinach. Figure 5: Impact of contract farming in India: response ratio for various commodities covering different outcome indicators

Figure 5: Impact of contract farming in India: response ratio for various commodities covering different outcome indicators



System Architecture for Assured Contract Farming



PROJECT WORKING

Welcome to AgriContract

Select your role to proceed:

Farmer
Buyer

Welcome to Contract Farming

Complete your profile to continue:

Profile Photo
 No file chosen

Gender
 Male

▼

Username
 Enter your Username

Email
 Enter your email

Phone Number
 Enter your phone number

Land Acre
 Enter land size in acres

Jane Smith Wheat	View
Michael Brown Organic Farming	View
Emily White Poultry Farming	View
James Taylor Agro-Equipment Leasing	View
Sarah Johnson Herb & Spice Cultivation	View
David Lee Cattle Farming	View
Olivia Martinez Seed Distribution	View

Contract Form

Farmer's Name
 Enter Farmer's Name

Contractor's Name
 Enter Contractor's Name

Contract Duration
 Enter Duration (in months)

Land Acre
 Enter Land Acre Details

Supply Amount
 Enter Supply Amount

Final Amount

Final Price

Enter your Final Price

I agree to the conditions specified in the agreement.

I Accept the Terms of the Privacy Policy

Submit as Farmer
Submit as Contractor/Buyer

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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