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14. Contract Farming

Shital P. Shinde

Assistant Professor of Agricultural Economics,
Shri Vaishnav Institute of Agriculture,
Shri Vaishnav Vidyapeeth Vishwavidyalaya,
Indore M.P.

Tawale Jayashri B.

Assistant Professor of Agricultural Economics,
College of Agriculture, Osmanabad,
Vasantrao Naik Marathwada Krishi Vidyapeeth,
Parbhani, Maharashtra.

Rajni Solanki

Assistant Professor of Horticulture,
Shri Vaishnav Institute of Agriculture,
Shri Vaishnav Vidyapeeth Vishwavidyalaya,
Indore, M.P.

Abstract:

Contract farming is becoming more popular as a means of securing food supply chains and boosting regional agriculture industries. Governments hoping to increase food security and export potential frequently promote this approach. Contract farming is a contract between producers (farmers) and purchasers(buyers) which states that the farmer will supply a product in a given quantity at a predetermined price.

Globalization has made it more and more pertinent in emerging nations. The quality, grade, and other requirements that the farmer must fulfil are frequently included in the agreement. It promotes economic expansion and sustainable farming methods by providing a win-win situation for both buyers and farmers. Contract farming activities are governed by more lucid legal frameworks and regulations in many developing nations. The Model Contract Farming Act, 2018 was recently issued in draft form by the Ministry of Agriculture in India. In India, contract farming typically involves a broad range of crops. It is especially common in the production of cash crops including tobacco, cotton, and sugarcane. Vegetables, fruits, and spices are examples of high-value, export-oriented commodities that have shown a noticeable increase in recent years. In India, contract farming is not widespread, some states Punjab, Haryana, Gujarat, Maharashtra, and parts of Southern India are more known for it than others because of their agricultural infrastructure, regulatory frameworks, and agribusiness firms. In order to guarantee a consistent supply of agricultural products and a stable market for farmers, contract farming can be a useful strategy for balancing the interests of buyers and producers.

Keywords:

Contract farming, globalization, supply chain, export.

14.1 Introduction:

In developing nations, contract farming is becoming more popular as a means of securing food supply chains and boosting regional agriculture industries. Governments hoping to increase food security and export potential frequently promote this approach. Contract farming is a contract between producers (farmers) and purchasers(buyers) which states that the farmer will supply a product in a given quantity at a predetermined price. Globalization has made it more and more pertinent in emerging nations. The quality, grade, and other requirements that the farmer must fulfil are frequently included in the agreement. This approach benefits both sides because it gives the buyer a consistent supply of agricultural products at predetermined prices and the farmer a guaranteed market and revenue. It promotes economic expansion and sustainable farming methods by providing a win-win situation for both buyers and farmers. In accordance with the agreement, the producer may sell the agricultural produce to the buyer at a particular price in the future. The producer can lower the risk of fluctuation of market prices and demand by using contract farming. The purchaser may reduce the chance that high-quality food won't be available. It may merely consist of a straightforward purchase transaction, or it may include input supply or even more. Agribusiness companies in India are beginning to use it as a major method of obtaining raw materials because of advancements in agricultural marketing, dietary preferences, and agricultural technology in the current economic climate. Several large corporations and agribusinesses are involved in contract farming in India. Companies like PepsiCo, ITC, Mahindra Agribusiness, and Reliance Fresh have massive contract farming agreements to secure supplies of agricultural products that are crucial to their business models. For farmers, the primary benefit of a contract is that the sponsor can usually agree to buy all produce grown, as it meets the quality and quantity requirements. This is a significant effort to lower transaction costs by creating connections between farmers and processors in addition to the current channels that connect farmers with consumers. Additionally, contracts offer farmers access to a variety of administrative, technical, and extension services, among other things. Particularly in developing nations, contract farming is regarded as an inventive economic strategy that facilitates the connection between buyers and producers of agrifood. Therefore, to ensure that both parties abide by the terms of the contract, the government should establish a monitoring system and a dispute resolution body.

14.1.1 Potential benefits for Producers:

- availability of reliable markets as well as perhaps new ones
- availability of modern farming inputs like seeds, fertilizers, and technology, as well as technical, financial, and other services
- potential for growing new crops
- better risk management and production planning
- increased commercialization of agricultural activities
- capacity building via training, extension services, and hands-on learning

- more stable or enhanced income via guaranteed pricing, increased productivity, lower risks, etc.

14.1.2 Potential Benefits for Buyers:

- greater efficiency and competitiveness.
- greater control over production with a more dependable and efficient supply of agricultural goods that satisfy desired quality, quantity, and other standards.
- the removal of obstacles pertaining to productive resources
- decreased transaction and operating costs
- improved public relations and reputation
- decreased production and supply risks.

14.2 Framework of Contract Farming:

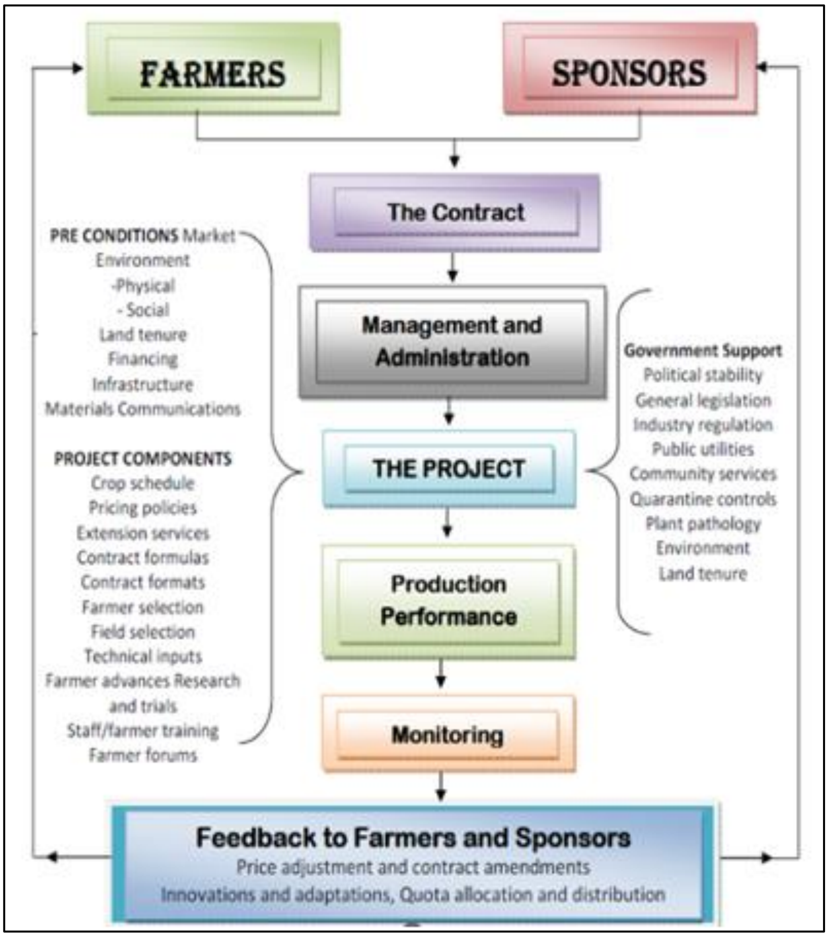

Figure 14.1: Framework of Contract Farming

Source: Harish, N. (2020) "Swot Analysis and Suggestions, Opinion of Respondents on Contract Farming." Shanlax International Journal of Commerce, vol. 8, no. 1, 2020, pp. 31–37

14.3 Models of Contract Farming:

Contract farming activities are governed by more lucid legal frameworks and regulations in many developing nations. These regulations were designed to protect the interests of businesses and farmers alike, guaranteeing honest business operations and lessening the possibility of conflicts.

The Model Contract Farming Act, 2018 was recently issued in draft form by the Ministry of Agriculture in India. The goal of the draft Model Act is to create a framework of regulations and policies for contract farming. Since contracts are included by the Constitution's Concurrent List, state legislatures may pass laws pertaining to contract farming based on this proposed Model Act. Some of the structure models of contract farming are as follows,

Table 14.1: Structure Models of Contract Farming:

Structure–Model	Sponsors	General Characteristics
Centralized	Private corporate sector State development agencies	Direct contract farming. Famous in many creating nations for high esteem crops
Nucleus estate	State development agencies Private/public plantations Private corporate sector	Direct contract farming. Prescribed for tree crops, e.g. oil palm. Prevalent for resettlement plans. Promise to give material and the board contributions to farmers
Multipartite	Sponsorship by different association, e.g. State advancement offices State marketing authorities Private corporate sector Farmer cooperatives	Common join venture approach. Except if brilliant coordination between patrons, inside administration troubles. Normally contract responsibility to give material and the executives contributions to agriculturists.
Informal developer	Entrepreneur's Small companies	Not direct farming. Common for short-term crops' i.e. new vegetables to wholesalers. Contract on a casual enrollment or verbal premise.
Intermediary	Private corporate sector	Sponsors are for the most part from the private division. Sponsors control material and specialized information shifts generally. At time supports are unconscious of the training when unlawfully done by substantial agriculturists

Source: Charles Eaton and Andrew W. Shepherd (2001), Contract farming partnership for growth, FAO Agricultural Service Bulletin 145, page no, 49.

14.4 Advantages of Contract Farming:

- **Guaranteed Market**: Farmers are less vulnerable to the vagaries of supply and demand since they have a buyer for their produce.
- **Lower Risk**: Since prices are usually set before the planting season starts, a large portion of the market and pricing risk is shifted from the farmer to the buyer.
- **Access to technologies and Inputs**: Farmers frequently have access to high-quality seeds, fertilizers, and modern agricultural technologies that would not otherwise be available or cheap.
- **Technical Guidance**: The buyer, who has an interest in seeing to it that farmers yield the finest crop possible, frequently provides technical support as part of contract farming agreements.
- **Better financing Access**: Farmers may find it simpler to get financing from financial institutions if they have a contract in place.
- **Greater Income Stability**: Fixed prices and guaranteed sales can provide farmers with a more consistent revenue stream, which can relieve the burden of financial planning.
- **Efficacy Gains**: New production techniques brought about by contract farming may result in increased yields and superior-quality produce.

14.5 Disadvantages of Contract Farming:

- **Dependency on the Buyer:** If a buyer terminates the contract, farmers may find themselves too reliant on them for their revenue.
- **Exploitation Risks:** When negotiating contracts, there may be an imbalance of power, especially between major firms and smallholder farmers. Unfair contract terms or exploitative actions may result from this.
- **Reduced Autonomy**: Since farmers must adhere to the norms and specifications established by the buyer, they may have less control over their own farming methods.
- **Market Isolation:** Because prices are pre-agreed, farmers may be cut off from market signals, such as price hikes for their products, which could result in their losing out on higher market rates.
- **Contract Enforcement**: Small-scale farmers might not have the means or expertise to successfully enforce contracts through the legal system in the event of a dispute.
- **Production Risk:** Farmers often bear the risk of crop failure due to disease or unfavorable weather conditions, whereas market risks associated with price swings are reduced.
- **Over-Reliance on Single Crop:** A lack of diversification may result from contract farming's frequent concentration on a single crop. This strategy may worsen soil health and make the land more susceptible to diseases and pests that affect agriculture.

14.6 Extent and Range of Contract Farming in India:

In India, contract farming typically involves a broad range of crops. It is especially common in the production of cash crops including tobacco, cotton, and sugarcane. Vegetables, fruits, and spices are examples of high-value, export-oriented commodities that have shown a noticeable increase in recent years. In India, contract farming is not widespread. Some states—Punjab, Haryana, Gujarat, Maharashtra, and parts of Southern India—are more known for it than others because of their agricultural infrastructure, regulatory frameworks, and agribusiness firms. Here are some insights into the prevalence and nature of contract farming in key Indian states:

Table 14.2: Nature of contract Farming and key players

State	Crops	Nature of contract Farming and key players
Punjab	wheat, paddy, potatoes, and basmati rice	Punjab has a robust infrastructure for contract farming, supported by relatively more significant landholdings and a progressive farming community. Companies like PepsiCo for potatoes and various other corporations for basmati rice.
Haryana	wheat, paddy, sugarcane, and vegetables	The state government actively promotes contract farming as a means to ensure stable incomes for farmers.
Maharashtra	Cotton, sugarcane, soybean, and a wide range of fruits and vegetables.	Contract farming here often ties into the state's large agro-processing industry
Gujarat	Cotton, castor, and high-value crops including vegetables and fruits.	Gujarat has experimented with contract farming in various sectors, including dairy through cooperatives like Amul.
Karnataka	Coffee and spices, with significant contract farming in the plantation sector.	Large multinational corporations and local companies engaged in the export of coffee and spices
Andhra Pradesh & Telangana	Cotton, chilli, turmeric, and tobacco.	These states have been involved in efforts to formalize contract farming to reduce risks for farmers.
Tamil Nadu	Poultry, dairy, and horticultural crops like bananas and papaya	Contract farming here is often integrated with support from state agricultural universities and government initiatives.
Uttar Pradesh	Sugarcane, potatoes, and vegetables	UP has extensive contract farming linked to its large sugar industry and also sees significant contract farming operations by companies like PepsiCo.
West Bengal	Tea, potatoes, and vegetables.	Contract farming in tea has historical roots, and new ventures are exploring vegetable and other cash crops.

State	Crops	Nature of contract Farming and key players
Kerala	Spices, rubber, and coconuts.	The focus is often on sustainable and organic contract farming due to high demand for these products in international markets

14.7 Examples of Contract Farming prevalent in India:

In India, contract farming has produced a wide range of results in different agricultural areas. These examples cover different crops and clarify how contract farming is directed in practice, promoting both farmers and buyers within the Indian context.

A. PepsiCo and Potato Farming:

PepsiCo India mostly engages in contract farming to grow a particular type of potato that is utilized in their snack goods, such as Lay's chips.

They provide farmers with high-yielding potato seeds and farming technique expertise, ensuring consistency and quality of supply. PepsiCo guarantees farmers a buy-back at pre-agreed pricing in exchange for reducing their market risks.

B. Soybeans and e-Choupal from ITC:

In 2000, the Indian multi-business conglomerate ITC Limited launched the e-Choupal program. It focuses on building a physical and digital infrastructure to support Indian states' soybean growers.

Farmers can access market prices, agricultural intelligence, weather forecasts, and transparent pricing by selling directly to ITC through e-Choupal, thereby reducing the impact of intermediaries.

C. The Shubh Labh Services of Mahindra:

Via its agriculture division Mahindra & Mahindra engaged in contract farming, offering services for the production of grapes, pomegranates, and a range of vegetables. They enable farmers access modern agricultural trainings and secure incomes by providing them with seeds, fertilizers, and expertise, as well as by ensuring the buy-back of the produce.

D. Poultry farming and Suguna Foods:

One of the biggest chicken companies in India, Suguna Foods, contracts with small-scale farmers to grow chickens. This concept gives farmers access to inputs like feed, chicks, veterinary care, and operational direction, all while helping the corporation maintain a consistent supply of chicken. Suguna guarantees the procurement of mature birds at prices determined by the market.

E. Contract Farming for Dairy by Amul:

A well-known dairy cooperative in India called Amul works with dairy farmers through a kind of contract farming agreement. This strategy incorporates the provision of veterinary services, feed, and healthcare items, but it is not "farming" in the classic sense of growing crops. Farmers guarantee a steady market at set pricing by agreeing to sell milk only to Amul.

F. Coffee Plantations and Tata Coffee:

In order to produce coffee, Tata Coffee engages in contract farming with tribal farmers in places like Andhra Pradesh. Farmers sell their produce back to Tata, which processes and markets the coffee worldwide, in exchange for the corporation providing the seedlings, support, training, and cultivation tools necessary for coffee cultivation.

G. Reliance and Horticulture:

Reliance Retail has ventured into contract farming to secure fresh produce for its retail outlets. By working with farmers to cultivate fruits and vegetables, they reduce the risk that comes with price changes for the farmers by offering seeds and knowledge along with a guarantee to buy the harvest at predetermined pricing.

These examples demonstrate how contract farming in India has evolved to meet the demands of the agricultural industry, embracing contemporary farming methods and offering farmers security and assistance while guaranteeing supply and quality for consumers. Additionally, this strategy facilitates the integration of Indian farmers with international markets, particularly when the contracting firm exports the goods.

Although it has its share of difficulties and challenges, contract farming in the agriculture industry may be a very successful strategy for both producers and purchasers. Undertaking a SWOT analysis, which entails identifying strengths, weaknesses, opportunities, and threats, can facilitate comprehension of the workings and possible ramifications of contract farming agreements.

Table 4.3: SWOT Analysis

Strength:	**Weaknesses:**
• Risk Reduction • Technology and Input Access • Access to the Market • Standardization and Quality Control • Monetary Assistance	• Dependency on a Single Purchaser • Limited Flexibility • Possibility of Unfair Practices • Enforcement of Contracts • Economic Pressure

Opportunities:	Threats:
• Entry into Emerging Markets • Innovation and the Progression of Technology • Ecological Methods • Collaboration & Partnerships • The process of diversification	• Dynamics of the Market • Policy and Regulatory Modifications • Changing Climate • Stability in the Economy • Social and Moral Issues

- **Way Forward:**

Going forward, the expansion and effectiveness of contract farming in India are anticipated to be greatly impacted by the role that technology and advances in digital agriculture (such as blockchain for improving transaction transparency and drones and IoT for precision agriculture) will play in the field.

Moreover, contract farming may be essential to accomplishing the government's goals of increasing farmers' earnings and guaranteeing more sustainable farming methods. Researchers and analysts frequently depend on industry assessments from significant consulting firms and market research providers, or on specialized agricultural reports from government organizations such as the Ministry of Agriculture, for the most precise and comprehensive data. These resources can provide in-depth analyses of contract farming's current situation, taking into account its effects on the economy, production statistics, and farmer outcomes.

14.8 Conclusion:

Contract farming is a contract between producers (farmers) and purchasers(buyers) which states that the farmer will supply a product in a given quantity at a predetermined price. Globalization has made it more and more pertinent in emerging nations. In India, contract farming has produced a wide range of results in different agricultural areas. These examples cover different crops and clarify how contract farming is directed in practice, promoting both farmers and buyers within the Indian context. In order to guarantee a consistent supply of agricultural products and a stable market for farmers, contract farming can be a useful strategy for balancing the interests of buyers and producers.

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