CONTRACT FARMING: WHERE WE GAIN AND LOSE?

R. Saravanan and N.S. Shivalinge Gowda***

Indian agriculture is facing a complex situation in this globalization and liberalization era, than ever before. Farm sector's contribution to National GDP is declining over the years. However, two thirds of the population still depends on agriculture. Further, in this post-economic reform period agricultural sector growth has declined. It clearly indicates that, Indian economic reform process has not boosted the agriculture sector. Enhancing agricultural growth to targeted 4 per cent becomes a very difficult task. Some of the related issues that affect the growth of agricultural sector and implications of contract farming in India are discussed below.

Indian Agriculture – Critical Issues

Farm technology transfer

India's public extension service is one of the world's largest downward network system (Sulaiman and Gadewar, 1994) with 1,10,000 extension staff (Chandrashekara, 2001). However, the performance of public extension service is generally far from satisfactory. In India, there is alarming knowledge - practice gap in agriculture. It is estimated that, only 30 per cent of the available technologies are adopted by farmers (Hansra and Adhiguru, 1998).

Farm inputs

Lack of timely and adequate supply of inputs such as, seeds, fertilizers and plant protection chemicals, supply of poor quality seeds and adulterated pesticides have been at the center of the problems faced by rural Indian farmers in Andhra Pradesh state (India) which has led to suicides by some farmers (Anonymous, 2001).

* *Ph.D. Scholar, Department of Agricultural Extension, University of Agricultural Sciences, GKVK, Bangalore-560065*

** *Associate Professor, Department of Agricultural Extension, University of Agricultural Sciences, GKVK, Bangalore-560065*

Seasonal production

India is the world largest producer of banana, mango, coconut and cashewnut. Further, second largest grower of rice, wheat, fruits and vegetables (Shaji, 2001) and the third largest producer of food after China and United States. Farm production in India normally witnesses the cyclical gluts, inelastic produce demand and high perishability of the commodities. Further, crop production is taken-up in larger area during monsoon season, leading to a glut in markets and farmers do not getting commensurate remuneration (Anonymous, 2001).

Market information and intelligence

Recent scenario in Indian agriculture indicates that information about new opportunities in the market is as important as information about new production technologies (Saravanan and Chakravarthy, 2000). Generally, Directorate of Economics and Statistics (DES), Ministry of Agriculture of Government of India generates the requisite data after unconscionable lapse of time. The dismal situation is compounded by delayed generation of reliable data on crop estimates by the Government which renders its market intervention ineffective (Prem Singh Dahiya, 2001).

Storage and post harvest processing

In India, much attention is not paid to reduce post harvest losses of what is produced. Cold storage capacity is only 10.30 million tonnes. Out of 3443 cold storage units, only 165 units belong to public sector (Basma Hussan, 2000). Post harvest processing could not match with the pace of agricultural production, perhaps due to lack of required emphasis. Consequently, the post-harvest losses cntribute to 65 million tonnes valued at Rs.75,000 crores, continues to be high even today. About 10 per cent of food grains amounts to 20 million tonnes per year, which is roughly the amount of food grain Australia produces annually (Rohit Saran, 1999). About 20-30 per cent of horticultural crops produced in India is wasted annually, which is more than what the United Kingdom consumes in a year (Rohit Saran, 1999). Loss prevention and value addition is lacking.

Government policy support

Crop failure due to natural calamities and very low prices for agricultural produce due to market gluts are not adequately addressed by the State and Central Governments through comprehensive minimum support price and crop insurance scheme. Hence, for Indian farmers, farm sector is very much insecure. In Andhra Pradesh state (India) farmers are selling organs such as kidneys to repay their debts (Sharad Joshi, 2000). There is no strong institutionalized credit support for farmers.

WTO and Indian farmers

In India a large number of farmers are small and marginal farmers with high lend of illiteracy. Farmers have limited access to market information & intelligence, lack of market infrastructure, inadequate storage and transport facilities with weak farm extension services which has lead to limited scope for Indian farmers to compete in the free global market. The abolition of quantitative restrictions on the import of dairy and poultry products and the dumping of edible oil in Indian markets have disturbed the cropping patterns and living standards. The government appears to be only willing to impose and hike import duties. These policies might offer short-term relief but are bound to affect free trade adversely and consequently the long-term interest (Sharad Joshi, 2000).

Vast agro-climatic diversity, production potential, cheap farm labour availability and domestic and overseas market potential of India (Shaji, 2001) provides greater scope for private sectors' participation. Interestingly, in the recent past, private agri-business firms and Multi National Corporations (MNCs) have also received offers from State Governments such as Gujarat, Uttar Pradesh, Maharashtra, Karnataka and Tamil Nadu for contract farming (Balaji, 1999; Srinivas, 1998). National Agricultural Policy of India also favours private sector participation through contract farming arrangements (Anonymous, 2000). In this existing scenario, Multi National Corporations (MNCs), agri-business firms and processing industries are entering in to agricultural sector in a big way for contract farming in India.

Contract farming

Contract farming refers to contractual arrangements between farmers and companies whether oral or written, specifying one or more conditions of production and or marketing of an agricultural product (Ramesh, 1999).

MNCs such as PEPSI Foods Ltd. of Pepsico India holdings, which ushered in a revolution in growing tomato, potato and chillies through contract farming in Punjab, proposes to experiment with Basmati Rice, Pulses, Garlic and Groundnut (Chakravarthi, 1999; Krishan Gabrani, 1996). Further, after Canadian companies are interested in coming to India and after liberalization, these firms are keen on doing agri-business in India (Prasenjit Bhattacharya, 1998).Some of the business firms in India that are reportedly keen on investing in the farm sector include Reliance Industries and Chennai based Murugappa Group (Hindu, 2001).In Karnataka State, cultivators are growing tomato for Hindustan Lever Ltd. (Kissan) and gherkins for Sterling Agro-Product Processing Pvt. Ltd. In India, Gherkin cultivation was initiated by Oceania Peninsular Pvt. Ltd. in the nineties on an experimental basis. From 1992 onwards, the commercial cultivation of gherkin was started. At present some 20 company mainly Export Oriented Units (EOUs) are engaged in cultivation of gherkins. It is cultivated mainly in the Southern states of India, namely Karnataka, Tamil Nadu and Andhra Pradesh (Subramanyam, 2000). Apart from this many multinational corporations, agri-business firms and agri-processing industries are keen to do agri-business with Indian farmers through contract farming. In the recent past, private sector participation in Indian agriculture has become a debatable issue.

Implications of Contract Farming

Some of the research studies, experiences of contract farmers and experts opinions which forecast desirable effects of contract farming to Indian agriculture are briefed below.

Advantages of contract farming:

Economic Security to Farmers

Contract farming system provides assured price for agricultural produce.

Contract farming by Pepsi in Punjab and Hindustan Lever Limited (HLL) Karnataka state reveals that, better and reliable assured income through contract farming was opined by the growers (Sukhpal Singh, 2000; Subramanyam, 2000). Contract farming reduces the risk and uncertainty in the commodity price fluctuation. Growers are ensured stable and sustained market for their produce (Arunajatesan, and Balaji, 1999).

Effective Technology Transfer

Contract farming provides effective technology transfer to farmers. Case study on tomato contract farming in Punjab reveals that, it provides new and better farming skills and better soil management practices. Continuous extension work ensured new varieties were adopted soon and grew successfully (Sukhpal Singh, 2000). Pepsi Ltd. extension staffs frequently inspect and contract farmers are educated at farmers training camps with a variety of teaching methods (Sukhpal Singh, 2000). The case study on gherkin contract farmers by Hindustan Lever Limited (Kissan) in Karnataka state, gherkin contracts in Tamil Nadu and tomato contracts in Punjab state shows that, technical guidance regarding plant protection and harvesting is given by field officers (Subramanyam, 2000; Ramesh, 1999a; Sukhpal Singh, 2000a).

Timely Input Supply

For successful contract farming, ensuring quality inputs at appropriate time is crucial. In contract farming, corporates give farmers access to inputs like high yielding seeds, new plant breeds, better quality fertilizers and pesticides (Nirmal Sandhu, 1998; Arunajatesan and Balaji, 1999). Contract farming in Punjab, Karnataka and Tamil Nadu reveals that the concerned companies are supplying the needed seeds and seedlings to the farmers. This in turn reduces the operational capital of the farmers.

Infrastructure Facilities

Corporates in contract farming will develop efficient storage and transport facilities, cutting down on wastage. Besides, the corporate sector will add value to the farm produce by setting up processing units (Nirmal Sandhu, 1998). Corporates will make increased investment in infrastructure development.

Investment on Agricultural Research and Development

India's public investment in agricultural research has been stagnating at 0.32 per cent of total agricultural GDP for the last two decades (Manmohan Attavar, 1998). Participation of private sector in Agriculture Research and Development will complement the public sector research.

Efficient and Effective National Agricultural Production System

Corporatization of agriculture through contract farming can have many long term benefits; better allocative efficiency, higher private investment, an increase in output, income and exports, and a higher multiplier effect leading to the creation of wealth in rural India (Nirmal Sandhu, 1998). Further, increased productivity and production leads to reduced cost of production, increased investment in down stream projects like processing facilities, expansion of value added product market domestically and internationally (Balaji, 1999). It undoubtedly ensures higher food output, higher income and higher exports (Sachinsaksena, 1998). Being a labour intensive industry, the growth of agro-processing units (because of contract farming) will lead to increased employment opportunities. All put together, contract farming ensures an efficient and effective agricultural production system.

However, there is hue and cry about for the emergence of contract farming system in India, some of those issues raised by the scholars and activists protesting against the issue have been briefly discussed below.

Limitations of Contract Farming

Creates regional and socio-economic imbalance

In India, more than 75 per cent of the operational holdings are small and marginal (with less than 2 hectares). About 58 per cent of the holdings are less than one hectare in size. With the increase in population, and the increased pressure on land holdings, the marginalization of the holdings is on the increase (Sulaiman and Gadewar, 1994). This may not provide much scope for contract farming by corporates, because they are planning to mechanize the farming sector. Small and marginal farmers may not be able to meet the huge expenditure on inputs as recommended by corporates in contract farming. Contract farming by MNCs and Agro-Processing Industries favours only areas having favourable agricultural resources such as, sufficient water and fertile soil. They will not venture in investing rainfed, resource poor and unfavourable environments. Considering India's vast rainfed area, contract farming will create a socio-economic imbalance.

In Punjab, contract farming reinforces the practice of reverse tenancy as large and small farmers lease the land of small and marginal farmers for contract production as they can afford large input costs and take the risk of crop failures.

Farmers decision-making role is likely to be reduced

Because of contract farming, farmers may lose their independent decision making and management capability in farming. Adoptions of new technologies and input decisions are taken at company level. In due course of time, contract farmer will make fewer and fewer decisions, to the extent to reduce themselves to the status of industrial workers (Ramesh, 1999a).

Insecurity and problems

From the experiences of contract farming in Punjab, contract farmers complained about problems of high cost of transportation, delays in payment, vulnerability of crop failure and deduction in price for poor quality (Ajit Kumar Singh, 2001). Even some companies (HLL, Bangalore, Karnataka) have not been able to procure from the farmers many a times especially when they over contract acreage and the yields were good (Subramanyam, 2000).

Generally, corporates are more profit oriented. Study on gherkin contract in Bangalore district of Karnataka state (India) reveals that, processing firms provided less price to farmers produce as compared to competitive environment (Subramanyam, 2000). They try to get profit as much as possible.

Contract farming has created a new set of middlemen. Some of the agro-processing units employ agents for contract farming with farmers. The agents act as middlemen and keeps a margin and pay a lower price to the cultivators. A case analysis on tomato contract farming by Hindustan Lever

Limited (Kissan), Karnataka state (India) reveals that, the firm recognized some agents for procuring produce from farmers. The agent pays a uniform price of Rs.1.40/kg to the cultivators, as against the price offered by the factory of Rs.1.80 to 2.20 per kg depending upon the season, thus keeping a margin of Rs.0.40 to Rs. 0.80/kg (Subramanyam, 2000).

Unsustainable farm practices

Commercial interest of contract farming will jeopardize achieving and practicing sustainable farming. Repeated cultivation of the same crop without rotation can lead to a variety of soil hazards, which have been reported in many situations in the contract farming of tomatoes. In fact, sometimes the land becomes unfit for any kind of crop cultivation (Glover David and Kusterer Ken, 1990). After exploiting farm resources with in a short period, contractors may release the farmers from contract farming. Contract farming in Punjab also revealed that, corporates are recommending and using higher doses of pesticides and fertilizers.

Food security of the Nation will be at stake

Corporations will concentrate only on high value crops such as, horticultural crops and other cash crops (Anonymous, 2000). Food grain production and processing may not attract private investment. But on the contrary, Pepsi Food Ltd. entered in to a rice contract farming in India. However, it is more of an export-oriented venture to produce "Basmati" rice (Chakravarthi, 1999). Increased emergence of corporates in contract farming will disturb the food security of the nation.

Conclusion

Considering the Indian agriculture scenario and issues such as disappointing technology transfer, problems in supplying timely and quality farm inputs, market gluts and lack of infrastructure development, lack of appropriate government policy support and challenges in WTO, the era calls for increased private sector participation. Further, whether we like it or not, in recent years private sector is increasingly entering the farm sector, which is unavoidable.

Even though, contract farming by private sector may cause some undesirable implications in Indian agriculture, it can be reduced through appropriate policy measures like

i. Making contract farmers become stake holders of the company (like board members of the corporate, shareholders etc.,)

ii. Involving local organizations for contractual arrangements (the village farmers' co-operative societies, farmers associations, panchayats, local NGOs etc.)

iii. Creating awareness about the benefits of contract farming among farmers

iv. Educating farmers about sustainable agricultural practices

v. Compensation for crop failures due to natural calamities and poor quality inputs in contractual arrangements

vi. Ensuring sufficient area under food grain production (through providing minimum support price, crop insurance scheme, appropriate technology transfer etc.)

vii. Monitoring the activities of contract firms by Government and or local institutions

viii. Plant protection and fertilizer recommendations of contract firms should be authorized by public research institutions

ix. Small, marginal farmers and rainfed agricultural production are to be given more priority by Government developmental departments

Even in this era of globalization and liberalization, for a majority of the rural Indian farmers, agriculture is *'not a business'*. It is *'a way of life'*. They are emotionally attached to their land and farming is the sole source of livelihood for millions of rural farmers. Considering the advantages and disadvantages of contract farming, it needs to be encouraged with utmost caution and appropriate policy measures

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