

## Problems and Prospects of Contract Farming in India

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### SUMMARY

The future of contract farming in India is quite promising due to increasing consciousness about food safety and quality among the rising middle class population and the quality demands of the export market in the developed countries. Common problems includes farmers selling to a buyer other than the one with whom they hold a contract, or using inputs supplied by the company for purposes other than intended. From the other side, a company sometimes fails to buy products at the agreed prices or in the agreed quantities, or arbitrarily downgrades produce quality. The existence of an adequate legal framework is thus crucial for the successful implementation and long-term sustainability of contract farming operations.

### INTRODUCTION

Contract farming is an agreement between farmers and the processing units and/or marketing firms for the production and supply of agricultural products under forward contract, at pre-determined prices. This arrangement constantly involves the purchaser in providing a degree of production support, for example, inputs supply and the provision or the firm of technical advice. The strength of the contractual arrangement varies according to the depth and complexity of the provisions of market provision, resource provision and management specification to follow the recommended method of inputs systems, production, and specifications related to cultivation and harvesting. This approach is widely used, not only for the cash crops but, also, for the production of fruits and vegetables, poultry, pigs, dairy and even prawns and fish. It is becoming an increasingly important aspect of agri-business, whether the products are purchased by government agencies, multinationals companies, smaller companies, farmer cooperatives or individual entrepreneurs. There has been contract in various crop segment by the companies depending on their domestic or export market requirement like food grain ,fruits, vegetables ,spices, tea and coffee and other products which has export potentiality (Source: Prasad, 2016).

### Advantage of Contract Farming

The main advantage of contract farming for farmers is that the sponsor can ordinarily in agreement to purchase all produce grown, within particular quantity and quality parameters. Contracts also give a chance for farmers to access a wide range of managerial, technical and extension services etc.

- 1.Provision of better inputs and production services: In addition to the supply of basic inputs such as seeds and fertilizers. Sponsors may also provide facilities such as land preparation, field cultivation and harvesting as well as free training and extension services to the farmers.
- 2.Easy access to Credit: Contract farming sometime allows farmers access to some type of a credit to finance production inputs. Arrangements can also be made with commercial banks or government agencies through crop loans that are guaranteed by the sponsor, i.e. where the contract serves as collateral.
- 3.Application of better technology: Private agri-business will usually offer technology more conscientiously than government agricultural extension services because it has a direct economic interest in improving farmer's production.
- 4.Improvement in skills of the farmers: Farmers will gain experience in carrying out field activities following a strict timetable imposed by the extension service.. Farmers ordinarily apply techniques introduced by management (ridging, fertilizing, transplanting, pest control, etc.) to other cash and subsistence crops.
- 5.Guaranteed Pricing System: Farmers receive return an open market depends upon the predominant market prices further as on their ability to discount with consumers for their crops.
6. Easy access to reliable market: Contract farming offers a possible solution to the present situation by providing market guarantees to the farmers and insuring supply to the traders. Even wherever there are existing shops for similar crops, contract farming can offer considerable advantages to farmers.

**Advantages for sponsors:**

1. **Political Acceptability:** Contract farming, particularly when the farmer is not a leaseholder of the sponsor, is less likely to be subject to political criticism. It can be more politically expedient for a sponsor to involve smallholder farmers in production instead of to control plantations.
2. **Overcoming barriers on land restrictions:** In present days most of the large tracts of suitable land are either traditionally owned, costly to purchase or unavailable for commercial development. Contract farming, therefore, offers access to crop production farm land that will not well be available to a corporation, with the extra advantage that it does not get to purchase it.
3. **Production consistency and shared risk:** Working with contracted farmers facilitates sponsors to share the risk of production failure because of the poor weather, disease, etc. Both estate and contract farming strategies of getting raw materials are significantly more reliable than making purchases on the open market.
4. **Quality assurance:** A steady markets for fresh and processed agricultural produce need reliable quality standards. Both estate and contracted crop production require close management to regulate and maintain product quality, particularly when farmers are new with innovative harvesting and grading methods.

**Problems of contract farming**

The potential problems as confronted by the farmers due to Contract Farming are given below.

1. **Possibility of greater risk:** Farmers who were entering into a new contract farming venture ought to be prepare themselves to assess the prospect of higher returns against the possibility of larger risk. There might be production risks, particularly where prior field tests are inadequate, leading to lower-than-expected yields for the farmers. Market risks might occur once when the company's forecasts of market size or price levels aren't accurate
2. **Outdated technology and crop incongruity:** The introduction of a new crop to be fully grown under conditions particularly controlled by the sponsor will cause disruption to the present farming system. On the other hand, the introduction of advanced machines (e.g. for transplanting, harvesting) might lead to a loss of local employment and overcapitalization of the contracted farmer.
3. **Maneuvering in quotas and quality specifications:** Incompetent management will lead towards production exceeding original targets. For example, failures of field employees to see fields following transplanting may result in gross over planting. Sponsors can also have unrealistic expectations of the market for their product.
4. **Corruption:** Problems occurs when employees responsible for issuing contracts and buying crops taking undue advantages of their position. In a large contract, the sponsors will themselves be dishonest or corrupt. Governments have sometimes fallen victim to dubious or "fly-by-night" corporations who have seen the chance for a quick profit.

**The possible problems as confronted by the Contract Farming Developers are as below**

1. **Limitation on land availability:** Difficulties may be arising when sponsors lease land to farmers. Several contract farming ventures are dominated by customary land practice arrangements negotiated by landless farmers with traditional landowners. Before signing a contract, the sponsor should make sure that access to land is secured, for a minimum term of the agreement.
2. **Social and Cultural constraints:** In communities where custom and tradition play an important role, difficulties might arise when innovative farming is introduced. Hence, before introducing new cropping practices, sponsors should consider the social attitudes and the traditional farming procedures of the community and judge how a new crop may be introduced.
3. **Below quality agro-inputs:** Majority of farmers adapt to the agreement once they have the data that contract has the benefits of technical inputs, cash advances and a secure market. However, until a project is very poorly managed, input diversion is typically an infuriation rather a serious problem.
4. **Sale of crops by the farmers beyond contractual agreement:** This happens when non-contracted farmers take benefit of higher prices paid by a well-known sponsor. Non-contracted crops are filtered into the buying system by outside farmers through friends and family who have crop contracts. Such types of practices make it difficult for the sponsor to regulate production targets, chemical residues and many other quality aspects.

### Prospects of Contract Farming

With the growing population, the demand of food products is increasing day by day which will only fulfill when supply meet the demand but in our country due to lack of technical and technological knowledge and also financial scarcity of farmers, the supply does not meet out the demand. Thus, to overcome from this problem, contract farming is the best solution as it provides high yielding variety (HYV) seeds, labor, and machinery and also introduces new technology that enables the farmer to learn new skills of farming which is responsible for production of quality and quantity product. It also helps in reducing price risk problem as the prices of commodities are already fixed in advance. Therefore, in order to overcome declining productivity and falling farm incomes, contract farming is best alternative.

### CONCLUSIONS

Contract farming is one of possible solution to establish an agrarian economy that ensures food and nutrition security to a billion of population. it is a viable alternative farming model in India, which can provide assured and reliable input services to the farmers and desired farm produce to the contracting firms. It also facilitates backward and forward market linkages that are foundation of commercial agriculture specially to solve many of the market access problems for small farmer. The contracting firms must consider physical infrastructure, telecommunications infrastructure, land availability and tenure, input availability, and social considerations However, in the present context; contract farming is clearly a win -win situation for both the companies and the farmers. The prospects of contract farming in India is fairly encouraging due to increasing consciousness about food safety and quality among the rising middle class population and the quality demands of the export market in the developed countries.

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