

CONTRACT FARMING: AN INNOVATIVE MARKETING MODEL

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ABSTRACT

Contract farming, has so far found a long history of being practiced commonly in both developed and developing countries for few recent years. The contract farming means future agreement between buyers and farmers in which farmers provide a product on agreed date and delivering quality products to the buyer at a predetermined price. This article critically reviews the literature of contract farming to assess the major countries in contract farming. It also identifies major crops and government act of contract farming in respected countries. This paper also focuses on major companies in contract farming operation in Maharashtra. The process of contract farming & supply chain of contract farming has been analyzed.

KEYWORDS: *Contract Farming, Acts, Major Companies, Process, Supply Chains*

INTRODUCTION

Marketing is the most important function in determining the success of any farming enterprise. Farming is a main mean of livelihood for Indians. However, there are only few options in which farmers are assured of a getting a market for produce. Farmers on occasion had to throw away their produce for want of buyers. This is one side of the coin; other side of coin is the availability of agri-based and food industry, which are ready to buy produce from farmers on timely and adequate quality agricultural produce. This underlying situation of the Indian agricultural scenario has given birth to the Contract Farming, which promises to provide a proper linkage between the farm and market.

Marketing includes all the operations and decisions made by producers for moving a product from point of its production to ultimate consumer. These decisions range from deter-mining the most marketable crops for production to deciding how to best deliver quality produce to the consumers at a profit. However, contrary to popular belief, marketing does not begin after a crop is produced. Instead, marketing alternatives need to be considered even before production takes place. Typically, contract firms enter into an agreement with farmers to grow differentiated crops. This turns the firm into a sole buyer and farmers into price-takers. Contracting firms can exploit this situation to their advantage by offering lower prices to farmers.

Contract farming is system of agricultural production carried out according to an agreement made between buyer and farmers, which establishes conditions for the production and marketing of a farm product. Typically, the farmer agrees to provide established quantities of a specific agricultural product, meeting the quality standards and delivery schedule set by the purchaser. In turn, the buyer commits to purchase the product, often at a pre-determined price.

Establishing farm-firm linkages is not only about providing assured markets, reducing risk, and ensuring 'remunerative' prices, but also providing critical services such as credit, insurance, grading and inspection, technology extension, and market information. These institutional services can help elevating the scale at which small holders can operate, raise their productivity and income, and mitigate the risks involved in participating in markets for high value horticultural, livestock, and fishery products.

OBJECTIVES

- To identify major companies of contract farming in Maharashtra
- To identify the supply chain of contract farming in India
- To understand the acts related to contract farming.

REVIEW OF LITERATURE

Rehber (2007) found that specialization in one of the stages of the agro-food chain can provide cost advantages. Therefore, coordination among the specialized firms through contractual arrangements or even open-market relationships may be more efficient than in ownership integration. A guaranteed market, easy access to credit facilities, and information are among the reasons for producers getting involved in contract. For integrators, the main reason is to provide a steady input supply with a guaranteed quality and quantity. Gole and Sharma (2009) suggested that for building an agrarian economy which would provide guarantee of food sufficiency and food security to a vast population, raw material for agro based industries, efficient surpluses for exports, and a just, even-handed, and reasonable rewarding system for the farming community, "commitment-driven", contract farming is important tool for feasible modern farming model that offers a reliable and consistent input service to farmers and delivers preferred farm produce to the contracting firms. Contract farming is used as a risk prevention tool for agriculture. For growing of contract farming support in terms of flexibility in legislation, offering effective mechanism to resolve conflicts between contracting parties, having an arbitration body for resolving conflicts and providing quality checking facilities are most essentials. Acharya and Agarwal (2016) stated that contract farming or contract marketing essentially is an arrangement between the farmer producers and the agri-business firms to produce certain pre-agreed quantity and quality of produce at a particular price and time. Contract marketing is beneficial both for the producer farmers as well as to the processing or contracting company in reducing the risk of price and ensuring the price as assured in market, increase the quality consciousness, reduce marketing cost, provide financial support in cash and kind and ensures timely technical guidance.

Singh (2002) identified different problems which affect contract vegetable production in Punjab in the state of India; those are imbalanced power between farmers and companies, violation of the terms of the agreements, social differentiation, and environmental un-sustainability. Nonetheless, this study also shows that most contract farmers have seen rise in incomes level and those are satisfied with the contract arrangement made with firm.

Tatlidil and Akturk (2004) concluded that farms operating by contract farming model utilize more input per unit area technological innovations and obtain greater yields of tomatoes per unit area. This study also shows gross margin of contract farming model farm is 13% while net profit is 19% higher when compared with non-contract farming model of tomato.

METHODOLOGY

The information required to prepare this paper is collected from various reports, documents and web site resources. The information is analyzed to illustrate the contract farming, describe the underlying concepts and generate lessons, ideas, and insights useful for developing and strengthening agriculture marketing through contract farming in our country. Simply, this paper is based on secondary data.

RESULTS AND DISCUSSIONS

Major Countries in Contract Farming

The following table indicates the major countries into the contract farming. This table also shows the major crops under the contract farming.

Table 1: Major Countries in Contract Farming with Major Crops

S. No.	Country	Major Crops	Govt. Act
1	USA (58% small farmers under contract)	Animal products, Corn and other Food grains, Cotton & Wool, Fruit & Tree Nuts, Rice, Soybeans & Oil Crops, Sugar & Sweeteners, Vegetables & Pulses, Wheat	Different states has different act for contract farming Example: Morocco
2	Myanmar	Rice, corn, sugarcane, groundnuts, sesame, sunflower, Mung bean, gram, fermented soybean, Dairy Products	Announced the operating procedures for contract farming both for farmer and companies
3	India (1–2 %)	Fruits, Vegetables, food grains, all cash crops, animal products	Modern contract farming act-2018
4	Pakistan	Oilseeds, cotton, sugarcane and horticultural crops.	NA
5	Brazil (75 % chicken industry under contract farming)	Sugarcane, Poultry, hogs, citrus, tobacco, fruits & Vegetables, Forest products and aqua products.	Brazilian Law on Contract Farming-2016
6	African Countries 100 per cent of paprika, tobacco and cotton 60 % tea & Sugar	Paprika, Tobacco and cotton, tea and sugar	NA
7	Russia	wheat, barley, sunflower seed, oats, potatoes and rye	Russian Civil Code
8	Philippines	Maize, tobacco and all table vegetables, major fruits like banana, pineapple,	Comprehensive Agrarian Reform Law (CARL) of 1988
9	Spain	Barley, wheat, rice, maize, citrus fruits and vegetables	The Law 2 / 2000 regulating standard contracts

Source: collected from different websites & research Paper (2020)

NA: Data not available

Growth of Contract Farming in India

For the first time Japanese government has started contract farming in Taiwan for sugar production. After that, US companies entered into contract farming in banana plantation in America. whereas in India Indian Tobacco Company (ITC) has introduced Virginia tobacco in coastal Andhra Pradesh in 1920's, which was its first entry into contract farming, for the first time in the country. After that, India has captured steady growth in contract farming. Most popular examples of

contract farming in India are tomato cultivation in Punjab, Haryana and Rajasthan by PepsiCo; Sunflower Vegetable seed production and gherkin production in Karnataka.

The Model Agricultural Produce Marketing (Regulation) Act circulated by the Central Government to the States in 2003 for implementing marketing reforms has provisions for the registration of Contract Farming sponsors and recording of Contract Farming agreements with the Agricultural Produce Marketing Committee (APMC) or a prescribed authority under the Act, protection of title or rights of the farmers over the land under such contracts, dispute settlement mechanism and a model draft agreement suggesting various terms and conditions.

Table 2 shows that major companies of contract farming work in fruits and vegetables in major districts of Maharashtra. Normally Potato, Tomato, Okra, Bottle guard, Chilly, Capsicum, Baby Corn, Onion, Gherkin, Pea are major vegetables grown in contract farming. The production of fruits like Grape, Pomegranate, Mango, Banana, Papaya, and Orange are major fruit crops in contract farming.

Table 2: Companies Under Contract Farming in Fruits and Vegetables

Sr. No	Companies	Operating States	Product
1.	Pepsico India	Punjab, Madhya Pradesh & Andra Pradesh	potato, tomato, groundnut and chili, Safflower, oil palm
2.	Jain Farm Fresh	Maharashtra	White Onion
3.	Mahindra Shublabh	Maharashtra	Many Crops
4.	Champagne (I) Ltd & many other wineries	Maharashtra	Winery grapes
5.	Tata Chemicals	Maharashtra	Table variety grapes
6.	Panchganga	Maharashtra	red onion
7.	Gargi Agribiotech	Maharashtra	Banana
8.	Varun Foods	Maharashtra	Tomato
9.	Ion Exchange Enviro Farms Ltd.	Maharashtra, TN, MP, Gujarat, Haryana,	Organic products of banana, potato, wheat, papaya, basmati, cotton
10.	Rallis	Maharashtra, Punjab, UP, MP, Karnataka	Fruits and Vegetables
11.	Bharti Del Monte	Maharashtra	Baby corn, sweet corn
12.	KAY Bee Exporters	Maharashtra and Gujarat	Pomegranate, Mango, Okra, Chilli
13.	Kulkarni Farm Fresh Pvt. Ltd	Maharashtra and Karnataka	Organic frozen vegetables
14.	Shreenath Agrotech	Maharashtra	Fresh Green Vegetables

Source: Different Reports and websites

Process of Contract Farming

Figure 1 shows the process of contract farming. Contract farming process operates in a business environment and political economy.

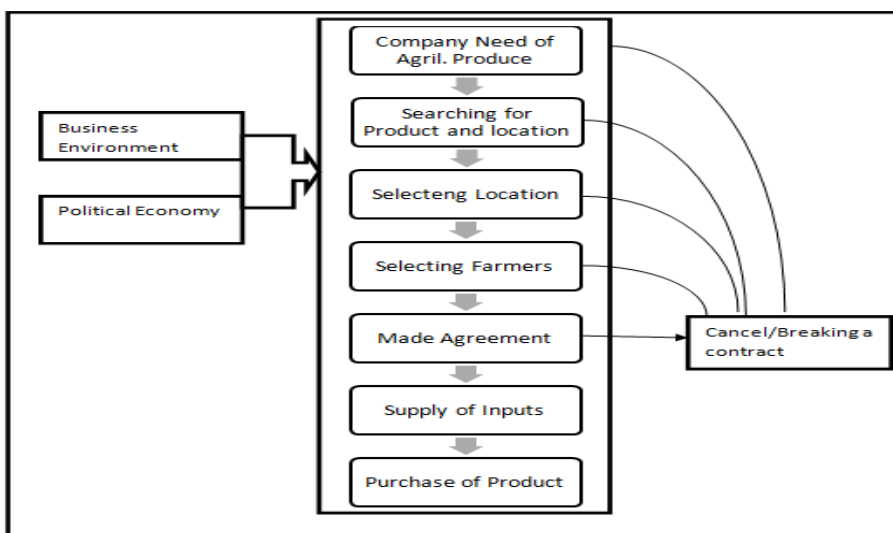


Figure 1

Supply Chain in Contract Farming:

Figure 2 shows the supply chain of produce in contract farming. Here, the inputs are supplied by the company for production, so the cost of inputs does not vary due to other factors of demand and supply and farmers gets the input at a time. The production of agriculture is seasonal and if farmer is not getting inputs on time, then there would be wastage for the whole season and it affects on income of the farmers. In second stage of supply, the farmers’ takes production under the guidance and supervision of experts which leads to less chances of failure in production. And at last stage of chain, farmers gets assurance in purchasing a product. Also, farmers get predetermined prices and assurance of sales of produce. Due to contract farming, middlemen are totally reduced and because of which consumers are benefitted.

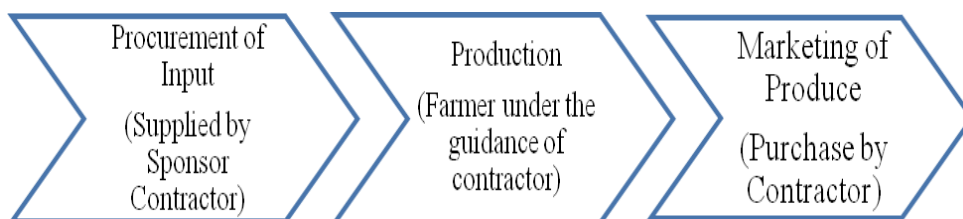


Figure 2

Role of Government in Contract Farming

NABARD also provide funds to contract farming inside and outside area of AEZ. In India, contract farming is regulated under the Indian Contract Act, 1872. The Act has taken many general provisions of contract farming like a. formation of contracts b. obligations of parties, and c. consequences of breach of contract. In addition, the model APMC (Agricultural Produce Market Committee) Act, 2003 provides specific provisions for contract farming, like compulsory registration of contract farming sponsors and dispute settlement. The department of agriculture and farmers welfare has now floated a new draft model contract farming Act, 2018.

Contract Farming Act 2018

The model, contract farming Act proposes a state-level agency, the Contract Farming (Development and Facilitation) Authority, which kept the contract farming outside the ambit of the APMC. The model Act mandate the contractors and farmers to register their contracts with a registration and agreement recording committee. Registration imposes additional costs to the parties, and small and medium farmers cannot easily afford these cost. The Act also proposes price protection for farmers by determining a pre-agreed price.

CONCLUSIONS

Contract farming is a model which gives an assurance to marketers as well as assured prices to the farmers and contractors. Contract farming in India has long history, but growth and awareness in contract farming has been witnessed in recent years. Many countries of world are into the contract farming. From the research, it is found that US has 58% of small holders land under contract farming. Almost all countries have their own act for regulating contract farming in the country. India enacted a new act as Model Contract farming act 2018 to regulate contract farming in India. In India, most of the farmers are under the contract farming of vegetable and fruit crops and other crops have witnessed minor area under contract farming. The process of contract farming starts with need recognition of product to the contractor and ends with the delivery of product to the contractor.

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