

What is Contract farming?

Contract farming is an organizational arrangement that allows firms to participate in and exert control over the production process without owning or operating the farms. Independent growers perform the cultivation.

What are the different types of contracts?

The contracts can be classified into three, not mutually exclusive categories viz., market specification, resource providing and production management. The **market specification** contracts are pre-harvest agreements that bind the firm and grower to a particular set of conditions governing the sale of the crop. The conditions specify price, quality and pricing. **Resource providing** contracts oblige the processor to supply crop inputs, extension or credit, in exchange for a marketing agreement. **Production management** contracts bind the farmer to follow a particular production method or input management, usually in exchange for a marketing agreement or resource provision. In various combinations these contract forms permit the firms to influence the production technology and respond to the markets without having to operate their own plantations.

Contract farming is not totally new to our country. When the white revolution was born in India, Contract farming also came into being by the introduction of Operation Flood I & II. Milk co-operatives of Gujarat under the banner Amul are running examples of a type of Contract farming. The Sugar Cooperatives of Maharashtra and also in many states, growing of fruit crops (papaya, passion fruit, pine apple) and seed cotton in Tamil Nadu on similar pattern, cultivation of oil seeds especially Sunflower in North are examples of the currently practiced systems of Contract farming.

Why Contract farming in India?

1. In our country the farmers face the problems of traditional technology and management practices, little bargaining power with input suppliers and produce markets, inadequate infrastructure and

market information, lack of post-harvest management expertise, poor package of produce and inadequate capital to grow a quality crop. They are waiting for change for better living standards.

2. Contract farming helps small farmers to participate in the production of high value crops like vegetables, flowers, fruits etc and benefit from market led growth.
3. Extensive areas are required by the Agro-processors for an intensive cultivation to build an uniform method of cultivation that would reduce their production and transaction costs with the growers.
4. Effective & efficient monitoring of production operations, extension activities and credit delivery in a conjugal area is easy in Contract farming.
5. Contract farming will maximise the profits to the farmers and minimise risk in farming like production related risks, transfer price risk and produce risk.
6. There is a tendency amongst the users to go in for environmental friendly, value added quality agro-products in their daily life.
7. The farmers find it easy to get under one roof inputs, technological & extension services, post-harvest processing facilities and more importantly, the marketing of their produce with assured cash returns.
8. Contract farming facilitates more and more private Companies to develop backward linkages with the farmers.
9. Access to crop loans at attractive terms through tie-ups with Banks is facilitated through contract farming.
10. There is a tendency amongst farmers to go in for an alternate cropping systems for better monetary returns.

What is the present stage of contract farming in India?

1. The Union Agriculture Ministry is putting its weight behind contract farming – drafting a model law to give legal support to a practice that can give small farmers access to modern technology and resources. An institutional mechanism is being contemplated to record contractual arrangements and help resolve possible disputes.
2. The farm ministry detailed an agenda for expansion of agricultural credit to the tune of Rs.7,36,570 cr. during 10th Plan and the official note to the finance ministry gave financing of contract farming by banks priority.
3. Agricultural and Processed Food Products Development Authority is developing policy guidelines on contract farming for forwarding to state governments for implementation. The guidelines will focus on regularising the relation between producers and processors of food materials. During this year, 20 Agri-Export zones will be set-up in different states that would integrate the complete process from production to export stage and contract farming is being encouraged to rope in local farmers to join these export zones as members to pool in their produce.
4. The national agricultural policy, announced last year, had highlighted the need for an increase in the private sector participation in farming by leasing private land for agri-business and contract farming to private companies.
5. The Standing Committee on Food Management and Agricultural Exports had recommended suitable amendments to the State Agricultural Produce Marketing Regulation Act to promote development of marketing infrastructure in private and co-operative sectors, direct marketing and contract farming.
6. Contract farming is already undertaken in tea estates by major companies including Pepsi Food, ITC, Hindustan Lever and for crop diversification by Mahindra Shubhlab Services with Punjab Agro Food grains Corporation; Escort Limited with Punjab Agro for Basmati rice and durum wheat besides drawing a plan to set up grain handling and storage facilities like conveyor belts and silos and earmarking Rs.1 billion for contract farming and creating post-harvest infrastructure in Punjab and other states in next 3 years.
7. Punjab plans to diversify crops in 1.5 million acres in next 4 years through contract farming. Already 3 lacs acres under contract farming have been diversified from paddy and wheat to commercial crops like maize, barley, white mustard, Basmati rice and oil seeds during this year.
8. In Karnataka, wide varieties of vegetables, gherkins, lime, pomegranate, grapes for resins, pearl onions, asparagus and mangoes for pulp are already covered under contract farming.
9. Our Bank financed under contract farming to the tune of Rs.14.86 lacs in Villupuram, Chiitoor and Salem districts for gherkins, cotton, maize etc. Financing for medicinal plants has been taken up under contract farming.

What are the advantages for Bankers?

1. More coverage under credit to agriculture is facilitated with comparatively less production, processing and marketing risks with the spread of risk between different players in the field.
2. There will be reduction in transaction cost of lending as the intermediaries is less.
3. Banks can go in for diversification in financing practices and coverage of crops.
4. As there would be tie-up with reputed companies, the risk of NPA would be the least. The farmers realise remunerative and assured prices for their produce with better surplus that Banks could tap for their resources by way of deposits.
5. Being part of second green revolution it enhances the emotional bondage between farmer-banker relationship and thereby giving customer-delight to the backbone of this country viz. the farmers.

To conclude, Contract farming is a 'grow to order' way of farming that facilitates easy access to millions of farmers for an assured and organised production, processing, marketing and credit linkages to usher in Green Revolution II in India

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