Emergence of Contract Farming in India: An Overview

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Abstract:
In recent times, one of the main topics of discussion for policy and research in agrarian development studies has been contract farming. Agriculture has become unprofitable due to the state's withdrawal of subsidies following the neo-liberal reforms, an increase in cultivation costs, and a drop in profitability. Because of this, farmers frequently turn to non-farm livelihood pursuits to survive. Contract farming has become a viable option in this evolving agricultural landscape for farmers, particularly small and marginal farmers, seeking to increase their income from agriculture. Based on secondary sources the study proposes to examine the conditions, context, and forces that led to the emergence of contract farming which are important in order to understand the current dynamics of agrarian change in India.

Keywords: Contract farming, Agriculture, India

Introduction:
Contract farming, as an institution, has a long history. Various forms of institutional arrangements have been employed by the Japanese colonial state for sugar production in Taiwan in the period after 1885 (Watts, 1994; Rehber, 2007) and also by United States multinationals in Central America at the beginning of the 20th century (Runsten & Key, 1996, Kirsten & Sartorius, 2002; Rehber,2007). In advanced capitalist states, it seems that during the period of 1930-1950, contract farming was widely spread in many food sectors (Kirsten & Sartorius, 2002). The fruits and vegetable canning sector expanded in the United States and Europe and seed industry in the Western Europe (Watts, 1994). From late 1950s, the Mexican growers increasingly supplied the American markets with fruits and vegetables under contract. Mexico, the ‘salad bowl’ of North America alone accounts for 25 percent of the fruits and vegetables imported to the United States (Watts,1994). By the late twentieth century, contract farming was widespread in the food and fiber industry across much of Western Europe, the United States, North America, and Japan (Rehber,1998). It has become a common organizational structure in developed countries.
CF has now become a global phenomenon. 15% of agricultural output is exported to developed countries through Contract farming (Rehber 2007, Shrimali 2021). 90% of broilers’ production and 80% of processed vegetables are produced through contract farming in the US (Rehber 1998, Shrimali 2021). In Germany, CF accounts for 38% of dairy, poultry, and sugar (Young and Hobbs 2002, Shrimali 2021).
Contract farming has been a topic of interest and controversy since the 1970s, especially in developing and transition countries. Contract farming is broadly perceived as a key tool of improving social welfare, enhancing global food security, improving technology and food quality, and increasing employment and productivity. The tool helps farmers overcome production constraints of finance and insurance, poor access to good inputs, and the lack of technical and managerial capacity. Besides, contract farming is an

important component for risk management, the macro balance of the economy, upgrading producers' livelihoods, and overcoming market failures.

Contract farming is one of the most significant and powerful means by which peasants have been integrated into national and international commodity markets and agro-industrial complexes. The nature and structure of contract-farming systems vary widely from place to place, but a fundamental element is the vertical concentration of producers in which capital and the state attempt to supervise and condition the production patterns of growers (Bernstein 1979; Little and Watts 1994). Contract farming first became prominent in advanced capitalist countries but has spread rapidly in so-called developing countries in the post-World War II era (Glover1984; Glover and Kusterer 1990; Little and Watts 1994).

What is contract farming?

Roy, one of the leading researchers in this field has defined Contract Farming as "those contractual arrangements between farmers and other firms, whether oral or written, specifying one or more conditions of production and/or marketing of an agricultural product". (1972, p.3). Sukhpal Singh defines contract farming is an arrangement for the production and marketing of agricultural produce in which farmers and firms (mainly agro-processing and/or exporting) enter into advance contracts to purchase produce of predetermined quality and quantity at a predetermined price and time often with provision of certain services like inputs, technical assistance, etc, to the farmers.

However, Contract farming can also be understood as an arrangement between farmers and firms (mainly agro-procesing) for the purchase of produce of predetermined quality and quantity at a pre-determine price and time. It basically involves four things: pre-agreed price, quality, quantity and time (Singh, 2000). Contract farming has emerged to reduce the uncertainties faced by both farmers and the firm. Both farmers and firms benefit from contracting arrangements. The company can get the assured volume of material of consistent quality which is difficult to obtain form spot markets, since company have some degree of control over the production process. Also, the company does not have to invest in land, hire labour or manage large scale farming operations. On the other hand, farmers have an assured market, access to company's services and easier access to credit. In fact, credit facilitating factor has been the principal motivation for entering into the contract.

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Some of the key disadvantages of CF practice are neglect of small and marginal farmers by firms, decreased employment opportunities because of mechanised harvesting operations, dominant role by firms in price fixation, delay in making payments to farmers, food insufficiency, nonpurchase of contracted produce on quality and other grounds, manipulation of grading standards, breaking away from contracts by either party, losing control of the production process, by the farmers, difficulty of legal enforcement of contracts and lower long-term commitment among corporates for rural development.

Even though, contract farming promises significant benefits for growers especially for small and marginal farmers in rural areas such as access to new markets, technical assistance, specialized inputs and financial resources, but the available studies suggest it to be a mixed phenomenon. Glover and Kusterer, 1990, view that either rural people have received limited gains from contract farming or have been directly or indirectly harmed by it. Contract farming has also been described as a tool to exploit farmers by the firms because of an unequal power relationship (Key and Runsten,1999).

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History of contract farming in India:

In comparison to Africa and South America, Contract farming in India is a recent phenomenon. Contract Farming began in India from the colonial times, mainly in the second half of the nineteenth century with the cotton exports to Britain after the disruption of Unites States supplies during the US Civil war. Britishers wanted to develop India as an exporter of commercial crops such as tea, coffee, rubber, indigo, etc. Farmers were fascinated by purchasers who offered attractive prices for these new crops since there was no market had existed for them.

However, these arrangements soon turned into an indenture system for the cultivators because of the prevailing land-tenure system in India. Farmers were bound to grow the crops and accept whatever price was offered. Since the crops grown were of no consumption value and had no other market, made them more exploitative. Contract Farming had earned a poor reputation by that time. According to a NABARD (2005) report, the Assamese population still feel that through contract growing of tea, they first lost their land ownership and eventually had to compete against the outside migrants for unskilled labourer’s job on these very lands.

However, southern belts were not so affected by it. Thus, it received warm welcome when Imperial Tobacco Company (ITC) in 1920s wanted to introduce the cultivation of Virginia Tobacco in Andhra Pradesh through contract farming and also have a good farmer’s response. It recruited trained persons to propagate the idea of tobacco cultivation and targeted the better-off and educated farmers. It was replaced by auction since 1984.

The emergence and success of sugar co-operatives in Maharashtra and dairy co-operatives in Gujarat in 1950s, incorporated many features of contract farming, even though it was not a contract in real sense. The success of co-operatives provoked private companies to adopt similar approaches for producing crops for their use. With regard to the organized seed trade, along with the establishment of National seed Corporation of India in 1963, many other developments, such as, introductions of high-yielding cereals, constitution of seed review committee, enactment of Seeds Act, 1966 and the formation of National Commission on Agriculture took place. During the same period even, the private sector also made significant entries into seed business. However, public seed companies had large farms to multiply their seeds, but private companies did not own such land for seeds to multiply. Their search for solution led to the beginning of contract farming in the seed industry. The first large-scale activity started with Maharashtra Hybrid Seeds Co. also known as Mahyco in the early 1970s, mainly in the Marathwada region of Maharashtra. Later, it spread to neighbouring areas of Vidarbha, Andhra Pradesh and Karnataka.

WIMCO, the leading match manufacturer company, facing an acute shortage of matchwood, introduced Poplar cultivation through well-designed contract farming system in 1976 in northern states of India. The major share of poplar was grown in the state of Uttar Pradesh, Punjab, Haryana and Uttarakhand. Wimco's at the same time also started procuring tomatoes for its processing companies in the state of Andhra Pradesh and Karnataka.

A decade later, Pepsi foods, a subsidiary of Multi National PepsiCo, backed by research and extension support, started producing tomatoes to obtain raw material for paste manufacturing facility in 1990s using contract farming system at Zahura in Hoshiarpur district of Punjab. Within three years of operation, the Pepsi project was able to raise the yield of tomato from mere 7.5 tonnes to 20 tonnes per acre (Singh, 2004). The company introduced new techniques, seed varieties and mechanisation of farm operations that led to the increased productivity and reduced cost of production. Besides, the company also introduced chilli cultivation.

However, PepsiCo sold its tomato facility to Hindustan Lever Limited (HLL), subsidiary of multinational Unilever, which processes one-tenth of the world's tomato produce. It was the largest food processing and marketing company in India in 1995 (Singh, 2004). Later, Pepsi entered into potato contracting by the late 1990s. Shortly, after PepsiCo., Nijjer Agro Foods, a local firm, also started producing tomatoes for supplying tomato paste to Nestle through contract.

A careful study of all the projects explains that most of the projects were poorly designed without proper analysis of market and were unsuccessful. Nevertheless, some projects exist which were quite successful such as gherkins and flower processor in Karnataka, oleao-resin and spice extract in Kerala, medicinal and herbal supplement processors in the foothills of North (Deshpande, 2005).

Late 1990s witnessed a growing interest in the contract farming. However, this time it was both for subsistence as well as food crops. The entry of Hindustan Lever into wheat flour market promoted contract farming through other agencies. Rallis, a Tata Enterprise, subsidiary of Tata chemicals, an agro-chemical based company, manufacture and sells pesticides, plant growth nutrients and seeds, undertook to provide planting material and other inputs, whereas the project was financially supported by State Bank of India and ICICI Bank for wheat farmers in Madhya Pradesh, which Hindustan Lever agreed to buy.

In fact, Rallis, Mahindra and Mahindra etc., are subsidiaries of major agribusiness firms, who are employed by ultimate buyer as contract farming agencies to interface with the farmers. It has no direct interest in the crop of its own. These agencies work on a fee from farmers and buyers to supply inputs and extension. However, this has led to the widening of difference between consumer spending and farmer receipts because of an additional link with its own cost.

Even, the Punjab government has encouraged and launched contract farming, a tripartite agreement between farmer, seed company/dealer and Punjab Agro Foodgrains Corporation (PAFC) in October, 2002 as a means of crop diversification strategy from paddy-wheat rotation. It also invited different companies to participate in the programme. However, recently the state has withdrawn to the role of facilitator from the contract farming (Singh, 2004).

Contract Farming was also extended to non-crop activities. In the early 1990s poultry contract farming was introduced for broilers and also for eggs. Tamil Nadu became the first state to introduce poultry farming on contract basis. The Coimbatore region of Tamil Nadu is considered as vanguard of broiler production in the country since it accounts for 75 per cent of poultry production and consumption. Gradually it spreads mainly to Karnataka, Andhra Pradesh and Maharashtra and then to other states.

Tamil Nadu also hit the headlines on May 2002, when Appachi Cotton Company (ACC) employ street play to encourage farmers to cultivate cotton in their field. It assured that the produce will be backed by a model called Integrated Cotton Cultivation (ICC), which will provide a supporting mechanism to sell their produce. It turned into a huge success with the participation of 900 farmers from various blocks of Coimbatore, Theni and Nammakal districts (2003, MANAGE). Finally, in 2003-04 contract farming was accepted by government in policy framework for reforms in agriculture within Agriculture Produce and Marketing Committee (APMC) Act, 2003.

Why Contract Farming?

Intra-state trading of agricultural produce is governed by the APMC act in government-regulated agricultural markets or mandis. To overcome the monopolistic traders and commission agent barriers, the Model APMC Act was introduced in 2003. This legislation provided a provision for direct selling of the farm products by farmers to CF fi rms by bypassing the mandis. However, the model act failed to promote contract farming since there was no detailed guidelines as how to enforce it and also the model act requires the CF arrangement requires registration of the firm with the APMC that oversees the functioning of mandis. However, the APMC lacked the incentive to promote CF because, being a market player themselves, the trading and commission agents faced the threat of their business in mandis getting eroded. To overcome these lacunae the union government drafted a new MAA for governing the mandis, the union government released a model CF Act named the State/UT Agricultural Produce and Livestock Contract Farming and Services (Promotion & Facilitation) Act, 2018 in May 2018 for adoption by the states (MoAFW 2018). The rate of adoption of the model CF Act was poor. Only TN has enacted a CF legislation based on the Model Act. Subsequently, in June 2020, the union government promulgated an ordinance to facilitate CF, which was passed by Parliament as an act in September 2020. In consistent with this move, Parliament also passed an act to allow farmers to sell their produce directly to anyone outside the notified APMC market yards.

The CF Act is a better piece of legislation because firstly, new and stand-alone legislation on CF would provide more visibility and clarity for the legislation, make interpretation of rules easier and more predictable and easier to amend in the future (Viinikainen and Caro 2018; Wehling and Garthwaite 2015). Secondly, the CF Act addresses the key operational aspects of CF. Thirdly, among the parties involved in CF, the one at a disadvantage and subject to exploitation is the farmer. The CF provisions contained in MAA do not fully protect farmers' interest, which makes the CF Act relevant. The growth of contract farming can also be explained with the implementation of neo-liberal policies that relates to the withdrawal of state support to agriculture. Contract farming results in increasing corporate control over Indian agriculture (Shrimali, 2021).

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