CONTRACT FARMING

One option for creating a role for the Private Sector in Agri development and extension ?

by N Ajjan

WHAT IS CONTRACT FARMING ?

ESSENTIALLY

- The farmer is contracted to plant the contractor's crop on his land
- Harvest and deliver to the contractor, a quantum of produce, based upon anticipated yield and contracted acreage
- This could be at a pre agreed price
- Towards these ends, the contractor can supply the farmer with selected inputs

IS THIS REALLY ANTHING NEW ?

THE GOI HAS RUN AND CONTINUES TO RUN THE LARGEST CONTRACT FARMING MODEL

The “Green Revolution”

- Improved varieties and Hybrids
- Subsidised fertilizers made available
- Guaranteed procurement by State agencies
- Pre defined minimum support price
- Extension services provided by ICAR and Agri Universities

Results

- Production boomed
- Farmer incomes increased
- Food security assured

BUT WHAT ELSE DID IT DO ?

- Farmers free to sell at prices higher than minimum support price. Farmers get used to a one-sided contract
- Essential Commodities Act became a means of ensuring Government procurement
- Private trade mechanism marginalised
- In absence of market mechanism MSP ceases to be a safety net and assumes the role of reference price
- This contract has an open ended tenure and no termination clause

WHAT ELSE DID IT DO ?

(Contd..)

- Mono-culture, over-fertilization and excessive watering led to soil degradation
- Singular focus on supported crops discouraged diversification
- Subsidised exports to liquidate stocks create further distance between the international market and domestic reality.

Contract farming in this context, in order to succeed, has to go well beyond the simple definition

CONTRACT FARMING IN PUNJAB

Pepsi, Punjab Agro Industries Corporation (PAIC) and Punjab Agricultural University (PAU) Partnership in Profile

BUILDING BLOCKS FOR A SUSTAINABLE CONTRACT FARMING PROGRAMME

Land preparation & planting,
crop monitoring during growing period
harvesting & procurement, transportation logistics
prompt farmer payment system

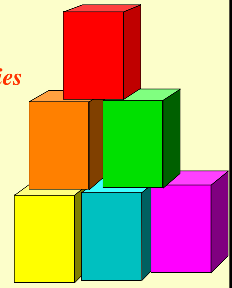
Commercialisaation

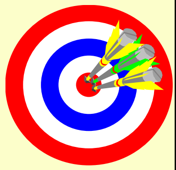
The extension services team
- selection and training
Farmer education program
Field trials at farmer fields
- multi-locational & crop timing

Technology Transfer

Evaluation of promising varieties and hybrids
Multi locational trials and short-listing - selection
Blueprint for agricultural practices after adapting to local conditions, to suit intellectual & financial means of the farmer
Evaluation of farmer economics model
Demonstration farming

R & D Activities





WHAT WAS THE IMPACT ?

- Tomato yields increased threefold, from 16 - 52 MT / hectare. Chilli & potato yields improvements were equally dramatic
- Production of tomato in the state of Punjab, went up to 200,000 MT, from 28,000. Technology spread to non Pepsi growers
- Fresh market prices for tomato dropped, with increased availability. However farm incomes increased.
- Chilli yields increased from 2.5 MT to 9 MT per acre
- Move to contract farming of other crops - Groundnut, Basmati & non Basmati paddy

KEY LEARNINGS FROM PEPSICO'S EXPERIENCE : PRE OPERATIVE

- You need a technical team, with an applied & commercial focus
- Research the site & location well
  - Land holding pattern
  - Farmer resource availability
  - Soil suitability and water availability
  - Track record for crop in question
- Conduct trials - intensive R&D efforts
  - Establish that trial results are practical & commercially implementable
- Poll grower attitudes to your crop
  - Offer better alternatives to the farmer compared to existing crops
- Assess availability & sustainability of other resources and infrastructure
  - Input availability
  - Transportation
  - Banking etc..

KEY LEARNINGS FROM PEPSICO'S EXPERIENCE : THE NURSERY

- Low cost tunnel technology works. Review any requirement for glass houses
- Land preparation is critical. Siting nursery operations on elevated ground
- Elevated beds - create more options
- Mechanization of operations - higher productivity and reduced wastages - seeders, bed makers, mini sprinklers etc..
- Operations should at least initially, be either subsidised, or at best self sustaining. Move to profit centre later

KEY LEARNINGS FROM PEPSICO'S EXPERIENCE : THE FIELD

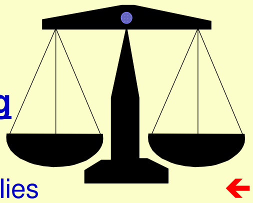
- Extension services team should be locally drawn and user friendly, available at the farmers' call
- Never offer your growers any commercially, untested technology
- Break the hard pan in clay, or alluvial soils; encourage deeper rooting
- Ensure availability of adequate and appropriate inputs
- Agricultural implements offered gratis to growers - an investment that yields long term benefits.
- Data recording on continuous basis improves efficiency
- Develop an algorithm for heat units in local conditions - control harvesting and fruit intake
- The development of a commercial support system, is critical - timely farmer payments are a priority

THE ADVANTAGES OF CONTRACT FARMING

- Farmer gets exposure to world class agro technology
  - *Planting materials/healthy disease free nursery*
  - *Crop monitoring technical advice free at his doorstep*
  - *Agricultural implements*
- The farmer obtains an assured up front price & market outlet for his produce
- Focus shifts from prices to returns per acre - driven by productivity increases
- The private sector gets requisite quality material regularly at predetermined prices
- Promotes long term planning and investments

PARTNERSHIPS FIRST

CONTRACT FARMING VERSUS A PRICE SUPPORT MECHANISM



Contract Farming	Price Support
Planting Material Supplies	Usually None
Technology Transfer	None
Assured Price	Minimum Guaranteed
Assured Quantity	No Assured Quantity
Free Equipment	No Free Equipment
Partnership Approach	Usually Adversarial
Builds Commitment	Builds Mistrust
Long Term	Short Term

THE PROBLEMS THAT BESET CONTRACT FARMING

- Small size of farmer landholdings.
- Need to contract with a larger number.
- No mechanism to discourage default. No legal recourse when faced with large scale contravention of contracts.
- Lack of a comprehensive crop insurance scheme to protect against natural calamities.

A LOT CAN BE DONE DESPITE THE ABSENCE OF A LEGAL FRAMEWORK

- Maintain a proper database on farmers.
- Incentives, rewards & public recognition.
- Publicising the names of defaulters in the locality of default.
- Farmer encouraged to set own targets, assist with draft of QC standards etc.
- Clearly allocate quantities for the fresh market.
- Repeat defaulters are not considered again
- Maintains a high motivation level.
- The social stigma usually suffices as a disincentive to default.
- Promotes "ownership" of the business, builds loyalty over the long term.
- The difference becomes apparent very quickly

SOME POLICIES TO PROMOTE CONTRACT FARMING

GOVT. FISCAL SUPPORT

- Single tier regulatory authority for contract farming at the district level - A quasi judicial system for contract enforcement
- Make purchase interference by a third party in a contract farming program, a cognizable offence
- For a Registered Contract Farming Programme
  - Abolish all fees, taxes cess, duties, levies on procurement effected
  - Exempt taxes and duties on import of agri equipments
  - Eliminate red tape In import of varieties / hybrids
- Introduce insurance policies to provide comprehensive coverage of the crops including loss of profit to the farmers
- Make it obligatory for Agricultural Students to work on contract farming programmes as a part of their curriculum
- Focus Agriculture Universities towards developing crop and region specific agendas