

Scope Of Contract Farming With Reference To Farmers Of India

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Abstract

Starting with the abolition of zamindari system and introduction cooperative farming and joint farming, different institutional arrangements have been tried to reorganise the land and production relations for changing the farming systems and enhancing the productivity of the ll and marginal farmers who constitute nearly eighty per cent of the farming community in India and are the main stakeholders in any policy reforms. Yet, they continue to be the major chunk of poor in the country even after sixty years of independence. While different policy options were attempted in the form of direct and indirect interventions, in the shape of the target group and target area oriented approaches, commodity specific and region. Specific missions yet the twin facts of farmers' poverty and low productivity remained unabated. Two primary reasons behind the continuing poverty and low productivity are cited to be non-viability of the small and marginal farmers and inadequacies in the service/ input delivery system. With the advent of globalization, the task of reorganising the small and marginal farmers assumed greater importance to face the challenges of the market economy. The experience of the post-globalisation era has thrown various alternative options for reorganising the small and marginal farmers to make interventions in the existing farming systems. Changes in the institutional arrangements of land tenure system like land leasing, contract and corporate farming are some of the emerging alternatives which have the potential of not only making small and marginal farms economically viable but also have implications for land markets in a market economy. While each of these institutional arrangements have their own socio-economic implications, a systematic study needs to be undertaken on the strengths and weaknesses and their potential in changing the existing farming systems from low yielding uncompetitive agriculture to economically viable and sustainable agriculture.

Contract Farming (CF) is one option that has opened up for farmers in the recent past with the liberalisation of agriculture and amendment of (APMC) Acts, where the farmers can reduce the risk of production and prices by tying up with the companies. Agriculture being one of the important components of the economy, many corporate giants like Bharati Tele-Ventures, PepsiCo India, HLL, Tata, DCM Shriram, Reliance Industries, etc., have entered into agribusiness and retail business. Many studies on this subject provide contradictory views regarding the pros and cons of CF, particularly its effect on small and marginal farmers. Hence, this paper attempts to understand the conceptual framework of contract farming and its effect on small and marginal farmers through some cases and analyses what needs to be done in future.

Keywords: Contract Farming Models, Monopsony, Backward and Forward Linkages, Technology, Reverse Tenancy

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Introduction

Contract farming is not new to India. It can be traced back to the 19th century, when farmers produced commodities like cotton, indigo, tobacco, etc., on contracts. Seed production has been carried out through contract farming by the seed companies quite successfully in the country over the past two to three decades (GoAP 2002). Some perceive that green revolution in the country was also a type of contract farming where the state provided subsidised inputs to the farmers and procured their produce. Milk Cooperatives of Gujarat running under the banner of Amul is a good example of contract farming. Similar is the case with the corporate intervention in agriculture. Corporate business in the production and trading of plantation crops like tea, coffee, spices is quite old.

With the opening of the economy during early 1990's many of the agricultural commodities including medicinal and aromatic products which have an edge in terms of climatic conduciveness and also in terms of competitiveness in the export market are being encouraged to be cultivated by the farmers through contract farming by the processing industries.

Many new crops exotic to our country but have an export market are also being encouraged to be taken up under contract farming. Many MNC has come forward to take up agro- processing by tying up with the farmers as well as domestic agro-processing companies. Studies on contract farming reveal that by and large, the net income of contract farming crops is more than that non-contract farming crops, but this practice is floundering.

Contract farming tends to exclude small farmers due to their failure to meet the eligibility criteria like land suitability, access to the main road, land under irrigation and literacy level etc. The companies also preferred large growers for contract production, perhaps to avoid problems of dealing with too many small growers (Glover and Kusterer, 1990). However, it is also coming up in the areas suitable for smallholder production which require heavy inputs of labour, careful attention, manual harvesting and requirements most cheaply provided by family labour. Attention, therefore, should be given for the distribution of benefits between growers and firms and the bargaining power which growers should exercise vis-à-vis the firms. Hence, there is a need to systematically examine successes and failures of contract farming, the type and nature of contracts and draw generalisations about the conditions under which contract farming can operate profitably and appropriateness of contract farming for the improvement of smallholder agriculture.

The contracts differ in their nature and effect due to the variations in the nature of crops, the resources of the sponsor, farmers, crop technology, in the intensity of the relationship between the farmers and the sponsor and the laws that bind the contract.

The contracts could be of three types: (i) procurement contracts under which only sale and purchase conditions are specified; the company pays the market price at the delivery time and exercises little or no control over the production process. (This is most likely to occur when the crop is a non-perishable, destined for processing and when market price does not fluctuate greatly during the buying season.) (ii) partial contracts wherein only some inputs are supplied by the contracting firm and produce is bought at pre-agreed prices, and (iii) total ontracts under

which the contracting firm supplies and manages all the inputs on the farm and the farmer is just a supplier of land and labour. These very 'intense' contracts are common in feedlots and chicken-raising operations, where the firm provides an operator with young animals and feed and purchases the mature animals.

Practice of Contract Farming: A Review

Failures of the major factor markets, especially the non-availability of production credit, limitation in access to inputs, technology and information that is necessary to produce a good quality product are the major impeding factors in the agriculture sector in the country. Contract farming has emerged to take new strides particularly to address the failures of factor markets in the recent past.

Contracting is most commonly practised by food processing firms. The supply of sufficient raw material is a must for any agro-processing firm and quality is an important factor in any business and agri-business is not an exception. The agro-processing industries normally practise them for a regular inflow of raw materials at a steady level close to plant capacity. Relying on open market purchases is unlikely to achieve this. Contracts can specify the planting dates as well as the total quantities to be delivered. They can exercise control over the quality.

Review of Literature

Contract Farming can be defined as an agreement between the farmers and the processing and /or marketing firms for the production and supply of agricultural products under forward agreements frequently at predetermined prices (Singh 2000 a). It can be described as a halfway house between independent farm production and corporate/captive farming and can be a case of a step toward complete vertical integration or disintegration depending on the given context. It basically involves four components - pre-agreed price, quality, quantity or acreage (minimum/maximum) and time (Singh, 2002).

The relevance and importance of each type varies with the product and over time (Hill and Ingersent, 1982; Baumann, 2000; Eaton and Shepherd, 2001), whereas the first type is generally referred to as marketing contract, the other are production contracts (Scott, 1984; Welsh, 1997).

The key element involved in any contract is the vertical coordination between the companies and the farmer. Eaton and Shepherd (2001) broadly classify five different types of contract farming agreements depending on the crop, objectives, and resources of the sponsors and the experience of the farmers. These are explained in Table 1.

Table 1: Characteristic Features of Different Contract Farming Models

The Centralized Model	(a) Vertically coordinated model where the sponsor purchases the crop from the farmer and processes, packages and markets the products. (b) Quality is tightly controlled. (c) The level of involvement of the sponsor in production can vary from a minimum of providing correct type of seed to the whole range of inputs and extension services starting from preparation, seedlings, agro-chemicals and even harvesting services.
Nucleus Estate Model	In this model the sponsor of the project also owns and manages an estate plantation which is usually close to the processing plant.
The Multipartite Model	(a) This usually involves statutory bodies and private companies jointly participating with farmers. (b) Separate organisations are responsible for credit, production management, processing and marketing. (c) Farmers are expected to carry out cultivation as specified by joint ventures.
The Informal Model	(a) This model applies to individual entrepreneurs or small companies who normally make simple informal production contracts with farmers on seasonal basis. (b) The crops require a minimal amount of processing (c) Material inputs are often restricted to the provision of seeds and basic fertilisers with technical advice limited to grading and quality control matters.
The Intermediary Model	(a) This model is a slight extension of the informal model. Here the entrepreneurs purchase crops from farmer committees who have their own informal arrangements with farmers. (b) This sub-contracting has a disadvantage of disconnecting the direct link between the sponsor and the farmer.

Source: Eaton and Shepherd (2001)

Moreover, the contracts are more flexible in the face of market uncertainty, make smaller demands on scarce capital resources and impose less burden on management (Buch-Hansen and Marcussen, 1982). They also overcome land constraint for corporate firms, reduce production risk, and are politically more acceptable than corporate farming (Hill and Ingersent, 1982; Eaton and Shepherd, 2001). The grower, on the other hand, has an assured market for the crop, access to the company's services and easier access to credit.

In case, the firm wants to introduce a new crop for which there is no local market but a huge export market, farmers in the normal course would not cultivate the crop as they are not aware of the market. In such a situation, contract farming when the firm assures the farmers that it would buy back the produce becomes an important way of organising production and ensuring supply. For example, the entire gherkin production in India is carried out through contract farming.

There are certain crops which require processing within a specified period of harvest. For example in the case of gherkin, the crop has to be processed within 10 hours of harvesting in order to maintain its quality. Green leaves must be processed within eight hours of plucking. Similarly, cut flowers need to be conditioned within few hours of harvesting. Flowers for aromatic oils extraction must be delivered at the factory in fresh form (within three hours of production). Such commodity specific characteristics pose both organizational limitations and opportunities. Contract farming enables the firms to handle these situations in an efficient manner.

Contract farming by agro-processing industries was in place by early 1990 in Punjab with the entry of Pepsi foods, a subsidiary of Pepsico, a Multi National Company. Tomato crop was encouraged by the Pepsi through contract farming. The processing plant set up by Pepsi was the biggest tomato paste plant in Asia with a capacity to process 650 tonnes of tomatoes a day. Another local firm-Nijjer Agro Foods Limited- also entered into contract farming for the same crop during the period.

Both Pepsi and Nijjer worked with about 400 contractors each during that period. However, both the companies preferred large growers for contract production, to avoid problems of dealing with too many small growers, which has been the practice of all agribusiness corporations as evident from earlier studies of such companies (Glover and Kusterer, 1990). In fact, more than one-third of the Pepsi contract growers had as much as or more than 10 acres of their land each under tomato cultivation. It is found that contract production of tomato provided much higher (almost three times) gross returns compared with that from the traditional crops of wheat, paddy and potato (Bhalla and Singh 1996, Rangi and Sidhu 2000). Studies also reveal that net returns from tomato contract production in Punjab and Haryana were much higher than those with no contract (Dileep et al 2002, Kumar 2005). Despite this, there were more frequent defaulters to the company which put the company's tomato project into trouble. Therefore, Pepsi sold off its tomato facility to Hindustan Level Limited (HLL) which is a subsidiary of Unilever, a MNC which processes one tenth of the world tomato production and is the largest food processing and marketing company in India. Pepsi which had been working with hundreds of tomato and chilli farmers until 1997 confined its contract to only about a few dozen in chillies and potatoes each. Since 1998, it moved into basmati paddy, groundnut and garlic contract farming (Prabhu 2004).

Farmers generally find that the contract firms provide poor extension service, overprice their services, pass on the risk to the producers, offer low prices for the produce, delay payments, and do not explain the pricing method (Grosh, 1994; Glover and Kusterer, 1990). On the other hand, companies face problems of extra-contractual marketing and diversion of inputs to non-contract crops (Eaton and Shepherd, 2001). But, most problems result not due to the terms of the contract which are written, but due to the contingent nature of the contract and the manipulations by both sides (Baumann, 2000).

It is also observed that firms also tend to practise "agribusiness normalisation" over time which means that they reduce prices and other benefits offered to the growers with which they commence operations, when the procurement base is created and there are enough farmers to procure from (Glover and Ghee, 1992; Burch, 1996). Further, the contracting farmers are

exposed to the adverse impact of mis-judgement of market requirements by the firms, and other policy decisions (Hill and Ingersent, 1982; Little and Watts, 1994; Torres, 1997).

The more recent models of CF like franchising being practised by the Tatas (Tata Kisan Sansar) for wheat in states of UP, Haryana and Punjab; Mahindra Shubhlabh Services Limited (Mahindra Krishi Vihar) for paddy in Tamil Nadu, Andhra Pradesh, Karnataka and basmati and maize in Punjab and Haryana, are also not delivering as expected. Mahindra and Mahindra's recent involvement in Punjab agriculture have not worked to the advantage of the farmers. (Singh, 03)

MSSL (Mahindra Shubhlabh Services Limited) which pioneered the franchise model has 57 outlets in ten states in the north, west and southern India, and only three of them are company owned and run. The rest are all run by franchisees. The crops in which the company operated are cereals like paddy including basmati, durum wheat, barley, and maize, vegetables like gherkins, potato, tomato, chilly, and garlic, fruits like grapes and pomegranates, pulses like moong, gram and peas, oilseeds like soyabean, hyola, mustard, groundnut and sunflower, spices like coriander, cumin and patchouli, and cotton. Generally, there is one franchisee in one district and it is an exclusive license and business format franchising. Each franchisee has 15-25 spokes (village cluster level outlets, who are sub-franchisees and share margins with franchisees).MSSL provides support like business planning for the outlet, training, business root out, territory manager, all input supplies and bank linkages besides promotional support and accounting packages. But, this model also does not seem to be working well as there are many problems in this model in Punjab though it has worked well in some other states like Tamilnadu. It is more of a case of an inter locking of factor markets coming back in another form. (Singh, 2006).

The companies tend to prefer monocropping as it is necessary to meet processing unit needs, gives better control over farmers and is easy to manage. This in turn leads to deskilling of farmers and labour over time as they no longer grow other crops, or the same crop with different local techniques (Clapp, 1988). For the farmer, this reduces the efficiency of his other crop initiatives, reduces food availability, leads to duplication of input services as he has to approach another source for procuring inputs for the non-contracted crops, increases farmer risk, leads to under-utilisation of his labour time as each crop has only certain periods of work requirement, and increases chances and implications of the misuse of cash crop money (CDC, 1989).

The contracting firms tend to aggravate the environmental crisis as most of the contracts are short term (one or two crop cycles) and the firms tend to move on to new growers and lands after exhausting the natural potential of the local resources, particularly land and water, or when productivity declines due to some other reason (Morvaridi, 1995; Torres, 1997). The over-exploitation of groundwater, salination of soils, decline in soil fertility, and pollution are examples of environmental degradation due to contract farming (Siddiqui, 1998; Rickson and Burch, 1996; USAID, 1994). The firms do not pay heed as the costs of such effects are externalised so far as the firm is concerned.

Nature of Contract Farming for Small Farmers Perspective

Agro-processing industries by nature provide a forward linkage to the farmers whenever there is a contractual agreement between the industry and raw material producing farmers. But the small farmers can effectively participate in contract farming only when there are backward as well as forward linkages.

Oil Palm was introduced in Andhra Pradesh in the early 1990s under irrigated conditions. The crop was introduced in the State with an intention to help the small farmers to get additional income. The State government encouraged contract farming to expand the area under this crop and enacted the A.P. Oil Palm (Regulation of Production and Providing) Act, 1993 and through it introduced the entrepreneurial system involving the private and corporate entrepreneurs to take up oilpalm development and processing similar to that of sugarcane cultivation and processing.

These entrepreneurs were involved fully in the oilpalm development right from the import of planting material, raising seedlings in their own nurseries, distribution of the seedlings to the identified farmers, helping them in the layout of the plantation, arranging inputs like fertilisers, providing technical advice through periodical visits, establishing collection centres and processing the fresh fruit bunches (Rethinam 1999) They deduct the cost of inputs from the payment to be made for the fresh fruit bunches. They also claim the subsidy amount from the government. There are no written contracts between the factory and the farmers. The farmers are free to sell to whomever he wants. Because of the perishable nature of the product, the grower has to dispose of the produce immediately after the harvest. The Government of Andhra Pradesh allotted each growing zone to a particular processing company and others were not allowed to set up a factory in that area. Since the produce does not have any alternate uses or alternate channels of marketing, the growers depend on the factory only. In the initial years, the growers used to take the produce to the factory using their own means of transport, which added to the cost very heavily. On the request of the farmers, the factory management opened collection centres at different places, close to the gardens. Though this was introduced initially with an intention to help small farmers, sensing good profits, large farmers have entered into it later.

The long gestation period (four years), the high investment needed for the crop despite subsidies, no special package for the cultivation of intercrops as in coconut and the lack of separate line of credit seem to have alienated the small farmers from oilpalm cultivation.

Gherkin is an exotic crop and is being grown in Kuppam area of Chittoor for export of the semi-processed product. It is a short plantation and labour-intensive crop. The introduction of Gherkin on contract basis in Kuppam area was preceded by interventions in agriculture by the state government during mid 90's to modernise the sector in the semi-arid region and also where agriculture is undertaken in a conventional manner. They also introduced drip irrigation for vegetables and other crops. Later, the processing factory was started at Tummisi at Kuppam.

Contract Farming was undertaken by the processing company with the help of a facilitator, BHC (Agro) India (BHCAI). The facilitator has taken the task of enrolling the farmers who are willing to take up gherkin cultivation, allotting them the quantity to be supplied based on the requirement

given by the company, supply seeds, fertilisers and pesticides to the allotted farmers on loan basis without any interest at market rate.

Contract farming in gherkin also has the characteristics of 'nucleus model' of contract farming, as the processing company has also maintained their own gardens for guaranteeing the regular supply of raw material without interruption. However, in gherkin, the participation of small farmers was considerable. This may be because of labour-intensive nature of the crop and drip irrigation facility created in their fields with subsidies as part of the Kuppam project. However, there is an element of market risk involved in it as the crops cultivated are export oriented without any domestic base.

A sudden drop in international prices can drive already poor and indebted farmers off the land over the short term. Thus, the cost of adjustment, due to globalisation and trade liberalisation, to poor people becomes substantial when markets do not work very well. Market failure can happen due to many reasons like lack of basic information, the dominance of the markets by a few key players, weak economic governance or poor enforcement of the law. So, small farmers not only lose in terms of lower price realisation but also pay higher prices for inputs due to opening up of the domestic economies, in the presence of declining public investment in agriculture and high-interest private sector credit (Muller and Patel, 2004).

The Hindustan Lever Limited in Punjab, which has the contractual arrangement with farmers, sells only hybrid seeds to the farmers and provides no other inputs. Almost all the 300 contract farmers are large and medium farmers. This is an imperfect and inadequate contractual arrangement from the point of view of small farmers. However, in the case of VST Natural Products Limited (NPL) in Andhra Pradesh, which has undertaken the contract farming of cucumber, almost all the contract farmers are marginal, small and semi-medium farmers. This has been possible because the VST NPL provides not only seeds but also other inputs on the credit is, if needed. Since the company takes care of the capital and technology needs of the farmers, even the small and marginal landowners have been enabled and encouraged to join contractual arrangements. If the product that the farmers cultivate has some domestic base, even if the contracting company withdraws its procurement operation suddenly, the farmers can sell it in the open market without much loss. Thus, while the Punjab model of contract farming as practised by the Hindustan Lever Limited is not easily replicable to large parts of the country, the Andhra model as practised by VST NPL appears satisfactory and replicable as it seems to have promoted equity. Second, the contract farming in Punjab has encouraged the large farmers to cultivate land above the ceiling limits by leasing in land from the marginal and small farmers. This has alienated the small farmers from land through reverse tenancy. In other words, the process has been iniquitous in nature. Though reverse tenancy seems to be win-win situation for both the small farmers leasing out and the large farmers leasing in as they maximise their incomes, in agriculturally backward areas, this practice may alienate the marginal and small farmers from land altogether without alternative sources of employment (Haque, 2000). But contract farming of VST NPL in Andhra Pradesh seems to have promoted equity, as only small farmers have benefited from it.

Objectives of Study:

1. To study strength and weaknesses of Contract farming.

2. To study scope of Contract farming in traditional crops like wheat, paddy, potato, corn etc
3. Relevance and future of Contract farming in Uttar Pradesh.
3. Drawbacks of Contract farming for the future of small and marginal farmers.

Material and Methods

Case Study Method has been used for this kind of study. We have taken the example of Punjab for the study of contract farming. Secondary data has been used for this kind of analysis, however, primary data may be obtained from simple questionnaire in the Hindi language.

Contract farming was taken up in the state of Punjab (during 2002-03) as a part of the large project on crop diversification, in order to discourage paddy, wheat rotation. This program was implemented jointly by the department of agriculture, Punjab Agro Foodgrains Corporation (PAFC-a subsidiary of the Para-statal PAIC) and the private companies. There was a tri-partite agreement between the seed companies, PAFC and the farmers for the provision of inputs including extension services and for buy-back arrangements. The tri-partite agreement specified the fixed price and bonus to be paid by the PAFC to farmer for the produce (bonus only if the PAFC was able to sell the produce at a higher price), type and quantity of seed to be supplied by the seed company at a given price for given acreage, farmer's responsibility of delivering the quality produce (produced by making use of recommended inputs bought from outlets prescribed by the PAFC) at a specified place, payment by PAFC within two days after delivery, and PAFC being the sole decider of weight of produce and the sole and only arbitrator in case of dishonouring of the contract terms by any of the parties. The crops under contract were maize, green peas and hyola. The program was not implemented as expected. The maize crop failed completely due to inclement weather. The green peas were rejected by PAFC on quality grounds and therefore, were dumped into the open market which has reduced the price. Except the oilseed crops (hyola and sunflower), the net returns from contract crops were found to be lower than what farmers would have got from wheat crop. Most of the problems farmers faced related to production and quality (like the quality of seed and extension) and not marketing of produce (except peas) as the open market could take care of contract produce. Due to this experience, a large majority (60 per cent) was not willing to enter into contract farming arrangement again (Singh, et al 2003). The State has later withdrawn the role of a facilitator of contract farming.

Farmers in the State of Uttaranchal are cultivating from organically the crops Basmati paddy, ragi, red chilly, minor millets and vegetables with a partnership between private companies and Uttaranchal Organic Commodity Board (UOCB). The UOCB was established in the year 2003. Initially funded by Ratan Tata Trust, later by Government of Uttaranchal with RKVY funds, the UOCB has encouraged the farmers for Organic Cultivation (OC) of crops and undertaken group certification as it is costlier to certify the individual farm holdings. All the farmers involved are small farmers except the paddy farmers. The role of UOCB is confined to providing training on organic technologies facilitating the marketing of organic commodities by providing tie-up with farmers and companies. The farmers are getting on an average 20 per cent premium price for their organic commodities. The farmers observed that though there was some drop in production

in the initial years, this was compensated with the premium price. The area under organic cultivation has been increasing gradually in this State every year because of UOCB.

It is, therefore, observed that the state can confine itself to the regulatory and facilitating role rather than intermediary role. The legal reform process is already under way with the Union Government enacting the Model Act for the state agricultural Produce Marketing (Development and Regulation) Act, 2003 and many states (16 as suggested, and 4 partially like Punjab, Haryana, Delhi and Chandigarh) are permitting only direct marketing /CF or private/cooperative markets carrying out the amendment in their Acts. This amended act apart from promoting other marketing activities also deals with regulation and promotion of contract farming, and public-private partnerships to facilitate more and better linkages between firms and farmers (GoI, 2004). The amended APMC Act has certain mandatory and optional provisions regarding CF wherein mandatory ones include aspects like who can undertake CF (type of sponsor and of contract grower), details about the land under contract, duration of contract, description of farm produce, other contract specifications like quantity i.e., acreage, entire crop, or fixed quantity, produce quality specifications and penalties for lower quality like rejection, or lower price, crop delivery arrangements i.e., at farm/factory gate/collection centre and transport arrangements, pricing and credit mechanisms, farmer asset/land indemnity, compulsory registration of contracts with local authority and the procedure for dispute resolution. On the other hand, the optional features include those relating to farm practices, joint crop insurance, support services to be provided, farmer-management forum for monitoring of contract system performance, and monitoring of quality and yields. The model contract agreement is quite fair in terms of sharing of costs and risks between the sponsor and the grower (GoI, 2003). But, it leaves out many aspects of farmer interest protection like delayed payments and deliveries, contract cancellation damages if the producer makes firm-specific heavy investments, inducement/force/intimidation to enter a contract, disclosure of material risks, competitive performance based payments, and sharing production risks. There are also many state-level variations in the amended Act.

Further, in contract farming APMCs have a useful role to play to facilitate transactions on both sides viz. contract sponsor and the farmers. The APMCs have a long standing relationship with farmers in their area. Therefore, they can play a facilitative role in mobilising the farmers, make them understand the concept, explain clauses of the agreement and monitor arrangements for supervised production.

Conclusion

On the basis of various experiences and studies discussed in the preceding sections, it is clear that contract farming has both advantages as well as disadvantages. Disadvantage also can be perceived in such a way that it is not the contract per se which is harmful as a system but how is practised in a given context. If there are enough mechanisms to monitor and use the contract for developmental purposes, it will certainly lead to a betterment of all the parties involved, especially the small and marginal farmers.

In order to make contract farming beneficial to both producers and the marketing/processing industries, there is a need to create conducive policy environment through legislative means and

establishing the appropriate regulatory mechanism. Certain features are essential to make contract farming useful to both the farmers and the industry. These are:

- The farmer partners should be properly screened.
- The region-specific historical, social and institutional legacies that have shaped local conditions should be taken into account in the project design.
- Commodities requiring more labor-intensive production techniques should be selected. A crop that requires low levels of mechanization and high labor inputs may not be suited to large producers. The production of commodity that is delicate, highly perishable, involves a high level of labor inputs and a low level of mechanization, and that needs a high degree of coordination, technology inputs is better suited to contract farming involving small farmers.
- Crops of high value as well as the ones requiring post-harvest facilities that are not feasible at individual farmer's level, should be selected. Commodities with high transaction costs in marketing and processing and having economies of scale in the marketing chain are the crops ideally suited for contract farming.
- In India, due to the small farm domination of agricultural sector, the delivery systems are to be attuned to the demands and needs of small farmers which are small in scale and of sporadic nature (Vyas, 1996). Therefore, working with new institutional mechanism like groups, associations, cooperatives, networks is needed to reach out to small and marginal producers more effectively. This is being tried out by Marico Industries in Maharashtra in sunflower oilseeds. There is a role for the state agencies and the NGOs to intervene in contract situations as intermediaries to protect the farmer and broader local community interests.
- It is observed through various cases that the production contracts involved in supplying all the inputs that are necessary for the farmer's especially small farmers were more successful than the other contracts. Provision of better and broader range of services by the contracting firms leads to a healthy and closer relationship between the farmer and business and reduces the risk of default.
- It is always better for the farmers especially, small farmers to enter into contractual agreement with only part of their land holding which not only reduces the risk of market and default of the contracting company but also to hold some autonomy in decision making regarding crop production with themselves.
- Contractual relations should be well managed and based on mutual trust. The perceived high levels of contract manipulation by agribusiness firms, distrust by farmers of the contractual relationship, and a perception of loss of autonomy have characterized contract farming in some cases. Removing all elements of mistrust and establishing trustworthy relationships is important. The legal and regulatory system should be strong and respected, to ensure adherence of the contractual obligations at minimum costs.
- Finally, agribusiness should play a key role in coordinating farmers' access to a range of inputs, services and facilities. These could include promoting literacy, improving business skills, fostering farmer links with agribusiness and banks, establishing a facility for resolving conflicts, infrastructure development, etc.

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