

Does Contract farming Increase Farmers Income and Productivity in India?

Evidence from Literature

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ABSTRACT

India is a country of villages and approximately 70 per cent of population resides in village. Their livelihood is totally depends on agriculture directly or indirectly. Therefore the agriculture sector is very important for the 70 per cent of population of India in present era also. The share of agriculture sector in total GDP is declining after economic reforms therefore this sector is very important in terms of employment and poverty reduction particular in rural area. Due to rapid population growth and heritance property act the land holding is declining continuously and now the situation of farmers is very critical. As per National Sample Survey NSS 77th round approximately 98 per cent of the farmers are marginal and small which have less than 4 hectare of land. It is not possible to achieve the target of double farmer's income on this small piece of land and traditional agriculture system. Government tried to break this traditional agriculture marketing system by introducing Agricultural Produce Market Committee (APMC) in 2003. No doubt this AMPC act helps to break this traditional chain and allowed to the private player in agricultural marketing chain. Retail agricultural marketing chain and contract farming are the new private player in agricultural sector. Contract farming is new agriculture marketing arrangement in India, which provides technical know-how and marketing facilities to farmers at their farm. On the one hand this technical known-how introduce a new cropping patter in rural area which is helpful to break the traditional cropping pattern. On the other hand this marketing arrangement provides the marketing facilities to the farmers at their farms which save all the transportation cost of the farmers. Therefore the main aim of the study is to examine whether the contracted farming really increase the farmers income and productivity.

Keywords: *Contract Farming, Farmers, Income, Productivity, Marketing.*

INTRODUCTION

There are many committees such as, New Agricultural Policy (2000), Food Processing Policy (2004) and National Policy for Farmers (2007) have recommended to promote private investment in agriculture sector through contract farming in India which helps to reduce price risks as well as post-harvest losses of agricultural produce. In this aspect the contract farming is a new agricultural marketing arrangement in agriculture sector in India and this new agricultural marketing arrangement is helpful to both farmers as well as firm. Contracted firm provides better price, secured and timely marketing facilities to the farmers of produce at their farm. On the other hand the contracted firm is also obtained the high-quality raw materials at certain prices. In Indian perspective, per farmer land holding is very low and it is decreasing continuously. In this situation contract farming is an important tool that provides modern technology to the farmer and particular to small farmers.

The land-holding size is declining continuously, and often the farmer is unable to arrange all types of resources for a small size farm. In this situation when a farmer is unable to manage all resources due to small land holding, contract farming provides them with all the facilities to increase the production and improve the quality. Contract farming not only provides assured markets, thereby reducing risk and ensuring remunerative prices, but it also provides critical services such as insurance, credit facilities, grading and inspection and market information (Singh 2003). There are many studies which show that contract farming has increased the farmer's income and net returns (Dileep et al. 2002; Kumar 2006; Singh 2004; Mehendra and Rao 2005; Kumar and Kumar 2008). Contract Farming has increased the productivity in all aspects, viz. labour productivity, capital productivity, and land productivity. There are many studies in different parts of India which find that contract farming increases farm productivity (Dileep et al. 2002; Kumar 2006; Kumar and Kumar 2008; Singh 2004). There are three main factors that increase farm productivity; one, contract farming provides better seeds and inputs; second, it provides timely supervision to the farmers; and finally, it helps farmers to diversify from low-value crops to high-value crops.

METHODOLOGY AND DATA

The finding of the present study is based on the secondary data from several studies. The literature is reviewed from different crops from different states of India. The study is trying to cover all over India as well as almost crops which are growing under the contract farming arrangements. The studies have been selected on the basis of finding of contract farming on the impact on income or productivity which is based on primary survey. Potato, wheat, rice, cucumber and tomato are the famous crops for the contract farming. Punjab Haryana, Tamil Nadu, Orissa, Karnataka and Maharashtra are the famous state for contract farming in India.

RESULTS AND DISCUSSION

CONTRACT FARMING AND FARMERS INCOME

Almost the studies have the same arguments that the contract farming has increased the farmer's income in different state as well as in different crops. Contract farming raises farmer's income by providing technology know-how, market information and incorporating to the farmers into new remunerative markets (Miyata 2007). Contract farming provides new technology for new crops which enhances the farm productivity and net returns in agriculture sector. The main reasons for higher productivity of a contracted crop is due to better quality of inputs, by proper crop management practices by the contract firm. Even the cost of cultivation is higher of contract farmers but after that net income of the contracted farmers per hectare is higher than non-contracted farmers. Table 1, depict the impact of contract farming on income and net returns.

Table 1: Contract Farming and its impact on Income and returns

Author	Findings
Dileep et al. 2002, The study is conducting in Haryana in Potato crop.	According to this study per hectare yield and gross returns under contract farming was double than that of noncontract farming in Haryana in potato crop. The study shows that the net returns was high in the case of contract farming as compared to that of non-contract, which was due to difference in their yields and better price.
Singh, 2002, The study is conducting in Punjab.	This study analyze that the contract farming enhances the farm income in vegetable crops production in Punjab. The study concludes that almost contracted farmers have higher incomes as compare to no-contracted farmers and satisfied with the contracted firms.
Mehendra and Rao, 2005, Andhra Pradesh	This study concludes that the contracted farmers in Andhra Pradesh tend to receive higher returns as compared to non-contract farmers. This study also shows that the large farmers earned more returns per acre as compared to the small and medium farmers
Kumar, 2006, The study is conducting in Punjab.	This study analyzes the impact of contract farming on farm income and productivity in Punjab. Per hectare yield and gross returns under contract farming was double than that of non-contract farming.
Kumar and Kumar , 2008, in Tumkur district of Karnataka	The study analyzed the effects of contract farming on net returns and income, The study stating that the average gross farm income of contracted farmers is 96 per cent higher than that of non-contract farmers in Karnataka.

Sharma, 2008, in Punjab for Basmati and non-basmati rice	This study finds that the average yield of both basmati and non-basmati rice is higher of contracted farmers as compare to non-contracted farmer in Punjab. Basmati rice yield of contract farmers is approximately 23 per cent higher than that of non-contracted farmers.
Hiremath and Kadamit, 2012, in Karnataka	The study concludes that all the contract farming in medical plant gave higher productivity and net returns in Belgaum and Dharwad districts of north Karnataka. The net returns were 83.3 per cent higher under contracted farmers as compared to non-contracted farmers.
Subhajit Paul et al 2019, Hooghly District of West Bengal.	The study finds that contract farmers have significantly higher net returns of cultivation in comparison to non-contract farmers in potato cultivation.

Contract farming and its impact on Productivity

In India the per farmer land holding is very low and it is decreasing continuously. Contract farming is an important tool that provides modern technology to small farmers. The land-holding size is declining continuously, and often the farmer is unable to arrange all types of resources for a small size farm. In this situation when a farmer is unable to manage all resources due to small land holding, contract farming provides them with all the facilities to increase the production and improve the quality. Contract farming arrangement is very useful for both farmers and companies. The companies obtain high-quality raw materials from the farmers at certain prices and under reasonable purchasing conditions. Contract farming played an important role in risk management, market assured and comparatively higher prices to the farmers. Timely supervision and suggestion by the contracted firm helps to boost the farm productivity also. Most of the studies on contract farming in India have the same argument that the

contract farming has increased the farmers income and productivity for example in tomato in Punjab (Bhalla and Singh, 1996; Rangi and Sidhu, 2000) and Haryana (Dileep et. al., 2002) gherkins (hybrid cucumber) in Tamil Nadu (Chidambaram, 1997) and cotton in Tamil Nadu (Agarwal et al, 2005).

Table 2: Contract Farming and its impact on Productivity

Author	Findings
Dileep at al. (2002)	The productivity of tomato under contract farming was high in all categories of farmer (small, Medium and large) it was 580 quintal per hectare, 577 quintal per hectare and 617quintal per hectare, respectively as compared to 271 quintal per hectare 274 quintal per hectare 284 quintal per hectare, respectively under non-contract farming.
Singh (2004)	The study shows that within three years the Pepsi project has raised the yield of tomatoes from 7.5 tons to 20 tons per hectare and the harvesting season of tomatoes is also extended from 25 to 70 days due to company's intervention.
Kumar (2006)	The study concludes that the average value of output per household in Punjab was almost double in case of direct contract farming as compared to non-contract farming, while indirect contract farmers had a lower output than contract farming.
Sharma Vijay Paul (2008), in Punjab	The study finds that the contracted farming has increase th productivity of basmati rice as well as non-basmati rice in Punjab. The yield of basmati rice yield is about 23 per cent higher of contracted farmers than that of non-contract farmers.
Braja Bandhu Swain 2008, in Andhra Pradesh	The study shows that the productivity under contract farming is on an average 19% higher as compared to the non-contract farming.

Subhajit Paul et al 2019, Hooghly District of West Bengal.	The study finds that the contract farming has increased the productivity of potato cultivation. The farm productivity under contract farming of potato is 223.6 qt per hectare, while it is 220.8 qt per hectare under non-contract farming in Hoogly district of West Bengal.
Saroj et al 2023, Sirsa and Hisar districts of Haryana	Productivity and net returns of wheat cultivation are also much higher under contract farming than non-contract farming in Sirsa and Hisar districts of Haryana. The study shows that the average yield of wheat is 21.68 quintal per acre under contract farming, which is 8.29% higher than non-contract farming.
Sihmar Rakesh 2023, Kurukshetra and Karnal districts of Haryana	The study finds that contract farming has very positive impact on productivity. The productivity of potato per acre in value term is high in contract farming of all farm size. The average value of output of potato per acre is 23.4 percent higher of contracted farmers as compared to non-contracted farmers.

CONCLUSION

All the studies emphasizes on the impact of contract farming on productivity and income. The studies show that contract farming has enhanced the productivity and income of the farmers in all the states of India. Indian agriculture is in traditional form and it needs a new agriculture mechanism which can break this traditional cycle. In this situation all the studies find that the contract farming tries to break this traditional cycle. All the studies have the same arguments that contract firm provides higher price to the farmers and it helps farmers to diversify from traditional cropping pattern to commercial and vegetable cropping pattern and this cropping pattern gave higher returns to the farmers. For the point of the policy suggestion, government should promote contract farming in all the states. It is not possible to double the farmer's income without the private players in agriculture sectors. Literature shows that the firm prefer to large farmers only because they are well resourceful but government should take serious intervention to the participation of small and marginal farmers also.

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