



AGRONICA

A Newsletter from Centre for Agri-Management
Department of Business Administration, Utkal University

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If
agriculture
goes wrong,
nothing else will have
chance
to
go right



Focused on
Contract Farming

Contract
Between
Buyer & Farmers

|| It Includes ||

- Editorial- Contract Farming
- Contract Farming in Odisha
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- Status Of Contract Farming In Odisha
- Will The Contract Farming Is Successful In Odisha?
- Empowering Farmers-Through Contract Farming

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The contract farming implies agriculture produce being carried out on basis of agreement between the buyer and farm producers. It involves the buyer specifying the quality required and price, with the farmer agreeing to deliver at a future date. As per the recent Agriculture Bill passed by the Govt of India, agriculture production is to be carried out according to the agreement between the buyer and farmer which establishes conditions for the production and marketing of farm products and the farmer agrees to provide agreed quantities of a agriculture product. The bill provides a legal frame work for farmers to enter into pre arrangement contracts.

To go back in memory, as part of Doctoral research in USAI conducted a field study on Contract farming at California of about 200 tomato producers, each having about 200 hectares of land, entered into registered contract with A&B food store, before starting of production, to deliver specified quantity of tomato, at a certain price and the A&B food store as per agreement paid the amount in advance in instalments to meet the cost of production, before the harvest. Such type of contract farming is rare in our country. Most of the farmers belong to small and marginal categories and are found resource poor. At the same time the agro processing farms are lacking in possession of land for cultivation of high valued crops. Small farmers in India are generally capital starved and cannot make major investment in land improvement and modern inputs. Contract farming can fill up this gap by providing the farmers with quality inputs, technical guidance and management skills. From the standpoint of corporate bodies farming reduces the supply risk, while the farmers minimize price risks. The agreed contract may be either formal or informal and may cover supply of inputs and marketing of output. By entering into contract, the company reduces the risk of non-availability of raw material and the farmer reduces the risk of market demand and prices of his produce. The inputs and services supplied by firms may include seeds, fertilizers, pesticides, credit, farm machinery, technical advice, extension etc.

The benefits of Contract farming are, access of the producers to local markets with assured larger returns, besides access to inputs, mechanisation and transport services. The buyer is assured of delivery of specific quantity of output in time. Above all there is improvement in local infrastructure, roads and irrigation facilities.

Contract farming is generally divided into two types i.e. Production Contract Farming and Marketing Contract Farming. The Production Contract Farming is again divided into two

types that is Production Management Contract Farming and Resource Providing Contract Farming. Contract farming arrangements of different types have existed in various parts of the country for centuries for both subsistence and commercial crops. The commercial crops like sugarcane, cotton, tea, coffee etc. have always involved some forms of contract farming. .

The Contract farming is the impact of globalization and liberalized economic policy in the agriculture sector. While the farm sector is facing an identity crisis amidst growing dominance of the industrial sector, contract farming creates a new hope in this scenario. It established a link between the farm sector and the corporate sector. This way it created new prospects for the agricultural sector and added to the dignity of the farmer.

In some fruit crops and fisheries, contract farming arrangements involves mainly the forward trading of commodities. Agreements are made between the farmer and the company and the latter contributes directly to the management of the farm through input supply as well as technical guidance and also marketing the produce. The main features of this type of contract farming are that selected crops are grown by farmers under a buy back agreement with an agency engaged in trading or processing. Under such contracts the farmer assumes the production related risks while the price risk is transferred to the company. There are a few success stories on contract farming such as Pepsico India in respect of potato, tomato, groundnut and chili in Punjab, safflower in Madhya Pradesh, oil palm in Andhra Pradesh, seed production contracts for hybrids seed companies etc. which helped the growers in realization of better returns for their produce. Other success stories of contract farming are Amul and NDDB for milk procurement, sugarcane cooperative in Maharashtra, and prawn-aqua culture in Andhra Pradesh.

Overall, the contract farming plays a very a crucial role in providing input for production and post-production marketing and crop insurance. Apprehension, that the process will evict the small and marginal farmers from the production process. The informal sharecroppers will be out from agriculture sector because contract farming will more depend on mechanization and less physical labour force. There will be more distress migration from rural areas.

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CONTRACT FARMING IN ODISHA

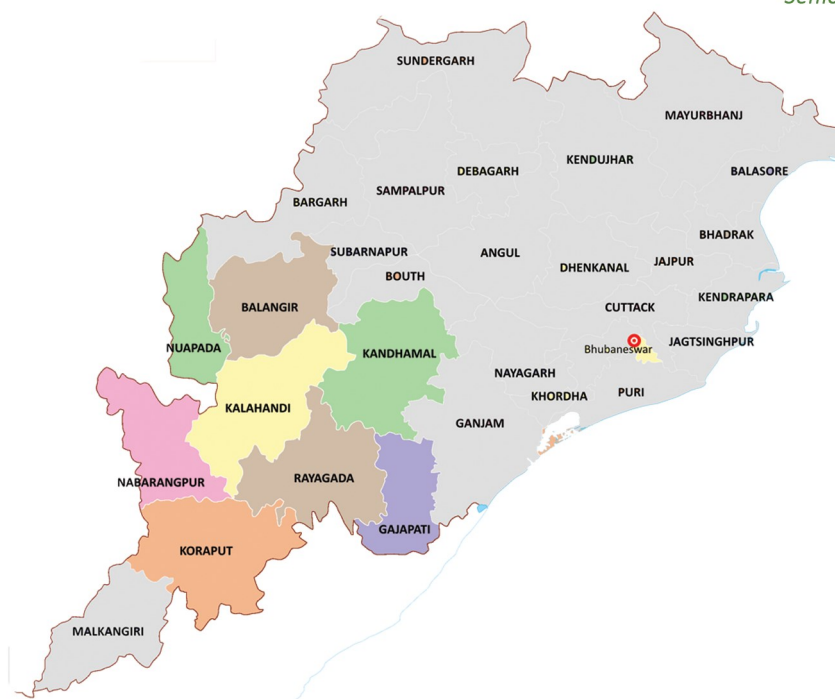
The farmers of Odisha have also entered into the area of contract farming over the years. The instant cash and assured markets have lured them to go for contract farming. Wide spread practices of contract farming for Jatropha, Cotton, Maize, Rubber, Lemon grass, groundnut is indicating that Odisha is in favour of Contract farming. The textile division of Gujarat Heavy chemicals Ltd. plans to cover about 2000 hectares under organic cotton in Odisha under contract farming. Similarly Bilati (Odisha) Ltd. has purchased around 16 hectares of land at Gopalpur village for nursery and for construction of processing plant. The state Govt has given green signal for contract farming for cotton and oilseeds. The state is encouraging organic farming in Phulbani district and aromatic rice in Koraput district. More of contract farming are found in districts of Bolangir, Gajapati, Koraput, Nuapada, Nawarangapur, Nuapada, Raygada and Kalahandi. The cost of cultivation, gross income and net income from one acre of land for different cash crop is calculated and it is found that the net income from lemon grass is high in comparison to other crops. It is estimated to be Rs.15050 (net) in one acre of land. But this crop is exclusively cultivated by the farmers in Koraput district who are having large land holdings. The farms companies find the district suitable because of the linkage with Andhra Pradesh market. However, net income from cotton from one acre of land is estimated to be in the range of Rs.7045 to Rs.8565. (2012-13). This is cultivated by the farmers across the study area. Different companies have entered into

across the study area. Different companies have entered into contractual agreement with the farmers in these areas. Though gross return from maize cultivation is as good as cotton, the net income is found very less because of high cost of cultivation. The return from jatropha cultivation is still to be accrued. The farmers are not very much confident of getting a sustainable income from the crop. The study covering eight districts mentioned above revealed that more than 50% of farmers belong to scheduled tribe and that too confined to bigger holdings. The dark side of contract farming is that without testing the structure of soil, the practice of using chemical fertiliser and pesticides renders the land to loose fertility leading to reduction of yield. Besides the usual cropping pattern has under gone a significant change.

The trend of income and expenditure in last three years of contract farming is calculated and it was found though gross income has gone down over the years, net income has either gone up or is steady as there is comparative reduction in cost of production. Reduction in gross income however implies a reduction in the yield and fluctuation in the price of the produce. The farmers blamed the former cause rather than the latter for reduction in income. Though there is a decline in the gross income over the years there is a steady rise in the income in Raygada and Nawarangpur districts. This is because of the increase in production of cashew, cotton and maize in these districts.

Sri Bikash Rath

Senior Manager, RCDC, Bhubaneswar



CONTRACT FARMING IN ODISHA

A case study of Sugarcane Cultivation in Dhenkanal District

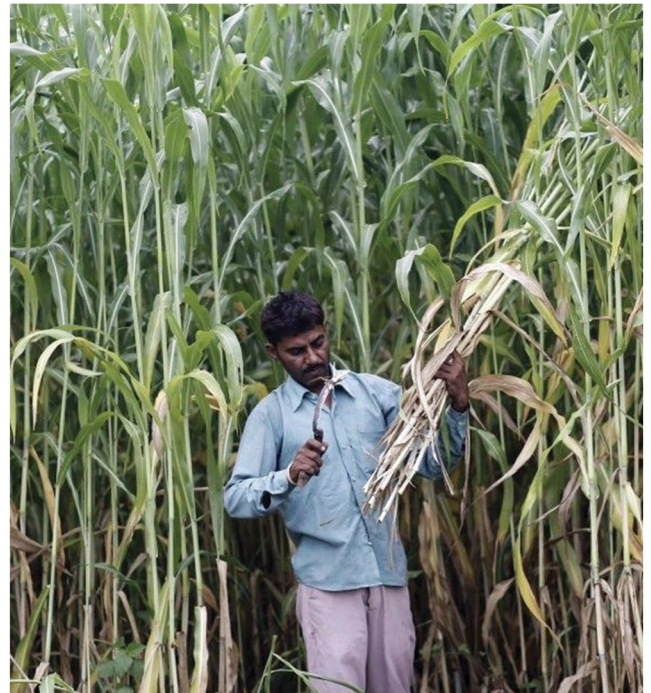
Contract farming is an agreement between farmers and processing and marketing firms for production and supply of agricultural products at a pre-determined price. It was introduced in Odisha to produce seed as a pilot project under informal contracts in 2006-07. Crops such as Jatropa, Cotton, Maize, Lemon Grass, Ground Nuts and Sugarcane are now under contract farming system in the state.

The Sakti Sugar mill Ltd. in the district of Dhenkanal has entered into contract with the sugarcane growers of villages under the Dhenkanal sadar block. This study was based on a field survey covering 100 contracting and 50 non-contracting sugarcane cultivators through personal interview using structured household survey schedule.

The capital starved, small and medium sugarcane farmers have entered into contract farming, as it provides an assured and reliable market, reducing both production and price risk. With remunerative price farmers were benefitted with higher average annual income. The efficiency of the contract farming system was indicative of a higher level of gross and net income, as compared to the non-contract farmers. It was observed that though contract farming has raised productivity of sugarcane in the region and provided direct and assured markets to the producers besides reducing cost of cultivation causing higher levels of income, 22 per cent of them are not satisfied with the terms and conditions of the agreement.. The system of contract farming may appear to be quite beneficial for the farming community, but it suffers from certain inherent problems. Even the non- contract farmers find certain problems in the system, for which they are reluctant to adopt it. As per opinion of the contract farmers, the disadvantage include delay in payment even at lower price for produce, manipulation of grades, high cost of inputs, delay in lifting the produce from the field , poor extension service and absence of any compensation for crop loss. Some of the farmers even complained about the frequent power failure in the production areas.

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Some of the suggestions of the farmers for improvement in the system are,

- The contract contracts should be written, for long duration for durable crops, farmer friendly with easy terms and conditions.
- Standard grade should be fixed by the contracting company, besides regular testing of soil and improved extension services along with mandatory crop insurance.
- Adequate compensation in case of rejection of crop, long term relationship with producers with right to appeal in case of any dispute and govt. intervention where ever necessary should be in agreement.



STATUS OF CONTRACT FARMING IN ODISHA

During Covid 19 pandemic scenario, the Odisha Government has promulgated an ordinance allowing investors and farmers to enter into agreement for contract farming to ensure certain price to the farm producers and quantity of agricultural products to buyers. The Processors are the most beneficiaries of contracts, as they are assured of full utilization of their processing capacity. The contract farming facilitates backward and forward market linkages that are the cornerstone of market-led, commercial agriculture.

In the state most of the sugarcane farmers are in contract agreement with sugar factories. The farmers engaged in contract farming are found to be high in Nuapada, Kalahandi and Bolangir districts due to fertile soil for cultivation of cotton, jatropha and maize. More than 50% are involved in jatropha cultivation because of low cost of cultivation. The Textiles Division of Gujarat Heavy Chemicals Ltd. plans to go for organic cotton contract farming in Gujarat, Odisha and Madhya Pradesh in a big way.

The proportion of farmers engaged in contract farming for lemon grass, sunflower, oilpalm and cashew is relatively low. Almost all the farmers are confident of a sustainable income through contract farming.

The contract farming is a partnership between agribusiness and farmers. The contract growers often have constraints in

planning, procurement, receiving payment, credit infrastructure, technological guidance, fertilizers and chemicals support. Besides produce is not lifted in time, nor availability of mechanization and irrigation facilities. The system suffers from harassment in payment, absence of community organization, cluster approach, transparency in measurement, adequate training, subsidy facilities and insurance coverage

Contracts should be written in clear and coherent language, using a legible typeface and words that are understandable by a farmer of average education and experience. It has been also needed that buyers should grant farmers a sufficient period of time, depending on the case, to review the draft contract and seek legal or other advice before signing and apart from that there should be full disclosure of all information necessary for the conclusion of the agreement and be transparent in all their dealings. There should be optimum fairness in risk sharing and flexibility in the contracts. Any kind of unfair practices in buyer-farmer relations should be prevented honoring the terms of contracts.

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Way Forward

- State level legislation should be made for the regulation of contract farming. It would help to redress the disputes occurred between contracting company and farmer.
- The government should allow and encourage contract farming organizations to take out realistic and deregulated crop insurance policies.
- The government should give tax concessions or tax holidays to the companies engaged in contract farming to encourage their participation.
- The government should instruct the Indian Council of Agricultural Research (ICAR) and the University system to provide region specific crop solutions and make them part of the public information domain.
- The government should take initiatives to import new improved technology for contract farmers /contracting Companies.





WILL THE CONTRACT FARMING IS SUCCESSFUL IN ODISHA?

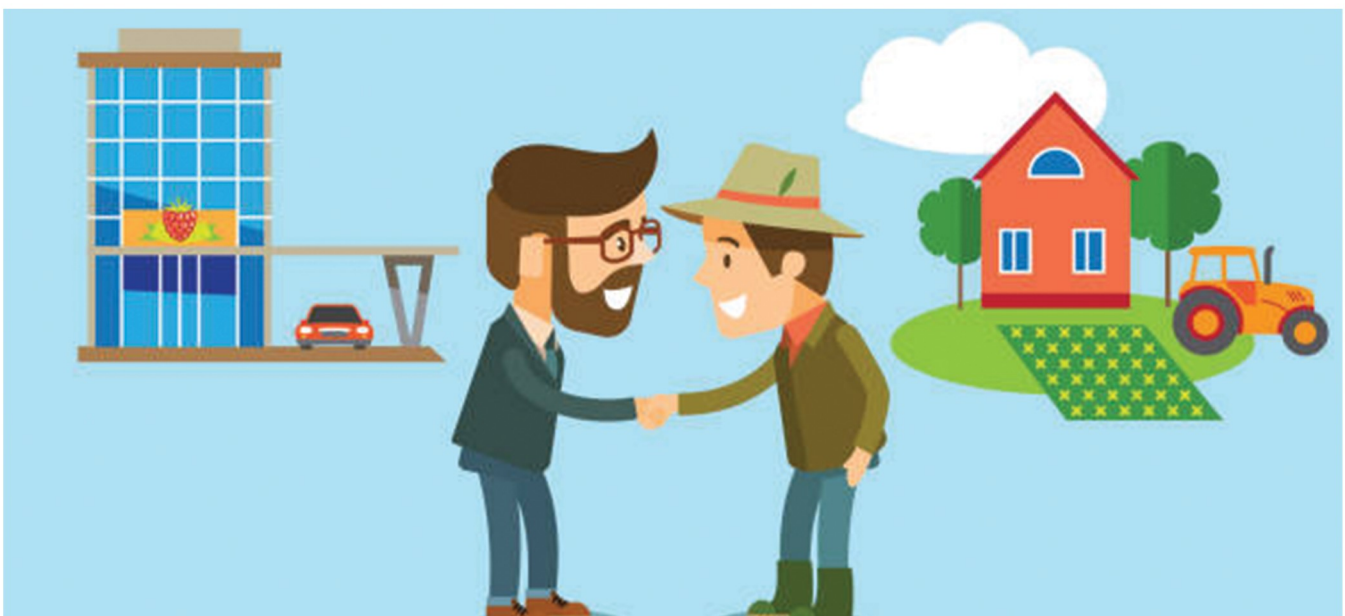
Many agricultural scientists and policy makers of the state raise their eyebrows on success of the contract farming in Odisha. The recent three major legislations passed by the Central Government on agriculture produce marketing is going to impact the small producers in agriculture sector of the state. The Essential Commodities Act 1956 amendment removed cereals, pulses, oil seeds, edible oils, potato and onion from list of the essential commodities. In line with the above laws for reform, the Government of Odisha has brought the Odisha State Agricultural Produce and Livestock Marketing (promotion and facilitation) Act 2020 to replace the Odisha Agricultural Produce Marketing Act 1956 and the Odisha Agricultural Produce and Livestock Contract Farming and Services (promotion and facilitation) Ordinance 2020 aiming to promote contract farming in the State. These new interconnected laws are not being discussed in the State legislative body though it will have very wider bearing over the farmers. In Odisha, there are ten agro-climatic zones and each one is different from the other. Therefore the local specific issues must be taken into consideration while framing the laws. Structural issues relating to agriculture such as land reform and consolidation of holding, irrigation, cold storage, MSP, and above all the issues of share croppers get very scanty attention of Government and the problems over them still remain unresolved.

The Odisha agriculture is largely dominated by small holding and few large holding farmers are mostly absentee farmers and enter into informal agreement with share croppers. The contract farming will only help these large holders.

As on today only 30-40 per cent of agriculture lands are irrigated in the State and most of the farmers depend on rain water for cultivation. The irrigation systems such as canal and lift points are almost defunct now; the farmers in the tail end are not getting water. Lack of irrigation has been also one of major reasons for lower cropping intensity. Where ever there is irrigation facilities, farmers usually go for vegetable cultivation.

Contract farming is not going to build agriculture infrastructure for the farmers and not a solution to structural issues faced by the farmers. It is to play a very a crucial role in providing input for production and post-production marketing and crop insurance but before going for large scale farming the State must resolve the persistent structural issues affecting agriculture; otherwise in the current scenario, the contract farming can only serve a few land owning big farmers.

The process of contract farming will evict the small and marginal farmers from the production process and they will lease out their land to companies. The informal share croppers will be out from agriculture sector because contract farming will more depend on mechanization and less physical Labour force. What is the plan of Government to rehabilitate the surplus agriculture workers, sharecroppers, small and marginal farmers in rural villages when they are going to lose their livelihood in the new situation? There will be more distress migration from rural areas.



EMPOWERING FARMERS-THROUGH CONTRACT FARMING

A Case Study Of Lemon Grass In Suliapada Block Murbhanja District

Small and marginal farmers in Odisha are grappled with numerous agricultural problems and some of the prominent problem are low-productivity, unfavourable markets, poor bargaining power and low capital investments. To rescue these farmers from these obstacles the Govt. of India has passed legislation recently for contract farming between the farmers and buyers to enhance the farmer's income. The Govt of Odisha has also has given concurrence to this law. Basically the Contract farming is a preharvest agreement between the farmers and the buyers to mitigate prevalent market imperfections and to reduce the price risk for the farmers and timely availability of produce by the buyers...

Considering the above a social worker named sri Saroja Kumar Das, retired employee of a private bank, became a social worker and started rendering service through one NGO formed by him named **SABUJA BIPLAP** to the poor farmers .Here he has entered into the registered agreement with 40 number of farmers belonging to a cluster of 5 villages of Suliapada Gram panchayat of Suliapada block of Mayuarbhanj district for the cultivation of Lemon grass (*Cymbopogon flexuosus*). The farmers are mostly marginal farmers having on an average 0.75 acres of land. Total area in contract farming became 40 hectares of land under cultivation of lemon grass .The Lemon grass is a high value crop with low cost of cultivation giving a profit up to 1 lakh per hectare. Through the agreement he farmers were provided with all required inputs i.e seedling, fertiliser, pesticides, training on drip irrigation and intercultural cultivation. The agreement clearly specified the price at which all the produce is to be lifted. The beneficiaries on their part will contribute physical labour. To augment productivity technical guidance were provided to the producers. In won processing plant the entrepreneur was extracting oil from the harvested lemon grass which was exported to outside. There is advantage of both backward and forward linkages to enhance the income of the farmers with higher productivity..

This contract farming has set exemplary example to other entrepreneurs in the area.

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LIVING LAB. IN R.T.P, UTKAL UNIVERSITY DEVELOPED BY CENTRE FOR AGRI-MANAGEMENT



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Centre for Agri-Management (CAM) offers a two-year Post Graduate Program in Agribusiness Management -MBA (Agribusiness) in Utkal University since 2006 with a consistent placement record and academic excellence. The CAM developed a Living Lab (learning & experimental platform) at the Utkal university campus as a live project hub , to guide students, SHG members, farmers and any interested person, to develop sustainable Agro -Enterprises involving Nursery, Mushroom cultivation, Duck-Fish integrated farming, Natural Farming, Vermin Compost, Bio Compost, Bee Keeping, Protective farming, Urban farming etc.

The CAM is planning to develop some campus garden with nutritional value in different Schools with the support of Government, public sectors and private sectors.

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