Volume-4, Issue-3, March-2015 • ISSN No 2277 - 8160

Research Paper

Agricultural Marketing

Cooperative Institutions and Contract Farming: Changing Agri -Produce Marketing Scenario in Rural India

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ABSTRACT *Operation Flood and Green Revolution emerged as alternative models to the traditional agri produce marketing systems-the former showcasing the invaluable role of Co-operative institutions and the latter representing importance of Contract Farming in India. This paper offers a theoretical analysis of contract and cooperative farming focusing on their impact on Indian Agricultural Marketing. The literature contains brief discussions about the mechanism of Contract and Cooperative farming also.*

KEYWORDS :

Introduction

An efficient system of marketing of farm produce in agriculture plays a pivotal role in transforming the lives of rural households in India where agriculture is still the dominant activity. As of 2012 agriculture contributes to around 12% of India's GDP and employs approximately 51% of the total workforce in India. This combined with the fact that 68.84% of the total population still resides in rural areas (as per Census 2011) makes it imperative to emphasize the importance of establishing efficient marketing systems in Indian agriculture. The latter not only ensures proper price realisations by the farmer but also encourages him to improve farm level productivity by adopting usage of modern inputs, latest technology in production etc. Further a steady flow of agricultural income from efficient marketing systems also translates into a thriving market for agricultural inputs along with other durable and nondurable goods and commodities, since the nature of demand for such goods/commodities is derived from the market of agricultural output.

Indian agriculture has been traditionally plagued by the dominance of intermediaries who play a vital role in collection, grading, standardization, processing and marketing of farm produce. Due to lack of storage and processing facilities at the farm level coupled with lack of information about prices, the traditional farmer is compelled to face low price realizations on account of his inability to perform the said functions of intermediaries which have a significant impact in the value chain of marketing of farm produce. This holds true especially in case of marketing of perishables like fruits and vegetables, where the farmer is often compelled to resort to distress sale in order to clear his inventory.

However a paradigm shift in marketing of farm produce in India started with the initiation of Operation Flood program in wherein integration of production, processing and marketing of milk – a highly perishable product - helped in establishing India as the largest producer of milk in the world. Similarly the Green Revolution program made India self sufficient in production of wheat for which the country had to previously depend heavily on imports.

It is worthwhile to note that both Operation Flood and Green Revolution emerged as alternative models to the traditional marketing systems. The operation flood is showcasing the invaluable role of Co-operative institutions and the Green Revolution representing importance of Contract Farming in India. Both helped in obviating the role of intermediaries who had hitherto dominated the value chain of farm produce marketing in India with majority of the farmers confronted with low farm gate price realizations (particularly in case of perishable products) on account of poor storage facilities and lack of processing capabilities and consumers bearing the brunt of high food inflation in India.

Keeping this in view, the present study was conducted with the following specific objectives

1. To analyze the Cooperative and Contract Farming model of Agri-produce Marketing

2. To understand the "Provisions of contract" and "Modus operandi" in contract farming.

3. To identify and discuss some successful cases of cooperative model and contract farming in India

Contract Farming and Indian Agri-produce Marketing

A popular model in direct marketing of farm produce is contract farming, where the producers and marketers of value added agricultural products come in direct touch with the farmers to procure farm produce at prices decided beforehand for a fixed period of time along with supply of developed inputs and providing enquired technology in farming. The Green Revolution programme, as mentioned earlier, was the first example of contract farming in India, with the Government declaring Minimum Support Prices (MSP) for various crops and the farmer having an assured market in terms of Government procurement at certain prices for selling such crops for which the MSP was declared. This however, limited agricultural production to the crops for which Minimum Support Prices were announced by the Government and consequently led to lack of diversity in crop production in Indian agriculture along with a limited scope for the private sector. Thus private investment lagged behind in Indian agriculture foremost of the time which, in turn, resulted somewhat in low capacity building and low farm level productivity India.

Contracts also differ in the number and kind of specifications. According to Singh (2002), every contract involves at least four specifications: price, quality, quantity and time. However, most contracts include more provisions than just these four. Following list of specifications that can often be found in CF arrangements are given below –

General Terms and Conditions of Contract Farming

- the duration of the contract
- the quality standards to be applied
- quality control (when, how, who is responsible, who pays)
- the quantity that the farmer is obliged or allowed to deliver
- the cultivation / raising practices required by the contractor
- the timing of delivery
- packaging, transport and other delivery conditions

- price or price determination mechanism such as fixed prices, flexible prices based on particular (spot)
- markets, consignment prices, or split prices
- technical assistance
- procedures for paying farmers and reclaiming credit advances
- insurance
- procedures for dispute resolution

Recent Development

The scenario has been reversed in recent years after 2002 with the Central Government drafting a model Agricultural Produce Marketing Commodities (APMC) Act and several states adopting the same, which allowed players in private sector having significant stake in Indian agriculture to enter in direct contract with farmers for input requirements. Considering the importance of cost competitiveness as one of the tools for survival in a globalised economy, this is a path breaking step since sole reliance on the regulated markets for inputs that function under Government control is not enough to ensure robust value engineering in Indian agriculture. Apropos reputed organizations like PepsiCo, Nestle, Rallis India etc. have taken up contract farming in India with varied degrees of success. PepsiCo among the first private sector players took initiative for contract farming in India with Tomato producers in Punjab. The provisions of the contract stipulates that the farmers sell 60 per cent of the produce to Pepsi at fixed price and the balance could be sold at the open market by the farmers. With the growth of Retail Marketers in India like Big Bazaar, Reliance Fresh, Spencer's etc. multiple opportunities are now knocking the doors of Indian farmers to enter in contracts with these retailers and establish themselves as reliable vendors for them. This creates a win-win situation for both farmers as well as retailers. Since the APMC Act earlier mandated supply of agricultural produce to be channelized through regulated markets and put restrictions on farmers from selling directly to business, such large scale participation in Farm Produce marketing was hitherto not possible in India. For this reason leading private banks like ICICI Bank have supported Contract Farming in India along with Nationalized Banks wherever the same has been found to be feasible.

The Co-operative Model

The Co-operative model for marketing of farm produce works broadly on a three tier system with formation of Village level co-operative societies of farmers at the village/block level. The next tiers in the hierarchy are the District level cooperative unions which comprises of members from the village level co-operative societies. Finally at the apex level lies in the State Marketing Federations which are represented by the District level co-operative unions. The cooperative institutions at the village level are primarily involved in production of agricultural products with the task of collection, standardization and processing being carried out by the District level co-operative institutions. The State Marketing Federations are mainly responsible for marketing of agricultural products and supply of inputs apart from dissemination of knowledge about improved techniques of production at the village level where production takes place.

The advantages of the Co-operative model are easy to make out. The farmers are assured of marketing their produce at pre-determined prices. The cost of inputs supplied, if any, are taken into account at the time of making payment to the farmers. The unions at the district level and the State level federations take up the mantle of collecting, processing and marketing of value added products. The farmers are also encouraged by the unions to adopt latest techniques for improving productivity at the farm level.

The success of this model can be gauged from the performance of the Gujarat Co-operative Milk Marketing Federation (GCMMF) which markets its products under the popular brand names "Amul" and "Sagar". It had recorded a near consistent growth in turnover since its inception, with the figure touching Rs.18143 Crores approximately in the year 2013-14 which was more by 32 per cent as compared to its previous year. The total membership stood at 3.23 million milk producers with an average milk procurement of 13.18 million liters per day. This has also led to proliferation of similar organizations later on, as witnessed by the growth of OMFED in Odisha, Cooperative Oilseed Growers' Federations with processing facilities, " Fresh Marketing Society" in erstwhile Andhra Pradesh etc. These organizations have ensured establishment of transparent marketing practices with collection of agricultural produce at farm gate, pre-declared prices, proper storage (like conversion of surplus milk to milk powder for future value addition) and ensuring timely payment to farmers. No doubt the memberships of farmer producers have steadily increased over time in successful co-operative institutions like GCMMF and OMFED.

Conclusions

It is important for the states to devise suitable mechanisms for encouraging Cooperative as Contract Farming since agriculture is a State subject in the Constitution of India. However both models have inherent flaws. One of the major reasons for the sluggish growth of cooperatives in India is the lack of professional management in most of the cases, resulting in slow decision making and lack of foresight for making them viable in future. In case of contract farming multiple risks is involved, the most important being the risk of non-compliance of the contract by either party. This arises mostly when the buyer over estimates the procurement requirements or when the farmer sells off a part of the produce in the open market. Of course agriculture being subject to the vagaries of monsoon, the threat of under production always remains leading to non-compliance of contracts. However with close supervision and better partnership amongst the stakeholders, contract farming and cooperative farming have the potential to create new synergies in Indian agriculture.

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