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CONTRACT FARMING IN KARNATAKA: ISSUES AND CHALLENGES

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ABSTRACT Contract farming can be defined as "An agreement between farmers and processing or marketing firms for the production and supply of agricultural products under a forward agreement, generally at predetermined prices" (Eaton and Shepherd 2001). The agreements also allow the purchaser to provide a degree of production support through inputs and technical guidance for the crop cultivation. From the farmer's side, there is a commitment to produce the specified agricultural products within the quality and quantity standards prescribed by the purchaser, and the firm supports, in turn, the farmer's production, and also purchases the produce. The contractual agreement encompasses three areas viz., market (grower and buyer agree for future sale and purchase), resource (buyer agrees to supply inputs and technical advice) and management specifications (grower agrees to follow the recommended practices for the crop cultivation) (S. Earappa 2006).

KEYWORDS :

INTRODUCTION;

India is a country whose economy mainly depends on agriculture. Agriculture has always been the backbone of Indian economy and despite concerted industrialization in the last six decades; agriculture still occupies a place of pride. Nearly 60 per cent of the population depends on agriculture for their livelihood (Census, 2011). Indian agriculture in the pre-independent period can be correctly described as a 'subsistence' occupation. It was only after the advent of planning and more precisely after the advent of green revolution in 1966, that some farmers started adopting agriculture on a commercial basis (Sahana .S. 2013).

Objectives

1. To study risks and uncertainties involved in contract farming.
2. To study problems involved in contract farming.
3. To study disputes involved in contract farming.

Methodology

The methodology used in the study was primary and secondary data. The primary data was collected through structured questionnaire from Mysore and Mandya districts in Karnataka state. The secondary data was collected from various journals, periodicals, books, working reports, newspapers etc.

Risks for Contract Farmers

Risk is a common factor in farm activities. Agriculture yield is always with uncertainty and comprise with various risk. Contract farmers revealed that they face yield and poor quality seeds and other risks. Here we discuss risks involved in growing contract crop under contract farming of the respondents. Multiple response analysis of the open ended question of perceived by of contract farming are depicted in Table-1.

Table 1: Risks for Contract Farmers

Risks Involved	Mandya (No)	Mandya (%)	Mysore (No)	Mysore (%)	Total (No)	Total (%)	Test Statistics (Chi-Square)	Test Statistics (df)	Test Statistics (p value)
Poor quality seeds	106	66.25	112	70.00	218	68.13			
Uncertain Yield	135	84.38	97	60.63	232	72.52			
Uncertain Price	123	76.88	91	56.88	214	66.88			
Not pick up the product on time	122	76.25	91	56.88	213	66.56	9.635	5	0.086
Risk of rejection of output	123	76.88	89	55.63	212	66.25			
Risk of delay in payment	121	75.63	70	43.75	191	59.69			

Source: Primary Data (Field Survey)
Note: Multiple responses

In case of risk of contract farming almost 72.52 per cent of contract farmers said that they have uncertain yield is the major risk. It is true across both the districts. In Mandya districts majority (84.38 per cent) of risk of contract farming is yield risk and Mysore district (60.63 per cent) of same. It indicates that the yield risk is predominated in contract farming. The risks of poor quality seeds are 68.13 per cent. In Mandya district it is 66.25 per cent and in Mysore district is 70.00 per cent. Risks of firm not coming back to pick up the produce at harvest time is 66.56 per cent. Risk of rejection of output is 66.25 per cent and risk of delay in payment is 59.69 per cent. The p 0.086 value obtained by Chi square statistics test result indicates that, various risks present for growing contract crop under contract farming is independent of districts. There are various risks involved in contract farming, uncertain yield, provision of poor quality of seeds, uncertain prices, not picking produce on time, rejection of output and delay in payment.

Breakup and Uncertainties of Contract Farming

In this section, why does the contract farmers' are leaving contract farming discussed. To understand why contract farmers disappointed with contract farming, they were asked the open ended question about the reason for existing / break contracting. The result for the above multiple response questions and major uncertainties of respondents are presented in Table-2.

Table 2: Breakup and Uncertainties of Contract Farming

Indicator	Particulars	Mandya (No)	Mandya (%)	Mysore (No)	Mysore (%)	Total (No)	Total (%)	Test Statistics (Chi-Square)	Test Statistics (df)	Test Statistics (p value)
Reasons for break up in between the	Company did not offer the contract	97	60.63	68	42.50	165	51.56	8.289	4	0.082
	Losses with the	89	55.63	66	41.25	155	48.44			
Reasons for break up in between the year (Cont.)	Pest issue	52	32.50	46	28.75	98	30.63			
	Water issue	58	36.25	57	35.63	115	35.94			
	Personal reasons	73	45.63	34	21.25	107	33.44			
Major uncertainties	Rejection of crop	38	23.75	35	21.88	73	22.81			
	Delay in supply of inputs	24	15.00	24	15.00	48	15.00			
	Delay in payment	60	37.50	72	45.00	132	41.25			
	Corruption by firms agent	25	15.63	32	20.00	57	17.82			
	Strict quality norms	45	28.12	53	33.12	98	30.62			

Source: Primary Data (Field Survey)
Note: Multiple responses

The existence of breakup indicates that, majority (51.56 per cent) of respondent's reason for break in between in year is company did not offer the contract. It was found in Mandya district is 60.63 per cent and Mysore district is 42.50 per cent. Nearly 48 per cent of respondent's reason for break between in year is losses with company, 30.63 per cent is pest issue, and 35.94 per cent is water issue, 33.44 per cent is personal reason. It is true in both districts. The p 0.082 value obtained by Chi square statistics test result indicates that, reasons for break in between year are independent across two districts. Major reasons for breakup of contract in between the years are company no continuation, losses incurred in contract etc.

In the case of major uncertainties involved in contract farming are majority (41.25 per cent) of respondents faced delay in payment. The result shows that in both districts major uncertainty is delay in payment. It also found that 30.62 per cent of strict quality norms as uncertainty. Nearly 18 per cent uncertainty is corruption by firms' agents. 15 per cent is delay in supply of inputs. It is true in both districts. These uncertainties are commonly found in the study area. The p 0.822 value obtained by Chi square statistics test result indicates that, the kind of uncertainties is independent across two districts. The major uncertainties of contract farming are delay in payment, strict quality norms and rejection crop by the company.

Problems of Contract Farming

When asked involved in to contract farmers about any problems faced in growing contract crop under contract, only almost about 51.25 per cent mentioned they did face some problem on contract crop cultivation. This shows a majority of the contract farmers were satisfied with contract farming. Multiple response analysis for the open-ended question on problems faced by respondents and resolving of problems is presented in Tables-3.

Table 3: Problems Involved in Contract Farming

Indicator	Particulars	Mandya (No.)	Mandya (%)	Mysore (No.)	Mysore (%)	Total (No.)	Total (%)	Test Statistics (Chi-Square)	Test Statistics (df)	Test Statistics (P value)
The problems	Lower price of output	37	23.13	33	20.63	70	21.88	1.922	9	0.993

Problems Involved in Contract Farming and Solutions

Indicator	Particulars	Mandya (No)	Mandya (%)	Mysore (No)	Mysore (%)	Total (No)	Total (%)	Test Statistics (Chi-Square)	Test Statistics (df)	Test Statistics (p value)
The problems fac ed in farming	Rejection of output	41	25.63	35	21.88	76	23.75			
	Higher cost of inputs	51	31.88	41	25.63	92	28.75			
	Late payments	96	60.00	68	42.50	164	51.25			
	Lack of flexibility	90	56.25	66	41.25	156	48.75			
	Fixed rate	38	23.75	35	21.88	73	22.81			
	Not enough assistance from firm	52	32.50	42	26.25	94	29.38			
	Land degradation	45	28.13	35	21.88	80	25.00			
	Others	38	23.75	35	21.88	73	22.81			
Solution to problems	Discussing with the company representative	55	34.38	69	43.13	124	38.75	0.837	1	0.36
	Approaching the company	26	16.25	24	15	50	15.63			

Source: Primary Data (Field Survey)
Note: Multiple responses

The problems faced in growing the contract crop exhibits that, majority (51.25 per cent) of the respondents are facing the problem of late payment. 48.75 per cent of respondents are facing lack of flexibility. Nearly 29 per cent of respondents are facing problem of not enough assistance from firm. Nearly 28.75 of respondents are facing the problem of higher cost inputs. Approximately 25 per cent of respondents are facing the problems of poor quality of seeds and land degradation and 23 percent of rejection crop, nearly 22 percentage of lower price of inputs and other problems. It is true across the two districts. Moreover, there were few contract farmers even doubting the ethics of contracting firm about whether they report the true weight of seed tubers and output. As some farmers felt that on seeds tubers bag, weight is not mentioned. The p 0.993 value obtained by Chi square statistics test result indicates that, the problems faced in growing the contract crop are independent of districts. The major problems faced by contract farmers are late payments and lack of flexibility.

To resolve the problems faced by contract farmers, majority of (38.75 per cent) of respondents discussing with the company representative, and majority (15.63 per cent) of respondents approaching the company to solve their problems. It is seen in the both districts. Both districts respondents are resolving their contract problems in the above mentioned ways. The p 0.36 value obtained by Chi square statistics test result indicates that, methods of resolving the problems are independent across two districts. To solve the problem arised the farmers are discussing with the company representative.

Disputes with Company

Disputes in contracts have mostly aroused over quantity, quality and payments. Disputes in contract farming between contract farmers and company are common. There are various types of disputes in contract farming practice. In this section disputes with company in the past and if the firm does not honor the contract, what respondents would do are discussed. Table-4 gives the details of disputes between contract farmers and company.

Disputes with Company

Indicator	Particulars	Mandya (No)	Mandya (%)	Mysore (No)	Mysore (%)	Total (No)	Total (%)	Test Statistics (Chi-Square)	Test Statistics (df)	Test Statistics (p value)
Disputes with company	Poor quantity of seeds	90	56.25	63	39.38	153	47.81	0.005	1	0.944
	Poor quality of other inputs	97	60.63	69	43.13	166	51.88			
Solution to the Disputes	Demand compensation	96	60.00	66	41.25	162	50.63	0.456	3	0.928
	Complaint to the local authorities/police	97	60.63	61	38.13	158	49.38			
	Will lose faith in company	97	60.63	71	44.38	168	52.50			
	Stop contracting with this firm, contract with other firms	90	56.25	62	38.75	152	47.50			

Source: Primary Data (Field Survey)
Note: Multiple responses

It is seen that large (51.88 per-cent) of respondents disputes with company with regard to poor quality of other inputs. It is true across both districts. It indicates that contract respondents are also has few disputes with their contract company. 47.81 per cent of respondents are has poor quality of seeds as a reason disputes with company. The p 0.944 value obtained by Chi square statistics test result indicates that, disputes with company in the past are independent of districts. Thus, poor quality of other inputs and seeds are major reasons for disputes with company.

Majority (52.50 per cent) of respondents have lost faith in company, when firm dishonor the contract. In Mandya district it is 60.63 per cent and in Mysore district 44.38 per cent. 50.63 per cent of respondents demand compensation, when firm dishonors the contract. Mandya district is 60.00 percent and in Mysore district is 41.25 per cent. 49.38 per cent of respondent's complaint to the local police when firm dishonors the contract and 47.50 per cent of respondents stop contracting with this firm and contract with other firms. The p 0.928 value obtained by Chi square statistics test result indicates that, the actions by the farmer across the districts when the firm dishonors the contract are independent. As a solution to disputes respondents demands compensation, complaint to the police station and in some cases stop contract with existing company and enter new contract with another company to safeguard their interest.

The quantity of hired labour varied significantly between before and after contract farming. Amount spent on hiring men labour has differed significantly during the both period due to inflation and other factors. The total cost of hiring labour has changed significantly before and after contract farming due to inflation. The ploughing cost has declined after becoming contract farmer in study area. Total average land cultivation cost has almost doubled during contract farming period due to various reasons like inflation, company mandates and other factors. The overall average cost of inputs has increased fivefold during contract farming period due to various factors. The usage of wooden plough is almost stopped after contract farming, due to change in technology. There is a significant increase in number of sprayers after contract farming due to compulsory from company to increase the crop yield. There is a significant increase in pump set cost after contract farming due to change in technology and inflation.

CONCLUSION

The income of respondents increased after joining contract farming, because it gives assured price to crops and market. The profit of famers almost increased after joining contract farming. Savings and investment practice is improved by the farmers. There are various risks involved in contract farming, uncertain yield, provision of poor quality of seeds, uncertain prices, not picking produce on time, rejection of output and delay in payment. Major reasons for breakup of contract in between the years are company no continuation, losses incurred in contract etc. The major problems faced by contract farmers are late payments and lack of flexibility. Poor quality of other inputs and seeds are major reasons for disputes with company. As a solution to disputes respondents demands compensation, complaint to the police station and in some cases stop contract with existing company and enter new contract with another company to safeguard their interest.

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