

## Contract Farming: Role of Farmers and Processing Firms



### Geography

**KEYWORDS :** Contract farming, PEPSICO, PAGRO, UBL, Punjab.

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### ABSTRACT

*Contract farming is a contractual agreement between the two parties- one is farmer and other is any private firm. It includes the main features such as pre-determined price, quality and quantity of finished product at the time of delivery. Contract farming provides a true relationship between the farmer and firm. Firms guide and monitor the farmers throughout the duration of contract. Present research paper made an attempt to study the organization structure and relationship between contract farmers and firms mainly PEPSICO, PAGRO and UBL are selected from Malwa region of Punjab. Keeping in view the objectives of the paper an appropriate methodology is adopted. As far as methodology is concerned, paper is totally empirical and based on primary data. For the collection of data interview schedule was made and conducted on farmers who were tied into contract farming.*

### INTRODUCTION

In Contract Farming process agricultural production is Carried out to an agreement between two persons one is processing firm and other is farmer. In contract farming the processing firm purchases the final harvest from the individual farmers (Singh, 2000). Contracts are generally signed at planting time. Both of them establish conditions for production and marketing, purchase, payment timing and delivery of agricultural product. In this way sharing is overall responsibility of contracting partners. In contract farming, farmers have guaranteed market which reduces their uncertainty regarding prices because specification of the agricultural product is sold under the contractual obligations (Glover, 1987). Involving firm basically provides provision of farming inputs to farmers such as seed variety, soil preparation, cultivation methods; plant related diseases control method, fertilizers, pesticides, transportation procedures among other facilities. Purchasing firm benefits from having a guaranteed supply of agricultural product that meet their specification regarding quality, quantity and timing of delivery.

### OBJECTIVES

1. To study the spatial distribution of contract farmers.
2. To know the specific crops included under contract.
3. To study the setup of contract farming in the region.

### METHODOLOGY

For this research paper three processing plants namely PEPSICO, PAGRO, UBL are selected from Malwa region of Punjab. Present paper is based on the primary data gathered through interview schedule. Random sampling method has been used in collecting the data. Only 60 farmers were selected for collecting the data during 2011-12. Only 20 farmers were selected from each processing plant.

### DISCUSSION AND MAIN FINDINGS

**(A) Spatial distribution of farmers-** For the present research paper only three plants are selected. These plants have collaboration with Punjab Agro-food Corporation of Punjab Government. PEPSICO plant is located in village channo in Sangrur district (Gill et al. 1990). PAGRO Plant is situated in village Sadhugarh of Fatehgarh Sahib district and UBL Plant is located in village Rauni in Patiala district. Spatial distribution of contract farmers is related with the accessibility of firm in terms of geographical distance. It has been observed during field visit in Malwa region. Contract farming is determined by two basic factors-

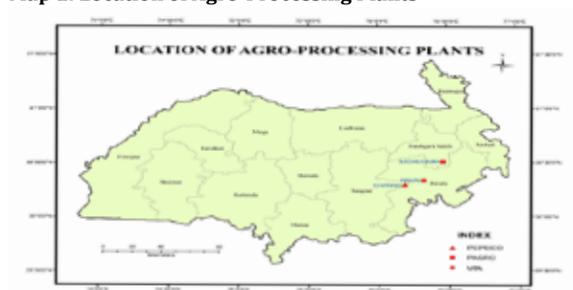
- (a) Attitude of the farmers towards contract farming.
- (b) The terms and conditions of the contracting agency.

As far as the adoption of contract farming is concerned, location of the processing company is an important factor. It encourages the farmers to contract on first - cum- first

served basis. As a result the spatial distribution of contract growers is affected. But attitude of the farmers towards contract farming also plays a crucial role. Attitude portrays positive or negative behaviour of farmers regarding the contract farming. Those farmers who want to involve in contract farming, they easily adopt the offers of the various firms, but some rigid farmers not adopt contract farming only due to their behaviour. The terms and conditions of the company also play a significant role in contract farming. The UBL has set the condition that the farmers must have at least 25 acres of land. And other two plants namely PEPSICO and PAGRO have set their conditions that the farmers have should at least 5 acres of land.

To involve in contract farming the location of processing firm and farmers are both complimentary to each other. Map-1& 2, clearly depicts that the nearer a farmer lives to firm the more likely he is adopt the contract farming. But it is also important to mention here, that the farmers who are residing far away from the firm are also involved in contract farming.

**Map 1: Location of Agro-Processing Plants**



**Source: Census of India, 2011.**

In spite of geographical distance between the processing firm and farmer, they are adjusting with the efficiency of the system. In case of PEPSICO and PAGRO plant mostly farmers are located near the processing plant but it needs to be mentioned that in case of UBL Plant, which deals with contract farming of barley, all the farmers are located in Bathinda district as shown in Map-2 (block under contract farming). Spatial distribution of barley growers is totally different from the vegetables and potato growers in the region. It depends upon the policy of the UBL Plant which is of one is "firm dominating contract system" and other is "input based contract system". In the "Firm dominating contract system", the firm selects the area close to the processing plant for preparation of seed of barley crop. In this contract, the involvement of farmer is entirely negligible. Every thing is performed by the firm itself with the help of labourers employed in the firm.

## Map-2: Farmers under contract, Block wise map of Malwa region of Punjab



Source: Census of India, 2011

(B) **Types of crops-** UBL Plant is basically involved in cultivation of barley and PEPSICO Plant is involved in cultivation of potatoes under contract. The PAGRO Plant prefer various vegetables namely carrot, peas under contract. The company United Breweries Ltd (UBL) has entered into an arrangement with Punjab government for production of high quality, high yield malting barley 'VJM 201' in the state. UBL has been into research since 1991 and was working in association with Punjab Agricultural University for the last three years. Plant is promoting the cultivation of particular varieties of Barley, the chief ones having DWRUB 52 and VJM 315. Both are two- rowed varieties having narrow and upright leaves with an average plant height of 101 cm and 118 cm. Its grains are bold and light yellow in colour with thin skin.

PEPSICO Plant is offered Potato cultivation under contract. It is one of the major vegetable crops among the others, which is grown in two seasons as autumn and spring season crop in Punjab. The potato has wide range of adaptability. The PEPSICO Plant provided two types of varieties to the farmer. One is LR and other is CH1, Duration of the LR variety is 60 days, and Duration of CH 1, is 120 days.

PAGRO Plant basically deals with the contract farming of frozen vegetables crops. Such crops are used both for domestic as well as international market. The company's frozen vegetables include Green Peas, French Beans, Carrots, Cauliflower, Diced Onion, Potatoes, American Sweet Corn, Baby Corn, Red & Green Capsicum etc. PAGRO Plant is major supplier of frozen vegetables to the leading food processing in the country. The major customers are Al- kabeer, MC.CAM, Wal Mart, Easy Day, Tasty Bite, Sumeru Frozen Foods, More Mega Store, Reliance Fresh, Godrej (tyson) and Yummies.

(C) **Setup of Processing Plants-** Three plants namely PEPSICO, PAGRO, UBL set their own rules and regulations. While interviewing the farmers the following facts were observed.

(1) **Conditions on the area coverage-** Contracts are only writ-

ten commitments. But farmers are not aware about the written proof which includes acreage and quality conditions. Only the educated farmers are keeping this type of written agreement. The minimum acreage required for contract for PEPSICO and PAGRO is 5 acres and for UBL is 25 acres, which is strictly followed by firms. These are the requirements for the farmers to enter in to contract farming.

(2) **Conditions on price of produce-** The contract price for contracted crop is fixed by the firm in the beginning. The firm also fixes the time, quality and quantity of the produce with the farmer. In the case of PEPSICO Plant and UBL Plant, desired or fixed quantity of produce is brought to the factory by farmers at their own cost.

(3) **Checking the quality-** Produce testing and quality checking function is also performed by the firms with sophisticated equipments, which causes a lot of tension between the farmers and the firm. On this basis lots of produce are rejected by the firm from the sample results.

(4) **Facilities provided by the firms-** The companies also recommend schedule of pesticides sprays for each area and for each contracted crop. PEPSICO Plant recommends the kit for precaution from the pesticides and diseases. For this kit, the firm takes payment in advance from the farmer as per area under contract. But this depends upon the farmer weather to purchase it or not. The other two plants namely UBL and PAGRO Plants prescribe the schedule of pesticides spray and brand name of pesticides which is to be used.

(5) **Payment schedule-** is made within week after delivery by cheque and online in the bank account of the farmer.

(6) **Provision of open market sale-** The firms do not allow the farmers to sell the produce in open market. But only at certain conditions like, company allows part of the acreage produce to be sold outside if enough procurement is available and the production is higher from the desired expectation. In such case, the companies also purchase the produce as per requirement. In the other case, firm also allows the farmer to sell the rejected samples in open market.

## CONCLUSION

Contract farming is a way that transfers the agricultural technology from the firms to the farmers. The firms have direct interest in increasing the quality of farmers' produce by providing technical facilities. From the above discussion it is concluded that company provides the seed to the farmer. Sometimes, the open market especially in bad crop/ crop failure years becomes a competitor to the firms. Company fixes the price for product, but if the open market rate is higher than the contract, the company gives some incentives to the farmers so as, to attract them towards the contract farming. In selected area contract farming scheme is very well implemented. But the contract should be written in local language which is understandable by mainly uneducated farmers.

## REFERENCE

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