Contract Farming: Challenges and Opportunities

P K Joshi

International Food Policy Research Institute
IFPRI-South Asia Regional Office, NASC Complex, Pusa
New Delhi 110 012 India

E-mail: p.joshi@cgiar.org
Web: www.ifpri.org
Outline

- Problems in existing agricultural marketing system
- Contract farming benefits and challenges
- Conditions for success of contract farming
- An illustration of private sector model of contract farming
- Way forward
Current popular food supply chain in India

- Unorganized, fragmented and inefficient
- High transaction costs and high losses; leading to rise in prices
- Low processing and poor food safety concerns
Contract framing: what attract smallholders?

- Assure prices and procurement
- Higher profit
  - Access to better technology and lower transaction costs
- More gains to smallholders than the large farmers
- Farmers receive higher prices
  - 5-20% higher in vegetables (SAFAL case study in India)
  - 25% higher in broiler (Venkateshwarla Hatcheries case study)
  - 4% higher in milk (Nestle case study in India)
- Risk is shared
  - As high as 88% risk is shifted by producers to the firm
Problems in Contract Farming: supply side

- Low marketable surplus and heterogeneous product
- Breach of contract
  - Producer or the firm
- Low bargaining power of smallholders
  - Low volume
- Asset specialization
  - Restricts change in production portfolio
- Dependency on the firm in the long-run
  - Access to market, information and technology
Conditions for success: demand side

- Retailing
- Export
- Processing
- Branding
- Niche commodities

- Labor availability
  - Need for farm mechanization
- Skill development
  - Skill to operate as agri-professional
  - Skills to operate new tools
  - Skill to value addition
- New initiatives
  - Start up and skill development
- Financing
Why private sector prefers from wholesale markets

- Scale: low marketable surplus
- High transaction cost of the firm
- High risk in the event of crop failure
- Need regular supply
- Need homogeneous product
Components of APMC Reform and their status

- Private markets
- Direct marketing
- Contract farming
- E-trading
- Farmer markets
- Single point levy
- Unified licence
- Exemption market fee
Indicators for potential for agri-business

1. APMC reform
2. Market density
3. Land lease policy
4. Labor reform (including wages)
5. Financial institution
6. Power and tariff
7. Agri-infrastructure
8. Road network
9. Potential for HVCs
10. Crime rate

- Agribusiness
  - Input/service providers
  - Contract farming
  - Agro-processing
  - Packaging
  - Logistics
  - Exporter/importer
  - Retail chain
  - e-retailing
<table>
<thead>
<tr>
<th>State</th>
<th>Agri-business Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Punjab</td>
<td>0.57</td>
</tr>
<tr>
<td>HP</td>
<td>0.566</td>
</tr>
<tr>
<td>TN</td>
<td>0.484</td>
</tr>
<tr>
<td>GJ</td>
<td>0.469</td>
</tr>
<tr>
<td>AP</td>
<td>0.457</td>
</tr>
<tr>
<td>HR</td>
<td>0.44</td>
</tr>
<tr>
<td>KA</td>
<td>0.438</td>
</tr>
<tr>
<td>UP</td>
<td>0.435</td>
</tr>
<tr>
<td>MH</td>
<td>0.432</td>
</tr>
<tr>
<td>JH</td>
<td>0.406</td>
</tr>
<tr>
<td>WB</td>
<td>0.401</td>
</tr>
<tr>
<td>KL</td>
<td>0.4</td>
</tr>
<tr>
<td>MP</td>
<td>0.389</td>
</tr>
<tr>
<td>RJ</td>
<td>0.389</td>
</tr>
<tr>
<td>OR</td>
<td>0.377</td>
</tr>
<tr>
<td>UK</td>
<td>0.372</td>
</tr>
<tr>
<td>CG</td>
<td>0.365</td>
</tr>
<tr>
<td>BR</td>
<td>0.291</td>
</tr>
<tr>
<td>AS</td>
<td>0.283</td>
</tr>
<tr>
<td>JK</td>
<td>0.279</td>
</tr>
</tbody>
</table>
Agri-business opportunities

- **Low processing**
  - 2% in India compared to 83% Malaysia, 78% Philippines, 70% Brazil and 30% Thailand
  - Huge waste (???)
- **Food processing fund**
  - USD 300 million with NABARD
- **Mega food parks**
  - 42 approved with USD 2.38 billion
  - 134 cold chains (87 completed)
- **Start up and MUDRA Bank**
Waste and processing of fruits & vegetables

- Global fruits & vegetable waste is about 150 mt
- Vegetable waste is about 90 mt
  - It is more that 1.25 times of total vegetable production in Africa
- Global fruit waste is about 60 mt
  - Equal to more than 60% of Europe’s fruit production
- More the processing, less is the waste
  - Least waste is in Oceania, where processing is 41% of fruit production
Private sector driven model to link farmers with markets - Branded as Veggi Kart and Veggi Lite under e-Kuteer

- Aggregation and cleaning
- Sorting, weighing and packaging
- Market segmentation
- Retailing through Veggi kart
- Urban slums: Veggy Lite
- Value chain for nutrition!

Micro-financing
Entrepreneurship
Way forward

- Aggregate farmers for scale and homogeneity
  - Farmer Producer Organizations
  - Cooperative
  - Self-help groups
  - Cluster farming
- Form commodity boards
- Federate FPOs with commodity boards
- Incentives to farmers organizations
Thank you