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CONTRACT FARMING IN ODISHA: A CASE STUDY OF DHENKANAL DISTRICT

PADMAJA PANDIT
ASSOCIATE PROFESSOR
DEPARTMENT OF ECONOMICS
J.K.B.K. GOVERNMENT COLLEGE
CUTTACK

ABSTRACT

Though there has been a substantial development of all the sectors of the economy, agriculture still continues to remain the main stay of the people of Odisha. Being an important agricultural belt, growth of this sector is necessary for not only ensuring food security and reduction of poverty in rural areas, but also in sustaining the growth of the other sectors of the economy. This paper thus tries to study the impact of participation in high value crop like sugarcane, through contract farming arrangements in Odisha, on the rural farm households of Dhenkanal district. The study has been undertaken by conducting a field survey in four sugarcane producing blocks of the district, using in-depth interview with observational techniques. The sample was restricted to 100 sugarcane contract, 50 sugarcane non-contract and 50 non-sugarcane farmers, across the study area.

KEYWORDS

contract farming, farm households, reduction of rural poverty, sugarcane.

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1. INTRODUCTION

Agriculture has remained a neglected sector of the Odisha economy. The share and growth of the sector has shown wide variations from year to year. The sector suffers from frequent natural calamities like cyclones, drought, flash floods and animal menace, together with localised adverse weather events too. Odisha is considered as the climate change hotspot of India. Because of the susceptibility of the State to natural calamities, increased variability in rainfall and low irrigation coverage, food grain production fluctuates from year to year. As such, farmers face livelihood insecurity and are in distress. Paddy, which is a dominant crop of the State, has shown a declining trend in both productivity and production acreage. Against this backdrop, there arises an urgent need to provide food security, livelihood security and nutritional security to the farming community by improving agricultural production and productivity. It was thus considered necessary to take note of the changing situation and bring out a policy that could meet the current challenges in this sector. To bring the agricultural sector out of the perils of subsistence farming, the Government of Odisha decided to embark upon commercialisation of agriculture, through a system of contract farming.

2. REVIEW OF LITERATURE

There is a plethora of literature examining the role of contract farming in agricultural diversification and development and its impact on the contracting farmers and the farm economy. The literature on contract farming as a tool for development is scattered through different disciplines. The essence of contract farming involves a commitment by a producer/farmer or out grower to provide an agricultural commodity of a particular type, at a time and a price and in the quantity required by a known buyer. It refers to a range of initiatives taken by the private agri-business companies to secure access to smallholder produce (Minot, 1986). Companies provide services to farmers and in return receive access to farmers' produce. Glover (1987) described contract farming as an institutional arrangement that combined the advantages of plantations - quality control, coordination of production and marketing and of small production - superior incentives, equity considerations etc. The contract provides the farmer with the assured sale of the crop and at times provides for technical assistance, credit, services, or inputs from the purchaser (Binswanger et al, 1995). Contract farming is also defined as an intermediary institution between spot markets and vertical integration (Key and Runsten, 1999). Contract farming can imply an out grower scheme that provides production and marketing services to farmers on their own land (Pauri Baumann, 2000). It can be defined as "an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at pre-determined prices" (Eaton and Shepherd, 2001). It basically consists of four elements: pre-agreed price, quality, quantity and time (Singh, 2002).

The trend towards contract farming and the reasons behind it have been extensively described for the agro-food industry in the developed countries (Martinez and Reed, 1996; Royer and Rodger, 1998). Another development relevant for contract farming in developing countries is the reduction in the role of the state in marketing, input and technical services. As the provision of inputs and services by independent firms is often weak, Contract farming can solve the problem of farmer access to inputs (Key and Runsten, 1999). It provides many opportunities as well as challenges to the farmers. Whilst acknowledging that contracts are often exploitative, Glover (1984, 1987) emphasises that contract farming and out grower schemes have very often led to a significant rise in living standards. Ramaswami et. al. (2006) focussed on the efficiency factor in contract farming by Indian poultry producers. Similarly, Miyata et al. (2007) examined the impact of contract participation on the household income of onion and green apple farmers in China. Sukhpal Singh (2000) reveals that the contracting farmers were better off with reliable income, new and better farming skills, better soil management and outlet for bulk sales.

Contracts can be categorised as formal (or written) and informal (or verbal). In agriculture, contracts are often simple and verbal (Olesan and Bogetoft, 2004). Most contracts are informal and incomplete. In developing countries, informal contracts are generally more efficient (Bijman, 2004). They are self-enforcing in nature, where the parties have the incentives to honour the contract in all contingencies. Such incentives can be both economic and social (Nootboom, 2002 and Klein Woolthuis et al., 2005). However, if contract farming becomes the norm, then people will lose food security. The firms will have their say in respect of the type of crops to be produced and the inputs to be used.

3. IMPORTANCE OF THE STUDY

Though several policies and programmes have been initiated to improve the performance of agriculture sector in the State, the Government through its Agricultural Policy, 2013 envisages a shift from the present level of subsistence agriculture to a profitable commercial agriculture, promotion of sustainable agricultural development, enhancement of productivity of important crops, encouragement of crop substitution and modern farming system through long term investments in agriculture by both private as well as public sector, increase access to credit for small and marginal farmers and encourage contract farming.

Contract farming practices, even though a new concept has been practiced informally since long in the State. Over the years, it has made headway in the arena of cultivation. The inclination of the farmers towards instant cash and assured market has lured them for contract farming. Increasing number of farmers are now giving up traditional farming practices and entering the process of contract farming. In the year 2006-2007, contract farming was first introduced to crops like cotton and oilseeds. Later on, it was extended to other crops like sugarcane, maize, lemongrass and groundnuts. Thus it is considered imperative to study the equity and efficiency implications of contract farming of sugarcane in the State with special reference to the district of Dhenkanal, a major farmland of the State.

4. STATEMENT OF THE PROBLEM

Odisha's agriculture is dominated by small and marginal farms. About 82 per cent of the holdings are less than 2 hectares in size, which are getting further subdivided. The cropping pattern of these farms is dictated by food needs and food crops occupy more than 85 per cent of the cropped area. This restricts the scope for income expansion through higher value non-food crops. However, Sakthi Sugars Ltd., being the only sugar mill in the district of Dhenkanal, has entered into contract schemes with the sugarcane growers. So it has become imperative to examine the impact of contract farming on the small and marginal farmers growing sugarcane, study its performance in terms of economic development and suggest measures for its success. It is also essential to analyse the basic inputs that are needed by the farmers to shift from food crop to non-food crop.

5. OBJECTIVES OF THE STUDY

Objectives set forth for the study are:

- (i) To analyse the causes for adoption of contract farming in sugarcane.
- (ii) To examine the terms and conditions of contract farming and its equity and efficiency implications on contracting partners.
- (iii) To examine the existing policy of the Government of Odisha with regard to contract farming and its implementation.
- (iv) To propose suggestions and recommendations in order to make it efficient and equitable to benefit the growers.

6. HYPOTHESIS

The study proposes to test the following hypotheses as gleaned from theory, with data collected from both primary and secondary sources.

H1 : Contract farming increases crop yield rate.

H2 : Growers get higher price than the market price for their crop produce.

H3 : Contract farming enhances farm income.

H4 : Farmers shall get an easy access to agricultural inputs which include seeds, fertilisers, pesticides, credit, farm machinery, technical advice, extension services etc., that may be otherwise unavailable.

7. RESEARCH METHODOLOGY

The adoption of a sound methodology, consistent with objectives in any empirical investigation, forms an integral part of the study. Here, it is essential to understand the concepts of equity and efficiency pertaining to the present study, before adopting the statistical techniques and other methods for research. Such a measure will give a proper perspective to the study. Equity can be assessed on the basis of a comparison between the relative benefits enjoyed by the contracting farmers and the contracting agency, by the large holders and small holders or by the farmers belonging to the higher caste or lower caste. Efficiency refers to the effectiveness and consequences of adoption of contract farming on these farmers. More specifically, its impact on crop yield, farm income and long term impact on environment, both with and without contract farming. In this study, a multi-stage stratified random sampling technique was followed to examine the operational efficiency of contract farming in Odisha.

In the first stage, for assessing the performance of contract farming, the district of Dhenkanal was chosen as the study area because of the successful operation of the Sugar mill and the widespread cultivation of sugarcane through contract farming, therein. In the second stage, four blocks namely, Dhenkanal Sadar, Kamaskhya Nagar, Bhuban and Gondia were selected from the district of Dhenkanal. In the third stage, two villages from each of the identified blocks were selected, according to highest production area coverage. Finally contracting and non-contracting sugarcane farmers and farmers producing other crops in adjoining lands were selected randomly, from each village. A total of 100 contracting, 50 non-contracting and 50 other farmers were included in the study.

A field survey was then conducted to identify the contracting and non-contracting farmers producing sugarcane in four blocks of the district of Dhenkanal. Participatory Rural Appraisal techniques like Group Discussions, Case studies and semi-structured interviews were made use of in course of the research. Data have been collected from both primary and secondary sources. Published secondary data and household survey data were used in the study. Secondary data on various parameters were collected from Statistical Abstracts of Odisha. Data on sugarcane production, productivity, area covered, irrigation facilities available and the number of farmers engaged in contract farming were obtained from the secondary sources such as the respective Block offices, the District Agricultural Office, the Directorate of Agriculture and Statistics, The Odisha State Agricultural Marketing Board, the Department of Co-operation and other published data were collected.

8. RESULTS AND DISCUSSIONS

In an environment, where production risk is high, it becomes difficult for these capital starved farmers to make efficient production choices. It was hence felt that contract farming could be one of the best solutions, which may reduce the polarisation of the rich and poor and thereby encourage these farmers to compete with the very large and rich farmers. Wide price fluctuations, unorganised and inefficient markets, limited market access and ultimately the weak bargaining power of the small growers have paved way to the participation of the private sector through contract farming. The role of contract farming through private sector participation has tried to make optimum use of land and farm resources in order to maximise agricultural produce.

Being a lucrative crop, the area under sugarcane cultivation in the district of Dhenkanal has been expanding progressively over the years. More and more farmers are growing sugarcane on contract basis to sell sugarcane at the pre-guaranteed specified price through contracts with Sakthi Sugars, Pvt. Ltd., which is the only sugar mill in the district. Taking care of the need of the hour, the Government of Odisha has taken a lot of initiative to promote sugarcane cultivation and maintain a continuous supply chain. In order to shift from the present level of subsistence agriculture to a profitable commercial one, the State APMC Act has been amended to include contract farming.

9. FINDINGS

An attempt was made to assess the socio-economic characteristics of sample households, which have a great impact on the behavioural pattern of the contract, non-contract and farmers producing other crops. The caste configuration of the sample households reveals that the majority of the contract farmers (49 %) belong to Schedule Caste, followed by Socially and Economically Backward Classes (25%) and only 23 per cent are of General caste. Of the total of 50 Non-contracting farmers, 50 per cent belong to SEBC, 3 per cent are of General caste and only 9 per cent are SC. In the non- sugarcane farmer households, majority (46%) belong to SEBC, 34 per cent are of General category and 20 per cent belong to SC (Table1). Thus there are more SC among the sugarcane contract farmers than among non-contract farmers and non-sugarcane farmers. This indicates that the inclination to adopt contract farming is more pronounced in the case of Schedule Castes, while the farmers belonging to the upper castes prefer to cultivate on their own and show less interest in contract farming.

TABLE 1: CASTE CONFIGURATION OF SUGARCANE CONTRACT, NON-CONTRACT AND NON-SUGARCANE FARMERS ACCORDING TO SOCIAL GROUP

Category	Number of Households		
	Sugarcane Farmers		Non-Sugarcane Farmers
	Contract	Non-Contract	
SC	49 (49.0)	09 (18.0)	10 (20.0)
ST	03 (0.3)	- (0.0)	- (0.0)
SEBC	25 (25.0)	25 (50.0)	23 (46.0)
GEN	23 (23.0)	16 (32.0)	17 (34.0)
TOTAL	100 (100.0)	50 (100.0)	50 (100.0)

Note: Figures within parentheses indicate percentages of total

Source: Field Survey

Table 2 reflects the various causes for entering into contract farming. Small farmers mostly face the constraint of assured market with a fair price. The most important reason cited by the sugarcane farmers to enter into contract farming was the promise of a steady and increased income that comes with an assured market (45.3%), low risk involved (23.6%), greater access to a reliable market, coupled with guaranteed and stable pricing structure i.e high returns (17.0%), better access to credit, inputs and extension services and increase in on-farm diversification. Thus, small and medium holders in the sample villages found themselves inclined towards contract farming.

TABLE 2: CAUSES FOR ENTERING INTO CONTRACT FARMING: FREQUENCY OF RESPONSES

Causes	Number of Households			Weighted Score in %age
	Contract Farmers - Rank			
	1 st	2 nd	3 rd	
Assured Market	79	15	5	45.3
Higher Returns	8	34	10	17.0
Low Risk	9	39	37	23.6
To diversity firm activity	2	4	19	5.5
Free extension service	1	1	12	2.9
Timely supply of credit and inputs	1	7	17	5.7
Total	100	100	100	100.0

Source: Field Survey

It is also revealed that across all farmer categories, 78.5 per cent are in the age group forty to sixty years and a greater percentage of contract farmers are found to be literates. Education is said to play an important role in motivating the sugarcane farmers to enter into contract farming. Interestingly, there are no marginal farmers among the contract farmers. However, the small and medium farmers are found to be the dominant (73%) among these contract farmers. Among the non-contract group of sugarcane farmers, 88 per cent are small and medium, 10 per cent are medium and only 2 per cent are large. This implies that most of the sugarcane farmers who are small and medium and literates too, opt for contract farming rather than cultivating on their own. However, among the respondent non-sugarcane farmers (farmers producing other crops), there were no large farmers at all. This indicates that the large farmers mostly prefer to cultivate sugarcane. But the question of viability of small farmers under contract farming has been solved amicably by the field data collected and conclusions that followed. It was found that the productivity of the small farmers was almost comparable to their large counterparts. The small farmers, in fact showed a rise in their income levels after starting cultivating sugarcane under the scheme of contract farming.

It was found that the crop was being cultivated by the farmers for their own economic stability and sustenance many years before the Sakthi Sugars made its entry. The produce was being utilised either for gur manufacture or supply to kandsari units operating in the vicinity. Being a traditionally cane growing area, most of the contract farmers were found to be acquainted with the farming operations but practiced primitive agronomical practices. Though they were by and large found to be knowledgeable, yet were keenly receptive and amenable to suggestions and advice, for improvement and updating their skills. Results show that during the period 2008 to 2014, the area under production in the district has gone up by 29.41 per cent, production by 39.58 per cent and yield per hectare by 7.85 per cent, during the same period. This increase in area, production and productivity definitely indicates the role of contract farming in improving the performance of the sugarcane cultivators and in a way, bringing about an upward movement in the status of these farmers, especially the small holders, though the achievement is not adequate.

It was observed that many contract farmers were discouraged by the delay in payments and were in constant fear of the frequent destruction of crops elephants, who may leave them bankrupt. At the same time, the Sugar mill also resorted to unnecessary manipulation of norms for their self-weighted interest. Though standard grades are fixed by the Sugar mill, they at times reject the produce on grounds of poor quality but later on purchase the same produce at a lower price. The inability to understand the terms of the contract is also a crucial lacuna of the system.

The contract agreement is signed by the contracting sugarcane farmers and the contracting sugar mill. The agreement is a formal and written one, which is prepared by the contracting Sugar mill. The terms and conditions are specified therein. The Sugar mill undertakes to provide inputs like technical knowhow, seeds, fertilisers, pesticides/weedicides (plant protection chemicals), pump sets for irrigation, soil testing, machinery for harvesting, credit facilities, transportation and marketing of the produce. The farmer in turn, agrees to supply the produce to the Sugar mill at the pre-agreed price. The cost of all the inputs provided are deducted from the post-harvest payments made. However, the procurement price is fixed by the government and is revised from time to time. But the quality of the procured produce is determined by the Contracting Sugar mill and is weighed at the procurement centre.

10. RECOMMENDATIONS

In the light of the above findings, the following suggestions are made for making the scheme of contract farming a better option for the practice of growing sugarcane traditionally. Since there are no specific and strong policy on contract farming, there is the need to develop a legal framework, which should incorporate the key elements of the linkage between the sugarcane farmers and the Sugar mill. The basic guidelines of contracts should specify the time, price, quantities, payment procedures, insurance, standards/quality, transportation and marketing arrangements. Periodical monitoring and evaluation of the contractual requirements and obligations should be stressed upon. The Sugar mill being more powerful than the contract farmers, takes advantage of its bargaining clout to its financial advantage. By strengthening the farmer organisations, the contract negotiating skills can help in redressing the potential of the buyer for exploitation of farmers and enforcing the poorly formulated contracts.

For successful implementation of contract farming, co-ordination and organised action are advisable for both sides. In fact, an ideal contract farming practice in this case, should be such, in which the Sugar mill provides seeds, other inputs, technological know-how, supervision and buys back the produced canes at the pre-fixed prices without a murmur, protecting itself as well as the farmers by insurance in case of market failures. Such contracts however, should be bi-lingual i.e both in English and Odia, to enable the contract farmers understand the terms and conditions laid therein, and avoid future litigations.

11. CONCLUSION

However, Contract farming should not be considered as a panacea to solve all related problems of sugarcane production and its marketing. Rather it could be evaluated as a way of providing easy access to credit, inputs, information and technology and a good market for the canes. Though, contract farming can lead to sustainable farming practices, it is clearly a win-win situation for both the farmers and the Sugar mill. With the rising seed and fertiliser costs and consequent rise in debts, contract farming seems to be the only choice left to these farmers. But the government has failed to provide the farmers with the essential protection and support required for viability on a sustained basis. Thus, the need for government intervention to step in and monitor the contract farming practices is the call of the hour. For any eventualities, the law should provide for a reasonable protection and escape route equitable to both parties. Legislations and regulations must be called for to strengthen the contract farming mechanism. For in the game of contracting, the government must control the game as a tough referee. Due to absence of transparency, the Sugar mill at times shows a low recovery percentage of sugar. There are also reports of violation of contracts by the farmers in lure of higher prices. The Sugar mill, in turn should develop long term relationship with farmers and adopt such policies which are conducive for sustained agricultural growth.

To take remedial and precautionary steps for violation of contracts by either parties, there should be provision for a right to appeal before the competent authority. Adequate compensation should be provided for, in case of rejection of produce on any ground. Contract farming can however, prove to be the best option for narrowing the wide degree of disparity in income, in agricultural sector and prove to be effective in the process of agricultural growth of the area under study.

12. LIMITATIONS

Though various studies have been conducted on contract farming, most of the studies are based on secondary data. Few literatures are available on contract farming in India based on primary data. Moreover, though only very few studies have been conducted so far to assess the efficiency and equity implications of contract farming in Odisha, no in-depth study on the contract farming of sugarcane has been done, yet.

In this backdrop, this study will attempt to critically examine the equity and efficiency implications of contract farming in Odisha, with special reference to the role of Sakthi Sugars Pvt. Ltd., situated in the Dhenkanal district of Odisha., by using both primary and secondary data. The findings of the study will help in formulating appropriate policy on contract farming and help in redesigning the scheme to enhance its operational efficiency and effectiveness in helping the small farmers in particular, to face the growing challenge and threat posed to them by frequent market failures by shifting from traditional cultivation and management practices to market oriented commercial production, which can help in employment generation, income growth and provide greater security.

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