Contract Farming: Challenges and Opportunities

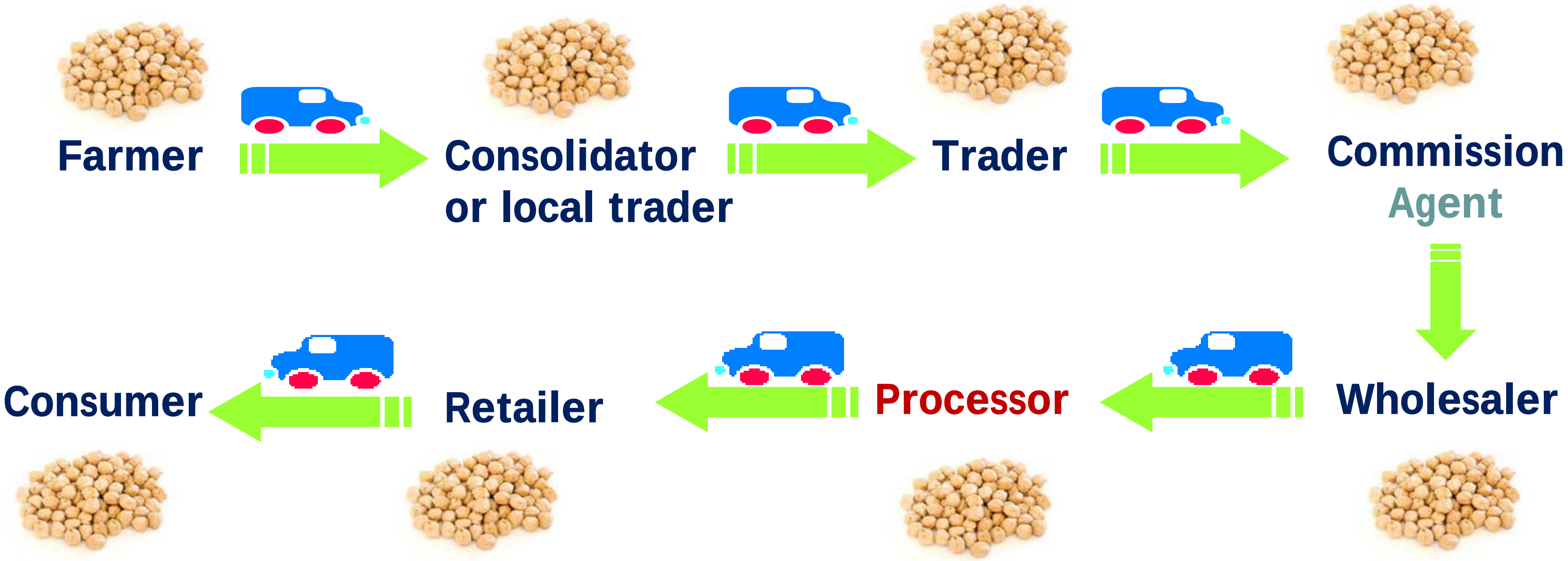
P K Joshi

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 (Venkateshwara 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

IFPRI

Problems in Contract Farming: supply side

- Low marketable surplus and heterogenous 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

IFPRI

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

IFPRI

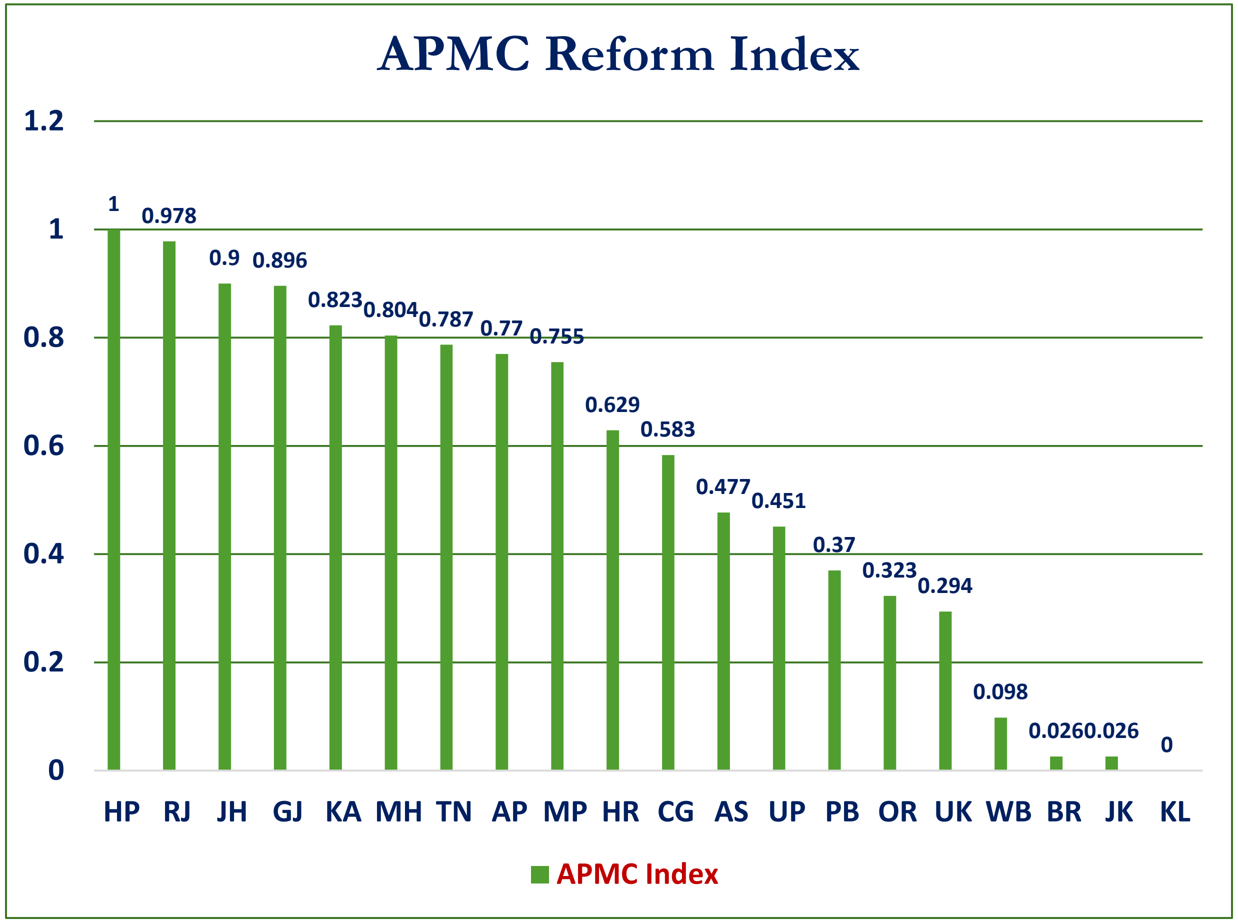
Why private sector prefers from wholesale markets

- Scale: low marketable surplus
- High transaction cost of the firm
- High risk in the event of crop failure
- Need regular supply
- Need homogeneous product

IFPRI

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



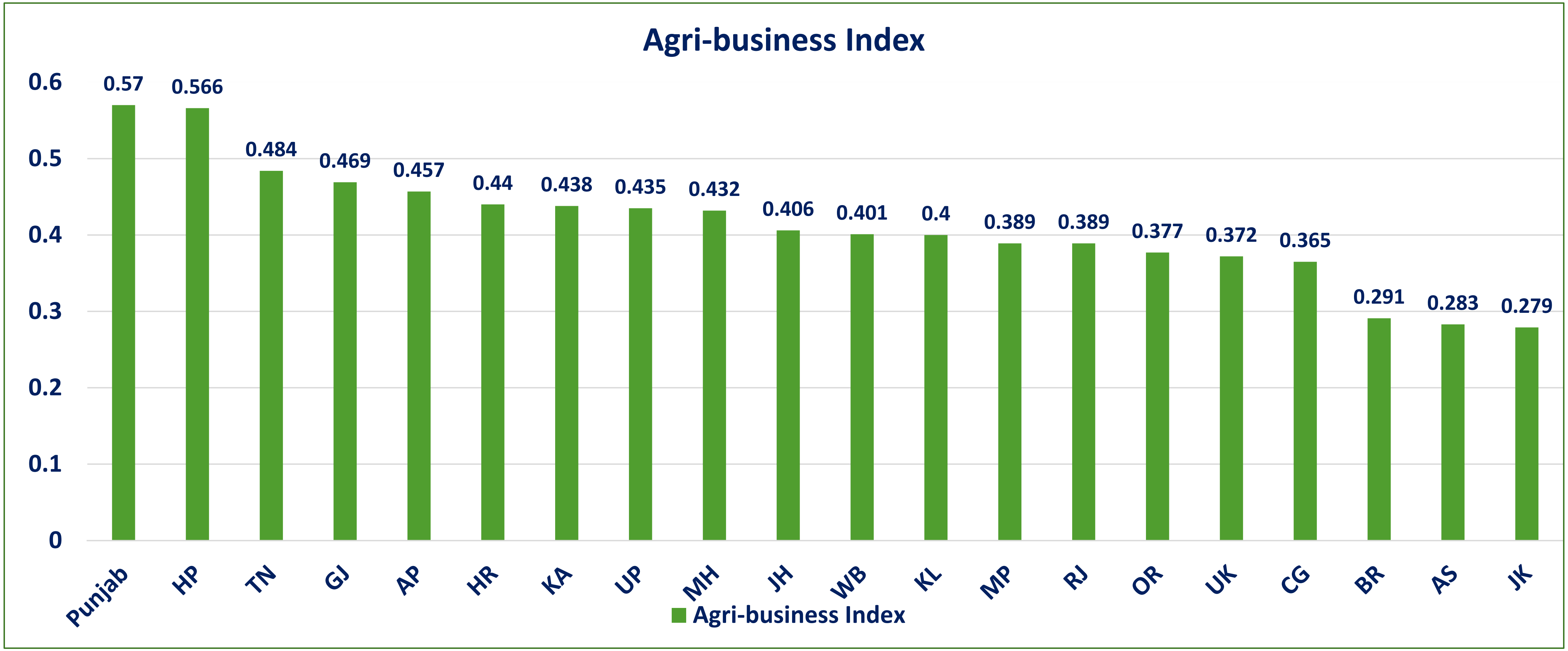
Indicators for potential for agri-business

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

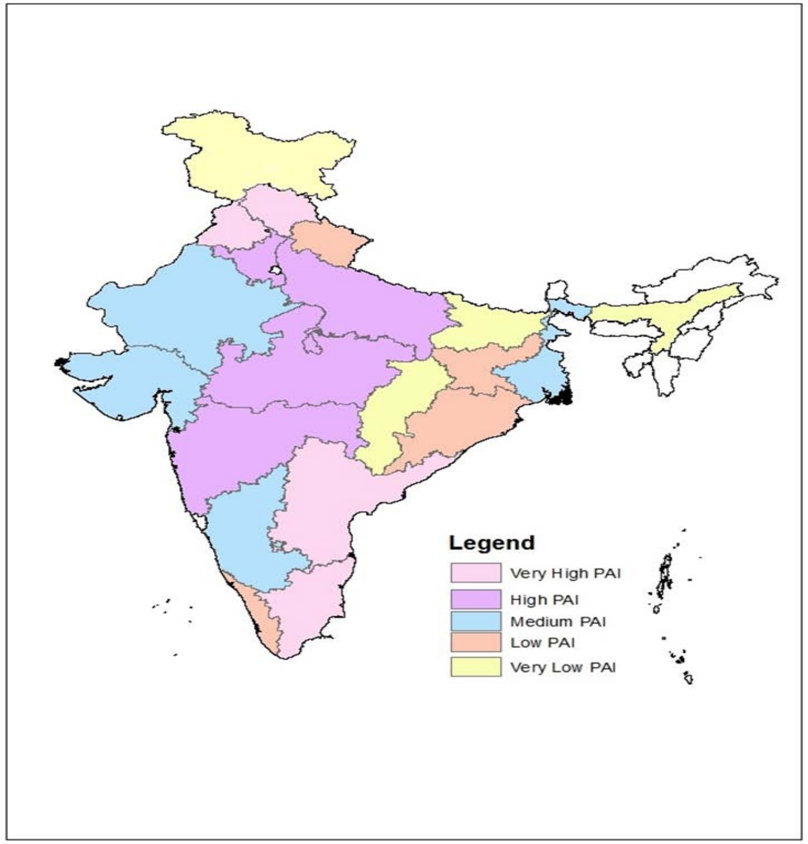
- Agribusiness
  - Input/service providers
  - Contract farming
  - Agro-processing
  - Packaging
  - Logistics
  - Exporter/importer
  - Retail chain
  - e-retailing

IFPRI

Potential agribusiness index: ranking of states

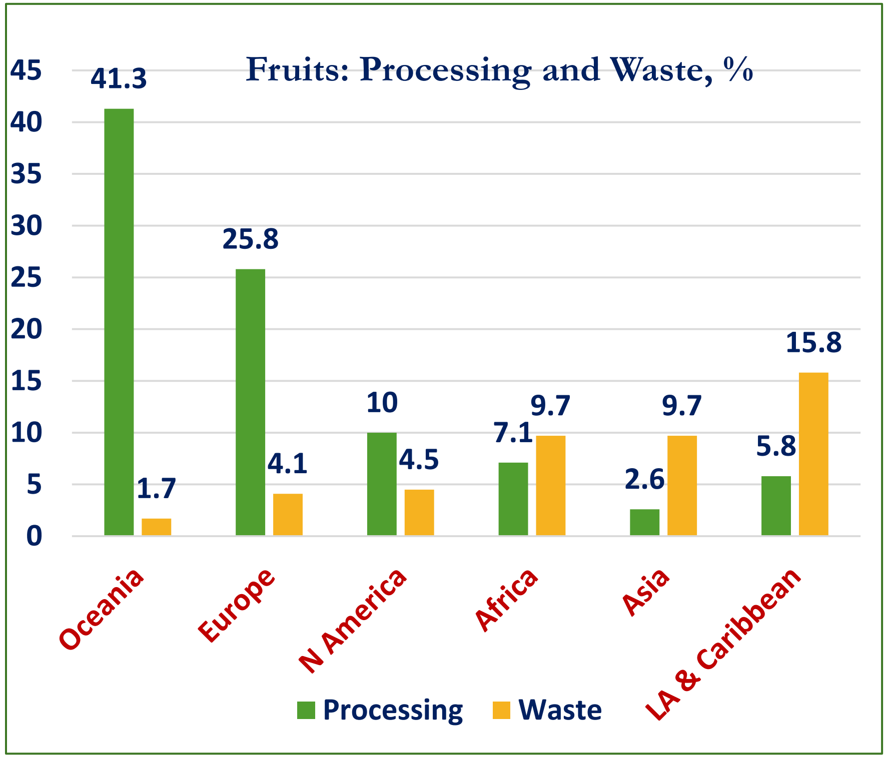


Agri-business opportunities



- 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

IFPRI

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

IFPRI

Thank you

IFPRI