

## CHAPTER 8

### FARMERS' AND COMPANY PERSPECTIVES IN CONTRACT FARMING

In Punjab, the farmers have assured market for traditional wheat-paddy crops and their acceptance for high value crops on long-term basis is possible only if the farmers do not face post-harvest problems in alternative contractual arrangements. While, at the same time, the companies also argued that despite good production, the farmers' default in delivering the produce to the companies at agreed terms and conditions. In this context, the following section elaborates both the farmers and the company's perspectives about the contract farming linkages.

#### 8.1 PepsiCo

##### 8.1.1 Source of contract

Majority of semi-medium (66.67 per cent) and medium (50 per cent) farmers had been contacted by the company surveyors for the first time for contracts. However, 57.57 per cent of the large farmers approached the company with the help of other farmers due to demonstration effect. Overall, more than 50 per cent of the farmers adopted contract farming with the assistance from the fellow farmers, while 36 per cent of the farmers were approached by the surveyors of the company. Only 12 per cent approached of their own to the company through surveyors for contract for the first time (Table 8.1). Thus, it can be inferred from analysis that fellow farmers played a greater role in engaging new farmers in contract farming.

Table 8.1

*Category-wise Distribution of Contract Farmers by Source of Contract*

Source of contract	Company agent	Fellow farmer	Self
Semi-medium	2 (66.67)	1 (33.33)	-
Medium	7 (50)	6 (42.86)	1 (7.14)
Large	9 (27.27)	19 (57.57)	5 (15.15)
All	18 (36)	26 (52)	6 (12)

*Note:* Figures in parentheses are percentage to total farmers in each category.

### **8.1.2 Provisions of contract**

84 per cent of the farmers did not read various contract agreement provisions before hand and just signed it. The contents of the contract details were written in English which was not easy for the farmers to understand (Appendix C). In the first section of the contract agreement, both parties are defined followed by the various provisions of the material and the responsibilities of both parties in the second section. The third section includes the terms and termination of contract, while the fourth section includes the incentives, code of conduct and compliance policy. The length of the contract under potato crop was 7 months. The contract agreement prepared by the company was very lengthy and lacked clarity about the provisions specified by the company. Each farmer had to sign a 14 page agreement that denote their commitment, but there were no consequent clauses if the company defaults. Thus, the contractual terms and conditions indicate the supremacy of the company on the farmers. Furthermore, the dominance of the company in various clauses left the farmers with weak bargaining power. Due to English language, farmers fail to understand the contract implications, thus the company was able to exploit farmers by manipulating the contract terms. Therefore, it becomes necessary to evaluate the contractual terms and conditions through the responses of the company officials and the farmers. As the company conceded to the written contract in English and the farmers also agreed on it. A copy of the contract being provided to the farmers was conceded by the company, but only 28 per cent of the farmers agreed on it. It was also observed during the survey that mainly large farmers were aware about written agreement and demanded its copy as evidence. While, some of the farmers revealed their trust with the company through surveyors and did not feel the need of a written documentation. 70 per cent of the contract farmers availed credit facility from Karur Vysya Bank through the company. The company arranged the transportation facility for delivering the produce at the factory/cold stores and if in any case farmers had to deliver at the cold store due to some transport related issues during harvesting time, then the company paid for their transportation cost and the farmers also confirmed it. The seed in 50 km radius of the store was transported by the farmers themselves, while to those who were at a distance of more than 50 km from the store; the company delivered the seeds at the field. However, for the seed delivery, 68 per cent farmers agreed that it was supplied by the company. The company also

conversed that the extension services were provided and all the farmers also confirmed it. Further, the farmers revealed that the extension staff visited the field after about 4-5 days. The company also informed that all the contract farmers had availed weather insurance, but only 66 per cent farmers confirmed the insurance (Table 8.2). Further, 38 per cent of the farmers informed that they had to make ₹ 1000 advance payment for getting involved in the contract for the next year. However, the company claimed that it did not charge anything from the farmers for entering in contract and ₹ 1000 was an advance payment for booking of the seed. All the farmers revealed that they followed both the own and the company's agricultural practices. The difference between the farmers and the company's responses may be attributed to the fact that the company wanted to present a superior image about the services provided by them.

Table 8.2  
*PepsiCo Company and Farmers' Responses on Contract Provisions*

Contract terms		Company	Farmers' responses	
			Yes	No
Written contract		Yes	50 (100)	-
Language		English	50 (100)	-
Copy provided		Yes	14 (28)	36 (72)
Credit facility	Provided	Yes	50 (100)	-
	Taken	(Through Karur Vysya bank)	35 (70)	15 (30)
Transport cost	For produce	Borne by the company	50 (100)	-
	For seed	Beyond the radius of 50 Kms is borne by the company	34 (68)	16 (32)
Weather insurance	Provided	Yes	48 (96)	2 (4)
	Taken	-	33 (66)	17 (34)

*Note:* Figures in parentheses are percentage to total contract farmers.

### 8.1.3 Reasons for adopting contract farming

80 per cent of the contract farmers argued that they adopted contract farming for the stable prices provided by the company. They argued that there exist wider price fluctuations in potato over seasons due to variations in its production and availability in the market. It was distantly followed by assured market (64 per cent) and fixed income (50 per cent) received from the contract farming. Further, for 22 per cent of the contract farmers, saving of the transportation costs was also a major reason for adoption of contract farming as the contracting company picked the produce from the farm and delivers the inputs at the farm itself. It was advantageous for those farmers who had comparatively lower number of tractor-trolleys. Better prices in contract farming were reported by 20 per cent of the farmers. 14 per cent farmers entered in contract for getting accessibility to quality seeds and another 12 per cent entered in it as their farms get free earlier. Since, the company mainly contracts for potato seed in Punjab, early digging up of potatoes gave the farmers more time for sowing of the third crop. Onetime payment was also reported by 8 per cent farmers for joining the contract. Onetime payment was beneficial for the farmers as they could make all expenditures and investments simultaneously (Table 8.3).

Table 8.3

*Distribution of Farmers by Reasons to take up Contract Farming (Multiple Responses)*

Reasons for taking Contract farming	No. of farmers
Stable price	40 (80)
Assured market	32 (64)
Fixed income	25 (50)
Input & produce delivery	11 (22)
Better price	10 (20)
Quality seeds	7 (14)
Field get free earlier	6 (12)
Onetime payment	4 (8)
Assured coverage of cost	3 (6)
Extension services	3 (6)
Demonstration effect	2 (4)

*Note:* Figures in parentheses are percentage to total contract farmers.

### 8.1.4 Benefits of contract farming

The perusal of Table 8.4 explains benefits of contract farming estimated using Henry Garrett Ranking. Assured market scores the first rank with a Garrett score (79.22) followed by assured price with 70.88 mean score. The third benefit was quality seeds with 58.6 score, fourth fixed income with 57.32 score, fifth extension service with 56.14 score and the sixth was the transportation of produce by the company with a mean score of 52.82. Some of the other perceived benefits of contract farming included: technical know-how, mechanical grader incentive, field get free earlier, higher quality of produce, insurance facility, crop don't get spoiled due to assured market and higher income in that order. 90 per cent of the contract farmers wanted to continue the contract for potato crop with PepsiCo.

*Earlier, I was attached with the Chambal company for contract farming, they were not allowing to grow the crop of another company and grading practice was done manually that consumes a lot of time, but on the other side, PepsiCo allows the farmers to grow another companies' crop and also provides machine grader facility, that saves the time. Even the roguing cost is also borne by the company.*

*-Baldev Singh, age 46 years, Sidhwan Bet block, Ludhiana*

*In 2015 crop season, company rejected mine whole crop due to virus attack on it and converted it from seed grade to chip grade. Nevertheless, the company procured the whole harvest by swapping the prices of A and B grade to C and D grade. However, in the whole process, I was on the safe side and earned even more profit. But company had suffered from loss due to conversion of seed variety into chip grade variety, the seeds gone out of the circle. However, the surveyor of the company argued that the company purchased produce A and B grade of the farmer at ₹ 3 per kg and C and D grade at ₹ 9.50 per kg. Around 90 per cent of the produce from an acre lies in C and D grade category and just 10 per cent lies in A and B grade category. So the farmer earned gross return around ₹ 90000 per acre.*

*-Sukhjot Singh, age 47 years, Sidhwan Bet block, Ludhiana*

*-Inderjeet Gill, Company Surveyor*

Table 8.4  
*Henry Garrett Ranking of Contract Farmers for the Benefits of Contract Farming*

Factors for benefits	Average Score	Rank
Assured market	79.22	1
Assured price	70.88	2
Extension services	56.14	5
Quality seeds	58.6	3
Technical know-how	49.28	7
Fixed income	57.32	4
Higher quality of produce	40.02	10
Mechanical grader incentive	43.34	8
No need to transport crop to market	52.82	6
Higher income	29.8	13
Field get free earlier	40.12	9
Crop don't get spoiled due to assured market	32	12
Insurance facility	38.02	11

#### **8.1.5 Production and marketing problems faced by farmers**

Contract farmers also faced some problems viz. costly seeds, shortage of labour, low price, excessive grading, etc. during cultivation and marketing of their produce. The sampled farmers were asked to rank their problems in terms of affect on them. Henry Garrett ranking technique was used for the purpose of ranking the problems of the farmers. From Table 8.5, it can be inferred that among all the problems faced, costly seeds with 70.12 average score was ranked first followed by low price for the produce with mean score 66.7. The third problem was shortage of labour (57.88), followed by excessive grading by the company (46.66) and late payment (43.1). The sixth in the list was transportation cost for the seeds (with a mean score of 39.08) followed by high rotten rate of seed provided by the company (mean score 38.22) and provision of unrequired fertilizers (mean score 37.24).

Table 8.5

*Henry Garrett Ranking of Problems faced by Contract Farmers in Production and Marketing*

Production and marketing problems	Average score	Rank
Shortage of labour	57.88	3
Seeds are costly	70.12	1
Low prices	66.7	2
Seed transportation cost is high	39.08	6
Excessive grading	46.66	4
Late payment	43.1	5
High rotten rate in the seed provided by the company	38.22	7
Provision of unrequired fertilizers	37.24	8

*Company exploits the farmer to a large extent. The chemical kit that we can buy easily from market or even can borrow but company gives it in advance on cash only. Sometimes due to its limited utilization, a sufficient amount of its remaining unutilized. The company provides us 30 sacks of seeds to be sown in the area of one acre. But as per our experience at least 3 bags get wasted due to rotten pieces. So the company should increase the quantity of bags to 40.*

*Further, the company asks for advance payment for seeds at least one week before. However, when they procure the produce, the farmers have to wait for the payment for long. So I demand that company should pay us at least half of the payment at the day of procurement.*

**8.1.6 Perceptions of non-contract farmers about contract farming**

In the study area, 50 farmers who were not involved in a contractual relationship were also interviewed regarding the issues related to contract farming. All the farmers were familiar with contract farming and among them 12 per cent also had contracts previously. Disputes related to side selling and qualities were primary

reasons for not continuing the contracts. Forty six per cent farmers wanted to engage in contractual relationship if they got chance in future.

Further, Table 8.6 analyzes the non-contract farmers' perspectives for not entering in contract farming. 40 per cent of the non-contract farmers argued that the inputs provided by the company were costly than the market prices. Another 14 per cent argued that the company provided the seeds to the known farmers only. Amongst them, 12 per cent farmers were those who earlier worked with the contracting firm and were blacklisted by the company for side-selling the potatoes. While 12 per cent considered the participation in contract as interference in their farming operations and might lose their decision making power. Another 10 per cent of the farmers believed that average returns for both contract and non-contract farmers over a longer period of time remain same.

Table 8.6  
*Distribution of Non-contract Farmers by their opinion for not engaging in Contract Farming (Multiple Responses)*

Reasons	No. of farmers
Costly Inputs	20 (40)
Company provide seed to the known farmers only	7 (14)
Blacklisted by the company	6 (12)
More interference in farming operations	6 (12)
Same average returns in long run	5 (10)
Not allowing storage of seed	4 (8)

*Note:* Figures in parentheses are percentages to total non-contract farmers.

### **8.1.7 Company's opinion about contract farming**

The company officials pointed out that they preferred to choose farmers with 5 to 10 acres of land. But during primary survey, actual situation was different, as the company has to allot a vendor ID on 10 acres of land to one farmer. However, in most of the large farmer families, the company has signed contract agreement with more than one member of the family by giving more than one vendor ID.

The company also faced some issues while executing their contract practice like side-selling and hiding of potato seed by farmers. According to the company officials, the most significant problem faced by them was the selling of produce in open market that has been produced under contract, whenever the spot market prices were higher than the contract prices. So the farmers were punished by contract exclusion. Even some of the farmers used to hide some of the produce for seed in next season, which they grew for open marketing. Due to that, the company's patent seed becomes available in the open markets. Thus, in the next season, farmers grow PepsiCo's seed without entering in contract. Whenever the price in open market declines, they sold it to PepsiCo by fulfilling their quality norms easily and in case of higher prices in open market; they used to sell their produce in open market. So in both situations such farmers used to earn more return than the contract farmers. Ultimately, that encourages the contract farmers to hide their produce for higher returns.

## 8.2 Rana Sugars Limited

### 8.2.1 Source of contract

The major source of involving in contract with firm among contract farmers was turned out to be the company's agent (76 per cent) followed by demonstration effect (14 per cent) and 10 per cent of the farmers themselves approached to the surveyor for the first time. The majority of the medium and large farmers were firstly approached by the firm (81.5 per cent and 72.7 per cent, respectively). Thus, it is evident from the analysis that the company itself also played a major role for the promotion of new sugarbeet crop in the state (Table 8.7).

Table 8.7

*Category-wise Distribution of Farmers by Source of Contract*

Source of contract	Company agent	Fellow farmer	Self
Small	2 (66.7)	1 (33.3)	-
Semi-medium	6 (66.7)	2 (22.2)	1 (11.1)
Medium	22 (81.5)	3 (11.1)	2 (7.4)
Large	8 (72.7)	1 (9.1)	2 (18.2)
All	38 (76)	7 (14)	5 (10)

*Note:* Figures in parentheses are percentage to the farmer in each category.

### **8.2.2 Provisions of contract**

The contract practices were explored in detail on the basis of farmers' and the company officials' responses. The company claimed to have a written contract and a copy of the same was provided to the farmers. But, only 72 per cent of the farmers conceded for the written contract, while only 6 per cent actually possessed the copy of the contract. Some of the farmers pointed out that they trusted the company and did not feel the need for copy of the agreement. It was observed during field survey that the farmers were not sure about the number of parties involved in the agreement. As many as 76 per cent of the farmers enlightened that only two parties i.e. farmer and company signed the agreement, while another 24 per cent pointed out the involvement of three parties (farmer, company and bank). 76 per cent of the contract farmers were able to avail the credit facility from IDBI bank as the company itself acted as guarantor. The IDBI provided a loan of ₹ 20,000 for an acre. The maximum limit of providing loan to each farmer was ₹ 1 lakh for 5 acres. However during field survey, it also came to light that some of the large farmers were registered for the crop with the company in the name of 3-4 family members. Seed was provided by the company at 80 per cent subsidized rates to the farmers, costing about ₹ 1000/ acre to each farmer as against ₹ 5000/acre. During 2014-15 crop season, payments of the farmers were delayed for 3-4 months. As a result large number of farmers did not want to grow sugarbeet during next sowing season. Therefore, the company started loan facility to the farmers through IDBI bank. But, 50 per cent of the farmers considered availing of credit as half of the advance payment for the produce from the company. Thus, these farmers were of the view that even if the company did not procure their crop, they were on the safe side. However, other farmers said those had taken loan were not aware about 12 per cent interest charged on the loan availed. On transportation cost, the company conceded that gate area farmers themselves had to bear the cost, but in context of the farmers outside gate area, the company bore it. However, in practice, 48 per cent of the farmers confirmed that the company bore transportation cost of the produce, while 52 per cent of the farmers had to transport it of their own. The company did not provide any insurance against natural calamities. Farmers accepted that the company provided the extension services and surveyor visited the field on an average once in two weeks. The company pointed out that the farmers followed their instructions on

agricultural practices. However, 86 per cent of the farmers confirmed that they followed both own and company's agricultural practices, while 14 per cent followed their own farm practices (Table 8.8).

Table 8.8  
*Company and Farmers Responses on Various Contract Provisions*

Contract terms		Company	Farmers' responses	
			Yes	No
Written contract		Yes	36 (72)	14 (28)
Language		Punjabi	36 (72)	-
Copy provided		Yes	3 (6)	47 (94)
Credit facility	Provided	IDBI	50 (100)	-
	Taken		38 (76)	12 (24)
Transport cost	For produce	Farmer/company	24 (48)	26 (52)
	For seed	Farmer	50 (100)	-
Weather insurance	Provided	No	-	-

*Note:* Figures in parentheses are percentage to total contract farmers.

### 8.2.3 Reasons for adopting contract farming

90 per cent of the contract farmers choose the contract crop sugarbeet as it gave more returns than wheat crop. Another 70 per cent started practicing contract farming in sugarbeet as it improved their land quality. While 50 per cent wanted to diversify away from wheat crop and 40 per cent adopted it due to demonstration effect. 32 per cent of the farmers were attached to contract farming as it helped them to get procurement slips for sugarcane easily. Fixed income from contracting, assured market, better price, etc. were some of the other reasons for getting involved in contract farming (Table 8.9).

*I opted for sugarbeet, as it is better crop than wheat in terms of return, even gave better income last year when due to heavy rains, the yield level of wheat declined too much and the most important is that it also gives best results on mine poor land. Even I want to grow more area under the contracted sugarbeet crop. Even surveyors do not know many facts about crop and agricultural practices. As compared to them, we own have more agriculture experience.*

*- Baldev Singh, age 38 years, Dadiya, Amritsar*

Table 8.9  
*Distribution of Contract Farmers by Reasons for taking up Contract Farming (Multiple Responses)*

Reasons for taking Contract farming	No. of farmers
More income than wheat crop	45 (90)
Brings improvement in land quality	35 (70)
Diversify too new crops	25 (50)
Demonstration effect	20 (40)
Getting sugarcane slip	16 (32)
Fixed income	15 (30)
Assured market	12 (24)
Better price	8 (16)
Personnel relation with company	8 (16)

*Note:* Figures in parentheses are percentage to total contract farmers.

#### **8.2.4 Benefits of contract farming**

The benefits of contract farming as perceived by the farmers are described in Table 8.10. Higher income scored the first rank with a maximum average score (72.2) followed by the diversification away from traditional wheat crop with 65.22 Garrett score. The third benefit perceived was improvement in soil quality with mean score 63.66, while fourth benefit included higher profitability than wheat with a mean score 51.9 score. Assured price and market were ranked at fifth and sixth respectively. Availability of loan facility, fixed income and obtaining technical know-how were some of the other benefits of involving in contract farming ranked in that order using Garrett ranking technique (Table 7.22). However, 80 per cent of the non-contract farmers were aware about the contract farming in their area and 36 per cent wanted to get involved in the same if they got a chance in future. There were 6 per cent non-contract farmers who previously worked under the contract. However, they discontinued the contract with the company due to delayed payment and costly inputs.

Table 8.10

*Henry Garrett Ranking of Contract Farmers for the Benefits of Contract Farming*

Factors for benefits	Average Score	Rank
Assured market	46.44	6
Assured price	49.08	5
Getting technical know-how	27.28	9
Fixed income	33.42	8
Availability of Loan facility	41.18	7
Diversification away from wheat	65.22	2
Higher income	72.2	1
Better soil quality	63.66	3
More beneficial than wheat	51.9	4

**8.2.5 Production and marketing problems faced by farmers**

During cultivation of sugarbeet, the farmers faced several problems like shortage of labour, high cost of inputs, weed and pest problem in the crop. Henry Garrett technique was used to examine the production problems. Shortage of labour was ranked first. Due to emergence of weeds in the crop, more labour was required for weeding operations. During harvesting period, the summer starts, so the workers were not easily convinced for going to field. Emergence of weeds in sugarbeet was the second major problem with 49.42 mean score. As the sugarbeet is crop of short height and many weeds grow taller than the sugarbeet plant, thereby resulting in greater yield losses. High cost of inputs was the third major issue with 48.02 mean score. Increased price of inputs like chemical kit and high labour consumption for hand weeding and harvesting along with increased wages has escalated the cost of production. The fourth issue during production was the high incidence of pest attack (Table 8.11).

Table 8.11

*Henry Garrett Ranking of Contract Farmers for the Production Problems*

Production problems	Average score	Rank
Shortage of labour	65.2	1
High cost of input	48.06	3
Emergence of weeds	49.42	2
Pest attack	37.32	4

On the contract farms, low price with a Garrett score of 70.46 was the major marketing constraint. Late payments were the second major issue among the farmers. During 2014-15, losses for the sugar industry had mounted to an all-time high as sugar prices were perched around six-year low. Thus, the contract firm also failed to make timely payments to sugarbeet farmers. The third issue was high marketing cost (54.52 score) followed by high deduction rate (53.34 score). The fifth problem was transport difficulties with a mean score 45.94. During field survey, the farmers enlightened that for transporting one acre produce, three trolleys were required. Since one trolley has a capacity of 100-120 quintal sugarbeet crop, when the farmers deliver the produce at company, the labour remain idle in the field. Thus, it escalated the marketing cost for the farmer. Thus, hiring of more trolleys becomes essential for the contract farmers. Next constraint faced was distance of the company from the farmers' field with 43.52 score. As the crop deteriorates fast after harvesting and have to be supplied to the company preferably within 24 hours of harvesting. Storage is not possible even for a few hours. The company would like to spread delivery of produce over the longer period on the basis of raw material requirement (Table 8.12). This causes a backlog at the delivery point and quite often quantity deteriorates due to shrinkage resulting in the loss of the quantity premium. Therefore, a well coordinated plan of harvesting and supplying of produce is of utmost importance for the farmers and company.

Table 8.12

*Henry Garrett Ranking of Contract Farmers for the Marketing Problems*

Marketing problems	Average score	Rank
Low price	70.46	1
Late payment	64.98	2
High marketing cost	54.52	3
Distant market	43.52	6
High deduction rate	53.34	4
Transport difficulties	45.94	5
Weight loss of beets	40.1	7
Default in procurement	37.94	8

*Company provides pesticides without label on the bottle. The company says to the farmer that you will get the slip for sugarcane only if you will also grow sugarbeet. Even the sugarbeet is costly crop due to that the area under it has also declined as compared to previous years. Although, the company itself operates the harvesting with its own machine and labour, yet it applied the high deduction rate on produce. We get just ₹ 4,00,000 from one acre but the company makes 13 kg sugar from only one quintal sugarbeet.*

*-Satnam Singh, age 23 years, Kirhian, Tarn Taran district*

*Few farmers mentioned that the company used to apply high deduction rate on the basis of sample. For taking sample, officials knowingly pick up the beet with the maximum leaves and mud. In three shifts, deduction on the total produce is applied. During 1<sup>st</sup> year of the contract, deduction rate was just 5-8 quintals, but last year applied much more i.e. 18-22 quintal.*

*(As revealed by the 16 per cent farmers during discussion)*

### **8.2.6 Perceptions of non-contract farmers about contract farming**

Further, the responses of the non-contract farmers were also recorded in order to find out the reasons for not entering into contract with the company. 28 per cent of the farmers opined that they could not participate in contract due to smaller size of land holding, while 22 per cent of the farmers attributed it to the costly inputs of the contract crop. Ownership of farm machinery was another constraint hindering the participation in contract farming for about 14 per cent farmers. Another 8 per cent pointed out that they cannot trust the private companies (Table 8.13). It was clarified by the farmers that *“we grow wheat-paddy as the government procures these crops at minimum support price. We can’t grow such new crops with the assistance of private companies without government involvement. If the company runs away in between the crop season or may not procure our entire produce then where we will go? Obviously, we will leave back here with severe crisis”*.

Table 8.13

*Distribution of Non-contract Farmers by Opinions for not engaging in Contract (Multiple Responses)*

Reasons	No. of farmers
Land is less	14 (28)
More costly crop	11 (22)
More machinery is required	7 (14)
Private companies are untrustworthy	4 (8)

*Note:* Figures in parentheses are percentage to total non-contract farmers.

### **8.2.7 Company's opinion about contract farming**

The company started to procure sugarbeet produce from 27<sup>th</sup> April in 2015-16 season. The company used to provide its sugarbeet harvester at farmers' field on the basis of sowing dates. The whole produce was procured by the company after applying some deduction. The deduction was applied on the total produce after taking sample of 5 pieces of sugarbeet from the trolley. 3 pieces were selected by the company official and 2 pieces by the farmer from the lot. The company official pointed out that the farmers used to complain about high deduction rate. However, in actual, overall deduction rate was very small. Because even if the company official would select the piece of beet with mud and leaves while, the farmers generally picked the piece without contamination.

### **8.3 Paras Spices Pvt. Ltd.**

#### **8.3.1 Source of contract**

The major source for 74 per cent of the contract farmers in linking with contracting company was turned out to be company's agents, while another 16 per cent contracted with the company through the another fellow farmers in the village. These farmers joined the contract farming after knowing about returns from the chicory at neighbourer's farm. The remaining 10 per cent of the farmers approached to the surveyor of their own for the first time. Further, it also came in light that the company first approached mainly to the medium and large farmers for contracting (Table 8.14). Thus, it can be inferred from the analysis that the company is playing an important role for the promotion of new chicory crop in the Moga district.

Table 8.14

*Category-wise Distribution of Farmers by source of Contract*

Source of contract	Company agent	Fellow farmer	Self
Semi-medium	3 (60)	1 (20)	1 (20)
Medium	20 (76.9)	4 (15.4)	2 (7.7)
Large	14 (73.7)	3 (15.8)	2 (10.5)
All	37 (74)	8 (16)	5 (10)

*Note:* Figures in parentheses are percentage to total contract farmers.

### 8.3.2 Provisions of contract

The firm conceded that it had a written contract with the farmers in English and a copy of the contract was being provided if it was asked by the farmers. However, only 46 per cent confirmed the written contract, while none of the farmer had a copy of the contract. According to the company officials, package of practices for chicory crop were recommended by the company surveyor. The same was confirmed by 86 per cent of the contract farmers; while 14 per cent of the farmers pointed out that they did agricultural practices on the basis of their own experiences (Table 8.15). Along with technical support, the company also confirmed that it provided agri-inputs recommended by the PAU. But, the farmers specified that the company provided only seeds along with technical support. Extension staff, on an average, visited the field at an interval of 13 days as confirmed by the farmers and was always available on call. Further, the farmers confirmed that extension staff noted down the entire details about the input usage like quantity and quality of fertilizers and pesticides, irrigation and its application in register along with farmers' signature. Transport cost for the produce was borne by the farmer and the same was agreed by both the company and the farmers. The company did not provide any loan and facility of insurance against natural calamities to the contract farmers. The company provided only seed to the farmers, which cost around ₹ 1700 per acre for 400 gm seed. The company conceded that they select farmers from all over Punjab, but they preferred to sign contract with the farmers mainly in Moga district. It was also found during the survey that 96 per cent of the contract farmers belonged to Moga district only. Moreover, a few farmers pointed out that '*chicory crop is beneficial for those farmers who are within the radius of 7 km from the company's location*'.

Furthermore, the company preferred the land, where attack of *Phalaris Minor* weed was less as there was no recommended weedicide for chicory crop in India.

Table 8.15

*Company and Farmer's Responses on Contract Provisions*

Contract terms		Company	Farmers' responses	
			Yes	No
Written contract		Yes	23 (46)	27 (54)
Language		English	23 (46)	-
Copy provided		If farmer asked	-	50 (100)
Credit facility	Provided	If farmer asked	-	50 (100)
	Taken		-	50 (100)
Transport cost		Farmer	50 (100)	-
Weather insurance		No	-	50 (100)

Note: Figures in parentheses are percentage to total contract farmers.

### 8.3.3 Reasons for adopting contract farming

Table 7.28 reveals the reasons for participation in contract farming. 92 per cent of the farmers attributed their shift to higher income earned from the chicory crop. About 30 per cent credited it with fixed income under contract farming. Further, 22 per cent opted for the contract farming due to demonstration effect. Furthermore, 16 per cent of the farmers grew the contracted crop as they obtained lower yield in wheat crop due to unsuitable soil quality (Table 8.16).

Table 8.16

*Distribution of Farmers by Reasons for taking up Contract Farming (Multiple Responses)*

Reasons for taking Contract farming	No. of farmers
Higher income	46 (92)
Fixed income	15 (30)
Demonstration effect	11 (22)
Land quality is bad, not suitable for wheat	8 (16)
Assured market	5 (10)

Note: Figures in parentheses are percentage to total contract farmers.

### 8.3.4 Benefits of contract farming

Table 8.17 illustrates the benefits of contract farming professed by the farmers using the Henry Garrett ranking. Diversification to new crops attained the highest score (69.76) followed by the higher income (67.28). The third benefit perceived by the farmers was improvement in soil quality with an average score of 60.92. Fixed income from contracted crop, assured price, no impact of animals on crop were some of the other major benefits of practicing the contract farming in that order. Another advantage of growing chicory as contract crop was the improvement in the yield level of next crop grown in the plot as its leaves could be used as green manure. Less impact of natural calamities and assured market were given the 38.1 score and 32.04 score respectively. 98 per cent of the contract farmers wanted to continue the contract for chicory crop with Paras Spices Pvt. Ltd.

Table 8.17

*Henry Garrett Ranking of Contract Farmers for the Benefits of Contract Farming*

Factors for benefits	Average Score	Rank
Assured market of the chicory	32.04	9
Assured price	45.48	5
Fixed income	57.92	4
Diversification to new crop	69.76	1
Improvement in soil quality	60.92	3
Improvement in yield of next crop	38.86	7
Less impact of natural calamities	38.1	8
No impact of animals on standing crop	39.64	6
Higher income from new crop	67.28	2

### 8.3.5 Production and marketing problems

Table 8.18 and 8.19 reveal various production and marketing problems faced by the farmers in growing chicory under contract farming. Shortage of labour with a mean score 74.68 was the major problem, which was ranked first using the Garrett ranking technique, while costly inputs with a mean score 63.98 score was ranked second. Poor quality of pesticides, weed attack on crop, shortage of water etc. were the other major production problems for the farmers (Table 8.18).

Table 8.18  
*Henry Garrett Ranking of Contract Farmers for the Production Problems*

Problems	Average score	Rank
Shortage of labour	74.68	1
High cost of inputs	63.98	2
Lack of credit	41.84	5
Shortage of water for irrigation	34.64	6
More weed attack	42.42	4
Poor quality of pesticide	42.44	3

Low price for the chicory crop was the major problem as it had a mean score of 68.24 among the various marketing related issues. During field survey, farmers asserted that the chicory price was low in relation to the cost of inputs. The second major issue was delay in procurement of the produce. Farmers had to stand in queue for several hours or even for a day along with their tractor-cum-trolley to wait for their turn. The farmers used to start reaching at firm gate to sell their produce after mid-night i.e. before the opening hours of the company. The third issue was transport difficulties with 48.18 score (Table 8.19). As farmers themselves had to deliver their produce at company gate and to transport one acre produce, more than two trolleys were required. As one trolley on an average has capacity of 70-75 quintal for chicory. Its immediate delivery after harvesting is beneficial both for the farmers and the company. If the root is allowed to dry prior to removing the bark than the thick bark will develop as a result its removal will become increasingly difficult. The chicory roots losses its wait at a very fast rate and thus, transportation is one of the big hurdles for a long distance farmers.

Table 8.19  
*Henry Garrett Ranking of Contract Farmers for the Marketing Problems*

Problems	Average score	Rank
Low price	68.24	1
Default in procurement	52.36	2
High marketing cost for grower	30.98	4
Transport difficulty	48.18	3

*When we start digging initially at that time yield is around 180 qtl. When while digging the crop, we reaches in last acres of chicory field, the yield level rises to 220-230 qtl. So, on an average, yield remains around 200 qtl. The whole harvesting in the end is not possible.*

*-Balwinder Singh, age 46 years, Moga 2 block, Moga*

*This year company sowed less than 400 gram seed on one acre. So the crop grown thinly, therefore to do proper adjustment we have spent our time and money again by plucking the plants from others farms where the thinning was required and by sowing it on our farm.*

*-Chetan Singh, Age 62 years, Chugawa, Moga district*

### **8.3.6 Opinion of non-contract farmers for contract farming**

Further, 92 per cent of the non-contract farmers confirmed that they had knowledge about the chicory contract farming in their region. Forty per cent of the non-contract farmers also wanted to engage in contractual relationship. However, from the company's perspective, the inclusion of farmers in contract farming in actual depends on distance of the farm from the firm and farmers resource endowment. On the other hand, non-contract farmers considered the most important reason for their exclusion from contract farming was lesser availability of family labour and transport issue. The second major issue among non-contract farmers for being not entered in the contract was small land holdings. 10 per cent of the non-contract farmers failed to get seed as the company preferred to work with same farmers rather than choosing new farmers (Table 8.20).

Table 8.20

*Distribution of Non-contract Farmers by their opinion for not engaging in Contract Farming (Multiple Responses)*

Reasons	No. of farmers
Labour and transport issue	21 (42)
Less size of operational holding	15 (30)
Could not get seed	5 (10)
Requirement of more machinery	3 (6)
Non-suitability of land	2 (4)

*Note: Figures in parentheses are percentage to total non-contract farmers*

### **8.3.7 Company's opinion about contract farming**

The company started to procure the chicory from 1<sup>st</sup> May onwards in 2015-16 season. In first round, the company staff gave 5 slips to every farmer for selling their produce. The company procured the whole crop of the farmer. After sieving the soil with machine, put it back into trolley for return. The company officials conceded that farmers tried to cheat them while measuring the weight of their produce by adding mud and leaves in produce knowingly. Deduction was applied on total produce by the company on the basis of measuring average 5 kg produce after brushing the chicory roots (Appendix I). Moreover, farmers also agreed on the point that some of the farmers tried to cheat the company ultimately that affected all the farmers.

*Few farmers used to give false information to the company. They used to acquaint less acres of contract crop and more yield from per acre to the staff. As the labour comes for sowing the crop and they don't measure the land. Due to that other farmers also suffer as the company officials say that high yield level is coming from per acre that is giving high profit to the farmer therefore there is no need to increase the price. Even some farmers tried to hide the actual to real avoid the seed payment.*

*-Bhagwant Singh, Age 48 years, Puranewal, District Moga*

### **8.4 Summary**

All the three firms had written contracts with farmers. RSL had contract in local language Punjabi while other two had it in English language. PepsiCo farmers opted for contract farming due to stable prices, while the farmers of RSL and Paras Spices Pvt. Ltd. opted due to higher income from contracted crop as compared to the traditional wheat crop. The major problem faced by the PepsiCo farmers were costly seed provided by the company, while farmers of RSL and Paras Spices Pvt. Ltd. pointed out the labour shortage as major problem. The non-contract farmers were not engaging in contract farming due to costly inputs, smaller landholding and high cost of transportation.