

Exploratory Study on the Motivational Factors of Contract Farming

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ABSTRACT

Contract farming is practised in many crops like cotton and coleus in Tamil Nadu. The objective of the study was to identify the motives of the farmers and the contracting firms for entering into contract farming. The study was conducted in Salem and Viluppuram with 80 contract farmers. Assured price, immediate payment, reduce the credit burden, input assistance are the four important motives of the contract farmers to enter contract farming. Input assistance, increased income, assured market, financial assistance, recognition among friends and relatives, success, knowledge on new technologies, security are the other motives reported by the farmers. In the case of the contracting firm, suitability of crop, interest in particular crop, good remuneration, motivation to do something good for the farmers community, assured and timely supply of raw materials, demand for the fine and super fine varieties and the quality produces are the found motives for entering into the contracting agreement with the farmers.

Understanding agricultural risks and the ways of managing it is a topic that deserves serious attention and if we look into the causes of farmers' distress that have been identified by different experts in the country, they can be well categorized into two broad groups: the causes that are beyond the farmers' control and those which could be averted through proper policy interventions. The farmers on their part manage these risks through informal mechanisms like avoidance of highly risky crops, diversification across crops and across income sources. The formal mechanism are the ones like agriculture insurance and government interventions like minimum support price system.

The major problems faced by farmers like price assurance, assurance about product marketability, elimination of intermediaries in the market and timely availability of production credit need some strategic interventions to make the farmers life much easier and prepare them to face the uncertainties. A contract farming arrangement is seen as a promising alternative that typically obliges a firm to supply inputs, extension, or credit, in exchange for a marketing agreement that fixes a price for the product and binds the farmer to follow a particular production method or input schedule.

The decision to join the agreement by the farmer and the contracting firm are influenced by various factors like market uncertainty, indirect benefits, income benefits, and intangible benefits (Masakure and Henson, 2005). This decision by both the farmer and the contracting firm is significant because of the contradicting nature where both the parties expects to derive most of the tangible benefits from the contracting agreement. The commonalities and the differences between the factors that drive both the farmers to arrive at a decision to enter contract farming agreement enforces a situational need to study the factors *per se*. The identified factors will play a significant role for all the stakeholders to progress with their future decisions and especially the extension professionals to contextually design their interventions according to the crops, locations and nature of the people involved.

METHODOLOGY

The exploratory study to find the motivational factors of contract farming was conducted at Tamil Nadu, the southern state of India. As the nature of crop plays a vital role, a non-traditional crop namely coleus, and the regular traditional crop namely cotton was purposively selected for the study. Two firms doing contract farming

in this crop were selected. Forty respondents were selected from the list of contract farmers supplied by each of the contracting firm. So, totally eighty contract farmers were considered for the survey approach. Coleus farmers were from Viluppuram district and cotton farmers were from Salem district of Tamil Nadu state, India.

RESULTS AND DISCUSSION

The two important players who are responsible for contract farming to function are the farmers and the contracting firm. Both these players have different sets of motives to involve themselves in the system of contract farming. When the motives of farmers overlap with the motives of the contracting firm, it becomes easy for the contract farming to begin, exist and operate successfully (Figure 1). The area of overlap determines the successful functioning of the contract farming. When there is more dependency or mutual benefit, then there is more chance for the contract farming to be more effective. But, the contract farming will function as long as the motives of one player are satisfied by the other player.

Data in table 1 shows the motivational factors of the contract farmers that led the farmers to choose the contract farming as an option in their farm operations. These factors are the driving forces behind their shift towards the contract farming. The factors are arranged on the basis of the rank which was given according to the factor having highest frequency.

Table 1. Motivational factors of contract farmers

S.No	Factors	Frequency	Per cent	Rank
1	Assured price	63	78.75	I
2	Immediate payment	55	68.75	II
3	Reduce the credit burden	49	61.25	III
4	Input assistance	47	58.75	IV
5	Increased income	45	56.25	V
6	Assured market	37	46.25	VI
7	Financial assistance	29	36.25	VII
8	Recognition among relatives and farmers	29	36.25	VIII
9	Success of other contract farmers	19	23.75	IX
10	Knowledge about new crops/varieties	17	21.25	X
11	Security	11	13.75	XI
12	Simple procedures of the contract farming	7	8.75	XII

Multiple choices, N = 80

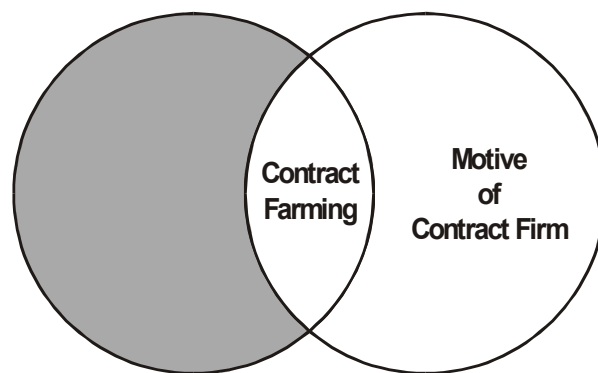


Figure 1. Motives involved in contract farming

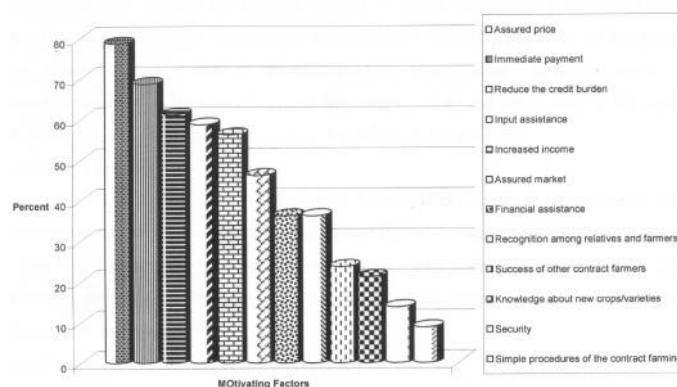


Figure 2. Motives of contract farmers

Assured price

Nearly 79 per cent of the contract farmers believed that the assured price as the important factor for them to cultivate crops under contract farming. The price was pre-determined at the time of contractual agreement in the contract farming in the study area is found to be the important reason for the shift to contract farming system.

Immediate payment

The immediate payment in the contract farming system is the second important motivational factors as believed by nearly 69 per cent of the contract farmers. Certain buy back arrangements fail to pay for the produce immediately. The assurance of immediate payment and the mode of payment is specified in the contractual agreement.

Reduced credit burden

The farmers tend to or forced to borrow money from the local sources of finance or any recognized financial institutions. In contract farming, the contracting firm supplies with the important inputs required for the production process and arrange for the finance with the nationalized banks in the country. This arrangement

reduces the credit burden for the farmers. It was confirmed when 61 per cent of the contract farmers felt that the advantage of contract farming in reducing the credit burden as a reason for entering into contract farming.

Input assistance

About 59 per cent of the respondents in contract farmer category felt that the input assistance received through the contract farming is one of the reasons for entering into the contract farming. Generally farmers face problem either in arranging funds for the purchase of the required inputs in time or the quality of the inputs being sold in the market. The contract farming serves as a means to buy the inputs in time and the quality of the inputs is quite assured as the contracting firm is also dependent on the produce.

Increment in income

More than fifty per cent of the contract farmers interviewed believed that the income increased because of contract farming and quoted this as the important motive for making a decision to enter contract farming. The increase in income under contract farming can be attributed to any reasons like timely availability of quality inputs, assistance in the form of technical advices or better price.

Assured market

Nearly 46 per cent of the contract farmers did believe that the market assurance in the contract farming as the reason for them to enter contract farming. The cotton has wider market presence compared to the coleus crops taken for the study. But assurance of market is always an important advantage for the farmer of any crop or any region.

Financial assistance

The financial assistance received in the form of bank loans or the advance payments by the contracting firm was considered by nearly 37 per cent of the respondents as one of the reasons for cultivating crops under contract farming.

Other factors of motivation

The other factors like recognition among relatives and farmers, success of other contract farmers, knowledge about new crops/varieties, security and simple procedures of the contract farming were also reported by the respondents as the motives behind their decision

to grow the crops under contract farming. More than 35 per cent of the respondents believed that they will be recognized among the relatives and friends when they do contract farming. About 24 per cent of the respondents were lured by the success of their colleagues by growing crops under contract farming. It was interesting to note that only 17 respondents out of total 80 respondents were motivated to know about the new crop like coleus or venture out a new variety by growing them under contract farming. The feeling of security for 14 per cent and the simple procedures of the contract farming for 9 per cent of the respondents are the other motives reported in the survey.

The findings are well supported by the various studies and reports. Lawrence et al. (2001) surveyed cattle and hog packers on the use of marketing contracts. Each group rated reduced price risk as an important contract motivation for producers.

According to Eaton and Shepherd (2001) the main potential advantages of contract farming for farmers are the provision of inputs and production services, access to credit, introduction of appropriate technology, skill transfer, guaranteed and fixed pricing structures and Access to reliable markets.

The USDA claims that the income stability, improved efficiency, access to capital and market security was the reason of farmers to enter into contracts (USDA, 1996). The importance of credit, input and the market assurance as the reasons of motivation was assured by Key and Runsten (1999) who considered the development of contract farming production and marketing systems as a response to market failure. The key market failures that ensure smallholders not to participate in the spot market are in the areas of: credit, insurance, information, factors of production, and Product markets. For Hennessy, (1996) too, the market failure in conveying information about quality is one of the motives for increased vertical coordination.

Singh (2000) investigated contract farming in Punjab where growers contracted to grow tomatoes, chillies and potatoes with processors and found that farmers perceived the main benefits of contracting as better and reliable income, new and better farming skills which is in line with the present findings.

Motives of contracting firms

Mostly, the whole process of contract farming starts from the motives of the contracting firm. There are always

compelling reasons which forces the firm to contract with the farmers. In this present study, both the contracting firms are processing companies. The reasons reported by the Managing Directors and the other staffs of the two processing firms during the group discussions were used as the motives of the contracting firm

As they are the spear head of the organisation and work for the contracting firm as a whole and they are the ones who make the major decision for the contracting firm.

Contracting firm for coleus crop - MGP herbal care Pvt. Ltd.

The suitability of crop, motivation to do something useful to the farming community, interest in medicinal plants, good remuneration, opportunity to serve the farmers are the motives of the contracting firm which dealt with the medicinal plants which was introduced in the study area in late nineties of the last decade. The crop was new to the region and with very limited market. The firm was involved in the processing of the coleus tubers which supplied the processed coleus to the Sami Labs Ltd, is a research oriented transnational health-science company, which is a leading producer of nutraceuticals, cosmeceuticals, standardised herbal extracts, fine chemicals, specialty chemicals and probiotics.

1. Suitability of crop

The crop suitability is the important reason for cultivation of coleus under contract farming. Coleus best performs in the region of Viluppuram and adjoining Salem district. The medicinal tuber crop which gained the popularity in the last decade grows well in specific regions. The region specificity is the important reason for the firm to go for the contract farming.

2. Interest in medicinal plants

The inclination and intense interest of the firm's managing director towards the medicinal plants have led the firm to venture in contract farming. The contracting firm is responsible for promotion of other medicinal crops like turmeric and use of organic inputs in the farmer's field.

3. Coleus gives good remuneration

The coleus crop has small demand base in the domestic arena but highly remunerative potential for the export. This remunerative motive has led the firm to enter into contract farming with the farmers.

4. Motivation to do something useful to the farming community

The altruistic managing director of the firm has the motive of doing something good to the farming community. This is also an important motive for the firm to enter contract farming which ensures assured price and market and considered as a mode to serve the poor farming community.

5. Opportunity to serve the farmers

The contract farming in coleus is seen as an opportunity to serve the farmers. This opportunity is considered as one of the motive by the farmers to venture the new idea of contract farming in coleus.

Contracting firm for cotton crop - Appachi Cotton Company

Assured and timely supply of cotton, quality produces, demand for fine and super fine cotton are the three important motives of the Appachi Cotton Company to enter contract farming with the cotton growers. The company which owns a cotton ginning and trading house requires quality cotton for their ginning mill.

1. Assured and timely supply of cotton

The processing unit which is established with huge investments need continuous supply of the required raw materials for proper functioning of the processing unit in profitable terms. The assurance of supply of cotton in time is the main reason for the firm to enter into contract farming.

2. Demand for fine and super fine cotton

The higher demand for the fine and super fine varieties of the cotton has persuaded the firm to make contractual agreements with the farmers to supply the needful. There is huge demand for the fine and super fine cotton in the market. But, the farmers are reluctant owing to the production constraints.

3. Quality produces

The third motive of the Appachi Cotton Company to be involved in contract farming was to get better quality cotton. By engaging farmers in contract farming, the cotton company believes they can control the farm operations in order to maintain and produce better quality of the required cotton fibre.

The motives of both the companies like the suitability of crop, good remuneration, assured regularity in supply

of quality raw materials in time was found in many of the previous studies too. Roy's (1963) study confirms that the firms enter into contracts with the farmers to keep the raw material inflows in steady level which avoids the increment of the unit cost of raw material due to uneven supply. Rogers and Sexton (1994) confirms that the processors need highly specialized agricultural products and other inputs that cannot normally be substituted for a given agricultural product.

The findings of the present study is in line with the views of Little and Watts (1994) who believes contract farming emerges when,

^{2/21} The contracted crop is of high-value, specialty crops with good 'niche' markets like the motive of the firm growing a remunerative coleus crop.

^{2/21} There is a need for consistent, reliable supplies on the part of the buyer like the motive of the Appachi Cotton Company which requires regular supply of the quality raw material for their processing mills.

The motive of promoting medicinal plants among the farming community by the MGP herbal care is similar to the motives like environmental concern as reported by USDA (1996) and the main initiatives like environmentally sound, sustainable and economically viable agriculture and standards and regulation related to both environment and health safety behind the fast growing use of vertical coordination and contractual arrangements in agriculture as reported by Boehlje et al. (1995).

Hence, while the main motivational factors for the MGP Herbal Care are suitability of crop, interest in medicinal plants, good remuneration of the coleus, motivation to do something good for the farmers' community. The motives of Appachi Cotton Company are assured and timely supply of cotton, demand for the fine and super fine varieties and the quality produces.

In order to achieve the motives, the contracting firms provide incentives in the form of assured price, immediate payment, reduction in credit burden and the input assistance. When the motives of the farmers are satisfied, they continue to supply the quality produce which are in demand for the contracting firms.

CONCLUSION

Assured price, immediate payment, reduce the credit burden, input assistance are the four important motives of the contract farmers to enter contract farming. This implies that the farmers need support in the form of

credit and inputs other than the assured price and purchase. In the case of the contracting firm, suitability of crop, interest in particular crop, good remuneration, motivation to do something good for the farmers' community, assured and timely supply of raw materials, demand for the fine and super fine varieties and the quality produces are the found motives for entering into the contracting agreement with the farmers. The extension agencies should develop relevant strategies using these motivational factors so that these two important stakeholders benefit mutually having the best win-win situation.

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