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## Contract Farming as a Concept for Rural Agricultural Development. Evidence from Potato Seed Culture in Punjab, Northern-India

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### Abstract

A large portion of India's rural population is dependent on agriculture and allied activities. Despite intensive farming regimes accounting for an increase in overall productivity figures, traditional, extensive ways of land use are widespread in rural India. These traditional farming systems, however, are often associated with limitations in terms of access to new agricultural technologies. Likewise, market imperfection is regarded amongst the most impeding factors for rural farmers to increase productivity. Contract farming has been widely discussed as an institutional arrangement providing a viable alternative for farmers to alter shortcomings related to traditional farming systems. Recent experiences with contract farming schemes are predominantly referring to poultry systems, yet contract farming is increasingly popular in the crop sector. The present study is investigating the economic feasibility of contract farming schemes for potato seed culture in Punjab region in Northern India. Costs and returns are analysed for both contract as well as non-contract schemes using gross margin analysis. Beyond this, focus is set on resource use efficiency aspects between these two farming models applying marginal value productivity (MVP) measurements. In contrast to non-contractors, results show that farmers involved in contract farming have regular access to both seeds as well as technical support by the contract providing company. Economic analysis confirmed the linkage between contract farming and productivity increase. In contrast to traditional farming patterns, findings proved an enhanced access to input- and consumer markets for medium- and large scale farms, resulting in an increase in farm output in terms of yields and returns. However, results show that contract farming schemes tend to exclude small-scale farmers in the region. The role of the state government to support the formation of groups, associations and cooperatives to improve the situation of smallholders is outlined. It is concluded that considerable potential exists for contract farming as a concept for rural agricultural development, yet the elaboration of approaches to ease smallholders' access to contract schemes remains a prerequisite.

**Keywords:** Contract farming, economic feasibility, gross margin analysis, marginal value productivity (MVP), smallholders