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Does Contract Farming Benefit Farming Community?: A Comparative Study of Contract and Non-contract Farmers in India

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Abstract

The impact of contract farming on farmers, especially in a developing country context, is highly debated and it is suggested that the private actors are dominating food agribusiness whereas farmer's influence is declining. The present investigation attempted to analyse the impact of contract farming on farmers and to study the factors influencing farmer's participation in contracting. The survey was conducted in Pune region of Maharashtra state of India using an ex-post facto survey research design. Personal interviews using a structured questionnaire were conducted with contract farmers (n=53) involved in chip quality potato production with a multinational company (Frito Lays Ltd.), and non-contract farmers (n=41) who followed traditional farming and sold their produce through unorganised marketing channels. Samples were selected using random sampling. The logit model was used to analyse the factors determining farmer's participation in contract farming. The results of comparison of costs and returns between the two groups indicated higher net returns for contract farmers which attributed to the higher yield, predetermined prices, lack of middlemen and organised marketing channel. On the contrary, the lack of access to storage facilities and quality inputs, exploitation by middlemen and traders, lack of bargaining power and highly fluctuating market prices affected the net returns of non-contract farmers. The factors including age, education, distance to credit source had a positive influence on farmer's participation in contract farming while, off-farm income and membership of cooperative organisation had a negative impact on participation. Farmers with good education, low off farm income, distant access to credit source, lack of membership of any agriculture co-operative society and comparatively large land holding showed greater interest in contract farming. The results of Mann-Whitney test suggested that the contract and non-contract farmers differed significantly in terms of their satisfaction level for access to extension services, credit and quality inputs, with contract farmers having higher satisfaction for all the three. The contract farming model used in the study region worked well mainly due to transparency in price determination mechanisms, efficient seed supply and organised market channel and the contract farmers were better-off compared to non-contract farmers.

Keywords: Contract farming, Frito-Lays, Logit model, non-contract farmers, potato