



Commercialization of Agriculture in India – A study

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Abstract: *India is mostly an agrarian economy. Indian agriculture is described by millions of small and marginal farmer with uneconomical landholding facing a numerous of problems to sustain their livelihood. The problem of small farmer's empowerment and development as one of the major opportunity of poverty alleviation remains challenging. The challenge is to ensure that they would participate in and contribute to agricultural and rural development, by facilitating them a level playing field. In India, the government as a part of liberalization drive has been promoting a turn towards the concept of commercialization of farming through contract corporate farming like the western countries and made substantive legislative changes to provide its propagation. These farming practices were foreseen as the most efficient with a combination of timely, quality and cost effective delivery of industrial inputs there is a great concern regarding the ability of the small farmers to survive in the changing environment of agri-business.*

Keywords: *alleviation, corporate farming, contract farming, agriculture.*

I. INTRODUCTION

Agricultural sector is the foundation of Indian economy, which gives employment to more than 75% of the population for which enhancing agricultural growth is the top priority of the government. Indian agriculture has been facing many issues and challenges which have resulted into rigorous agrarian crisis. The history of agriculture in India stems from a variety of circumstances. M.S. Swaminathan has stated that (Report on National Commission for Farmers, 2006), the major causes of the Indian agrarian crisis are unfinished agenda in land reform, quantity and quality of water technology fatigue, access, adequacy and timeliness of institutional credit and opportunities for assured and remunerative marketing and adverse meteorological factors.

The Indian agricultural sector has been suffering from a dual crisis, one in the form of agricultural growth crisis as reflected in the falling agricultural growth rate due to decrease in productivity and therefore profitability, which fronted the livelihood of 85% (2012-13) of small and marginal farmers at the blink of survival risk and another is the agrarian crisis which is the result of high dependence of the population on agriculture and increasing marginalization of land holdings. Since the new economic policy has already made noteworthy progress in the trade and industrial sectors, the focus is now shifting towards bringing about structural reforms in other sectors particularly agriculture in terms of means of production. This is being attempted with a view to bring in better efficiency of input and output markets and promote growth performance of the sector ultimately resulting in rural poverty eradication in India (Singh, S; 2006). Indian agriculture has been moving towards the commercialization of agriculture since economic liberalization which changes the economic conditions in the last two decades. Before economic liberalization, government interference in the agricultural market was considered an important instrument of development as the state generally controls the agricultural market through the implementation of market regulating act known as the Agricultural Produce and Marketing Committee (APMC) Act, fixing and maintenance of minimum prices etc.

Over a time, government became unwilling to or in fact failed to go through its earlier role of controlling the agricultural sector. There came, the concept of commercialization of agriculture and contract and corporate farming is the two main steps toward this direction. With the gradual withdrawal of the state from agricultural markets (due to the amendment of the Agricultural Produce Marketing Committee (APMC) Act in 2003 in India, under which private markets can now be set up and contract farming (CF) with and direct purchase from farmers have been made legal) and the emphasis on the role of the private sector for bringing efficiency and growth to the Indian farming sector.

II. OBJECTIVES

The main purposes of the study were as under;

1. To investigate the government's efforts in commercialization the agricultural sector.
2. To analyse the pros and cons of contract/corporate farming practices in India.

III. LITERATURE REVIEW

According to *Rao* the three models tried in Andhra Pradesh to bring small farms into the corporate fold became financially unsound and have had serious results of groundwater depletion, rejection of contract produce, etc.



According to *Sukhpal (2006)*, the main issue with the contract farming is that it excludes a small farmer who specially needs the assistance as companies prefer medium and large farmers because of transaction costs and suggested that contract farming can work if there would be collectivization of small farmers so that they could exert better bargaining power.

According to *Waswa et al. (2009)*, to bridge the income gap between farmers and companies, there is a need to institutionalize Corporate Social Responsibility within the daily operations of the company.

According to *Ramakrishnam (2013)*, the government's aggressive moves to open up the farm sector to corporate control under the PPP model are fraught with danger as they can lead to the worsening of the agrarian crisis and land grabbing practices.

According to *Chandrasekhar (2013)*, contract farming essentially produces an unequal system where the risks are left with farmers while control over production and marketing is acquired by corporate.

According to *Panwar (2013)*, the price volatility and the alignment of domestic food prices with international food and oil prices are the inherent danger of the corporatization of the farm sector.

According to *Patnaik, Usha (2013)*, the entry of corporate in Indian agriculture would lead to a situation where farmers become "debt slaves" and increased suicides rates in the regions and emphasized the need to look for viable and rational alternatives.

IV. COMMERCIALIZATION OF AGRICULTURE SECTOR

The small and marginal farmers were caught in the ferocious circle of low investment, low productivity, high cost and low income. The situation calls for a Schultzian interference to bring a break away from this low level equilibrium. The challenge is to empower them with appropriate measures on policy, technology and institutional fronts so as to allow them to release these constraints (*Deshpande, 2008*).

According to *ibid, (2008)*, commercialization of agriculture refers to integrating the farm management decision to the market signal. It may, thus, get reflected on the output front through increased share of marketed surplus, introduction of new crops, growing commercial crops. Contract and corporate farming are the two basic modes of commercialization of agriculture. As contract farming has been in India since the British rule when commodities like Collin Indigo were produced by the Indian farmers for British companies and in 1960's in the seed production but in reality, the root of contract farming starts with the green revolution by the government of India in collaboration with state governments, Indian Council for Agricultural Research and state agricultural universities. Hence, contract farming as a classification may be of recent origin, but the concept of contract farming has been in operation for long time in the country. But after the initiation of economic liberalization, contract farming became the common, first starting with the Pepsi (now Pepsico) in Punjab in tomatoes and potatoes in the mid-1990, later on Unilever, ITC, Cargil, Reliance, Essar, Bharti Enterprises Del Monte Pacific Ltd, the Adani Group, Marico, Tata Chemicals and Nestle etc. largely supported by states like Punjab, Maharashtra, Andhra Pradesh, Karnataka and Gujarat etc.

Major Indian corporate entered agribusiness in different forms during 2000-10 on the grounds that working with corporate under the framework of commercialization of Indian agriculture through contract/corporate farming practices means tapping into the latest technology and being inserted into value chains with a global reach by offering opportunities for entrepreneurship including horticulture, dairy farming, livestock etc. with world class agro-equipment and support services. The National Policy on agriculture declares that the private sector will be encouraged through contract farming and corporate farming to allow accelerated technology transfer, capital inflow and assured market for crop production.

Over the past few years, section of the political parties, technocrats and ministries at the Centre as well as at the State levels have moved to support through their policies for public-private partnership (PPP) in agriculture, which transfers supreme role in corporate sector in production and to retail marketing as a subsidiary initiatives along with the key initiatives of land reforms and institutional credit. Few states came forward and encourage the setting up of PPP ventures. They announced that it is a move towards second green revolution through PPP. The government of India through its ministry of agriculture devised so many frameworks and schemes to promote large scale integrated projects led by private companies in agriculture and allied sectors with a motive of aggregating and integrating farmers with the financial assistance through the Rashtriya Krishi Vikas Yojana (RKVY) under the support and supervision of state governments and various national level agencies.

V. CONCEPT CONTRACT OR CORPORATE FARMING

The modern contract farming has been evolved in the United States where corporatization of agriculture is now the most advanced process as multinationals has come to control the entire chain of agricultural production and distribution. Contract farming is a system of farming and supply of agricultural commodities that is based on forward contracts between producers and buyers. It is a system in which agricultural production is carried out through an agreement between farmers and buyers that



specifies a combination of features such as price, quantity and quality to be supplied and date of delivery which farmers as supplier are expected to fulfill their promise to obtain those supplies at the pre-specified price. A contract reduces price risk for a farmer and can be terminated at reasonably short notice. Contracts can be a source of new technology for farmers as generally new crops with modern technology or existing crops with new seeds and other inputs are promoted under such arrangements.

In procuring the supplies, the prime requirements of the agribusiness firm are that each supplier must be in a position to guarantee a large volume, continuity of supply and a standardized quality. To the extent that these requirements cannot be met by purchasing through traditional open market channels, more direct links with large producers and producer's organizations are built up. The contracts are more flexible in face of market vagueness, make smaller demands on scarce capital resources and impose fewer burdens on management. Contracting can give a positive image to the company as it may be perceived as progressive especially if it works with small farmers. From an institutional economic perspective, contract farming could be looked upon as a way of creating positive externalities which can result in overall rural development (Singh, S; 2013). However, the terms and nature of the contract differ according to variations in the nature of crops to be grown, agencies, farmers, and technologies and the context in which they are practiced.

VI. CONCLUSION

Sustaining a reasonable growth rate, food security and employment to millions of rural poor below poverty line along with participating in the process of commercialization of Indian agriculture are the foremost issues and challenges for agricultural sector. On the other hand, contract farming can be effective in introducing advanced technologies and facilitating external input to farmers, risk lies in firms extending technologies that bring financial benefits in the short run, but results in long run demolition of the economic viability and sustainability of farmers. But the problem lies due to the intrinsic features of Indian agriculture which is not in a position to take the benefit generated by these initiatives.

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