Regulation and Dispute Settlement in Contract Farming in India

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Introduction

Contract farming is generally defined as farming under an agreement between farmers and a Sponsor (processor, exporter, and marketing firm) for the production and supply of agricultural products under Forward Agreement often at pre-determined prices. The basis of the relationship between the parties is a commitment on the part of the farmer to provide a specific commodity in quantities and in quality standards determined by the purchaser and an undertaking of the sponsor to support farmer's the production and to purchase the commodity.

It has the potential of combining small farmer efficiency, utilizing corporate management skills, providing assured markets and reducing transaction costs in the value chain by ensuring vertical integration. Contract farming is a win-win situation for both the parties and leads to building a platform for improvement of farm incomes, development of agro-processing and expansion of rural economy. Recent years have witnessed a shift to diversify higher value products such as fruits, vegetables, eggs, meat, dairy, fish and flowers in India through contract farming.

Contract Farming System has the potential of addressing most of the urgent and critical needs of the Indian Agriculture Sector. It offers, perhaps, the only way to make small scale farming competitive by enabling small farmers to access technology, credit, marketing channels and information while lowering transaction costs. At the same time, it offers a feasible and viable model of private sector participation in agriculture on a massive scale.

Contract farming has the potential to be an effective instrument to work as an aggregator at the grassroot level of small and marginal farmers by giving them access to technology, inputs, capital, extension and risk management. Successful contract farming also provides a platform for supply of reliable agricultural produce of specified quality for the establishment and development of processing sector and reliable and competitive channel for supply of exports as well.

Contract Farming in India

Contract Farming is fast evolving as a mechanism of alternative marketing in the country. Punjab, Karnataka, Maharashtra, Madhya Pradesh, and Tamil Nadu have been the front runners in this regard. The experience of contract farming in India shows that there is considerable saving in consumption of inputs due to the introduction of improved technology and better extension services. Contract farming has usually allowed the farmers some form of credit to finance use of production inputs. In some cases, viz. Appache Model of contract farming for cotton in Tamil Nadu, there are arrangements for loans from commercial banks.

Contract farming has been successful in effecting crop diversification in many states. Studies of Tomato contract production in Punjab and Haryana of Cucumber in Andhra Pradesh and cotton in Tamil Nadu found that the net returns from those crops under contract being much

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higher than those under non contract situations though production cost in tomato was much higher than the contract system.

It will be observed that different commodities covered under contract farming in different States are both traditional ones like Basmati Rice, Wheat, Maize, Red Gram, Bengal Gram, Groundnut, Sesame, Cashewnut, coconut, onions etc. and non-traditional ones like Medicinal Plants (Ashwagandha, Dhavana, Coleus, Safed Musli) and Gherkins.

An illustrative list of States/Corporates involved in different crops in Contract Farming in India is given below:-

State	Crops	Company/Corporate
Karnataka	Ashwagandha	Himalaya Health Care Ltd.
	Dhavana	Mysore S.N.C. Oil Company
	Marigold and Caprica chilies	AVT Natural Products Ltd.
	Coleus	Natural Remedies Private Ltd.
	Gherkins	20 Pvt. Companies
	Medicinal Plants	Sami Labs Limited, Bangalore
Maharashtra	Soybean	Tinna Oils and Chemicals
	Several fruit, vegetables, cereals, spices and pulses	Ion Exchange Enviro Farms Ltd. (IEEFL)
	Potato	M/s Mahindra Sulabh
	Sugarcane, Orange	Cooperative Societies
	Onions	Jain Irrigation Systems Ltd.
Madhya Pradesh	Wheat, Maize and Soybean	Cargil India Ltd.
	Several fruit, vegetables, cereals, spices and pulses	Ion Exchange Enviro Farms Ltd. (IEEFL)
	Soyabean	ITC-IBD
	Soyabean	M/s Mahindra Sulabh
	Garlic and White onion	M/s Garlico Industries Ltd.
Punjab	Tomato and Chilly	Nijjer Agro Foods Ltd.
	Barley	United Breweries Ltd.
	Basmati, Maize	Satnam Overseas Sukhjit Starch (Mahindra Shubhlabh Services Ltd.)
	Basmati	Satnam Overseas, DD Intl. Incorp., Amira Foods India Ltd. (Escorts Ltd. and Grain tech)
	Basmati, Groundnut, Potato and Tomato	PepsiCo India Ltd.
	Green vegetables and exotic vegetables	Punjab Agro Foods Park Limited, a joint venture of Punjab Agro Export Corporation and IDMA, a corporate body.
Tamil Nadu	Cotton	Super Spinning Mills
	Maize	Bhuvi Care Pvt. Ltd.
	Paddy	Bhuvi Care Pvt. Ltd.
	Cotton	Appache Cotton Company
	Marundu Koorkan (Tamil) (Medicinal Plant) (Coleus Forskholii)	-
	Maize, Gherkins	M/s Mahindra Sulabh
Chhattisgarh	Safed Musli	Ms Larsen and Toubro
	Tomato	BEC Co.
Uttaranchal	Guar Gum	M/s Mahindra Sulabh
Haryana	Turmeric, Mentha, Sunflower, White Musli	HAFED

State	Crops	Company/Corporate
Andhra Pradesh	White Viagra	Nandan Farms (P) Ltd. Hyderabad Joint venture Spearhead National Products SARI of Switzerland
	Fruit, Vegetables and flowers	Horticulture Department
	Gherkins	1. Aduri Natural products 2. ACE Agrotech 3. Copricorn Natural products and 4. Mahendra and Mahendra
	Cocoa	Cadbury India Ltd.
	Oil palm	M/s Godrej, Palm Tech., SICAL, Simapuri Industry and Radhika Vegetables Oil Industries.
Gujarat	Processing of Medicinal Plants and Alovera	Reliance Group
Orissa	Seeds (Paddy, Raggi, Green Gram, Arhar, Groundnut, Seamum, Niger and vegetables seeds	Orissa Seeds Production Corporation
Sikkim	Spices	M/s High Altitude Spices Rabongla
	Orange	M/s Bulk Consumer, Government Fruit Preservation factory, Singtom.
Kerala	Pineapple	M/s Agreenco, Paliikunnu, Kanur
	Safed Musli, Steevia	M/s Herbs India, Calicut
West Bengal	Potato	M/s Fritto India Ltd.
	Pineapple	M/s Dabur India Ltd.

Source: Working Group Report of the Sub-Committee of National Development Council (NDC) on Agriculture and Related Issues – Nov. 2006, Planning Commission, New Delhi.

Services provided by the sponsoring firms range from supply of inputs like fertilizers, seeds, pesticides, extension services and quality monitoring. However, one thing which is common to all existing contract farming ventures is the absence of common legally binding contractual agreements. Almost all the ventures are working on the basis of mutual trusts. However, the increase in acreage, the participation of farmers and corporates related to farm production, marketing and the management of system make it imperative to address several regulatory and legal issues to make effective progress in the initiative.

Shortcomings in the System

Under the present dispensation, there is no security of continuity of contract farming or tenure of land use for the sponsoring companies; as a result the companies are reluctant to go in for long term capital investment in the contracted land to enhance productivity and improve quality of product.

The companies prefer large and medium farmers compared to the small farmers, presumably because of the problems of economies of scale, lack of access to capital, low literacy levels etc. inherent with the small/marginal farmers.

The problem of monopsony, where a single buyer buys produce of hundreds and thousands of farmers, is observed in some cases of contract farming. This system has worked to the disadvantage of those farmers who lack adequate information about the market resulting in asymmetry of information.

A study of unsuccessful cases of contract farming points to the problem of enforceability of contracts. Both the parties – sponsoring company and the farmers tend to renege on the contracts, whenever the market conditions suit them. Pricing, under the present dispensation, is mostly as per convenience of the sponsoring company – contract price or open market price. There is often rejection of farmer's produce on the basis of flimsy or unjustified quality ground, especially when the market price is less than the contract price at the time of harvest. There is often delay in payment to farmers by the sponsoring company.

In most of the existing models, the contracts protect company interests at the cost of the farmer and do not cover farmer's production risk, e.g. crop failure. The company retains the right to change price and generally offer prices which are based on the open market prices. Even organic produce buyers offer conventional produce market – price-based prices to the growers. This is a serious issue as sometimes a significant premium over market price may not help a farmer if open market prices go down significantly, which is not uncommon in India.

The firms also manipulate provisions of the contracts in practice e.g. in case of broiler chickens in Tamil Nadu where they picked up birds before due date or delayed it depending on the demand which meant losses for contract growers. They also delayed payments up to 60 days. But, growers were locked into these contracts due to the firm specific fixed investments they had made. Thus, many Contract Farming projects also failed due to their poor design of the project or default by any of the contracting parties.

In many of the states, the present APMR Acts still restrict the processors/manufacturers etc. from entering into direct contract with farmers as the produce is required to be canalized through regulated markets only. They have failed to incorporate a provision in the APMC Act recommended by the Model Act to specifically allow contract farming programmes by processing or marketing firms. The produce covered by the agreement should be allowed to move freely from the farmer's field to any destination in the country or abroad without the necessity of going through the licensed traders or regulated markets.

Registration of Contracts

In the absence of the system of registration of contracts with any authorized agency of the state for the verification of the credentials/track record of the sponsoring companies, there are reported cases of farmers becoming victims of the fly-by-night operators. There is a very low level of awareness about contract farming amongst the different stakeholders. It is probably for this reason that vast areas of the country covering states such as Bihar, Jharkhand, Chhattisgarh, Orissa, West Bengal and the North-East and areas of Himachal Pradesh and Jammu and Kashmir have remained untouched by the major contract farming sponsoring companies.

The Model APMR Act, 2003 of the Government of India has recommended the compulsory registration of contract farming with Market Committee. Sponsor is commended to register himself with the Sub Divisional Officer or with an officer prescribed by law.

The National Commission on Farmers, however, has given its recommendations not to involve the Market Committee as a party to contract farming. Accordingly, Market Committee would not be registration authority for Contract Farming and the Contract Farming Sponsor shall get the Contract Farming agreement recorded with the Sub-Divisional Magistrate, who, in turn shall ask for such documents as required to verify the credentials of the sponsoring company.

Absence of a proper legal framework is a major impediment in popularizing contract farming system in the country. Under the present system, the Contract Act is the only law for contract farming, but the provisions of the Contract Act do not cater to the specific requirements of contract farming in a suitable manner. Besides the costs, procedure and the delay the distance from the Courts works as a disincentive to the farmer to invoke the Civil Courts jurisdiction when the need arises.

The different types of possible disputes arising out of contract farming can be attributed to refusal to receive delivery of the commissioned goods, delay in payment beyond agreed period, discounting of payment, returning the commissioned goods without any good reason, forced price reduction, compulsory purchase by subcontractors of parent firm's products, and forcing subcontractors to pay in advance for materials supplied by the parent firm etc.

Contract Farming under the Model Act

Under the Model Act, the agriculture produce covered under the contract farming agreement may be sold to the Contract Farming Sponsor outside the market yard and in such a case, no market fees should be leviable. Disputes arising out of contract farming agreement may be referred to an authority prescribed in this behalf for settlement. The prescribed authority shall resolve the dispute in a summary manner within thirty days after giving the parties a reasonable opportunity of being heard, in the manner prescribed. The dispute redressal authority should be a body at the sub-divisional level comprising a representative of the sponsoring company, a farmers' representative and the Sub Divisional Magistrate of the area under whose jurisdiction the contract farming land falls.

It has also been provided that the party aggrieved by the decision of the prescribed authority as above may prefer an appeal to an Appellant Authority within thirty days from the date of decision. The Appellate Authority should be the concerned District Collector and Magistrate. The Appellant Authority shall dispose of the appeal within thirty days after giving the parties a reasonable opportunity of being heard and the decision of the Appellant Authority shall be final.

The decision by the authority and decision in appeal as above should have force of the decree of the civil court and shall be enforceable as such and decretal amount shall be recovered as arrears of land revenue. Disputes relating to and arising out of contract farming agreement shall not be called in question in any court of law as recognized by the Model Act.

Contents of a contract farming agreement depends on a number of factors such as the nature of the product, the primary processing required, if any, and the demands of the market in terms of supply reliability. Quality incentives, payment arrangements, the extent to which the parties have capital tied up in the contract and the level of control the sponsor wants to have over the production process also influence the nature of the agreement. A contact covering, for example, oil palm, tea or sugar, where significant long-term investment is required from all parties, will be different from a contract covering annual crops such as fruit and vegetables for local supermarket. This may also be the same as one not covering such produce destined for overseas markets, which may have more rigid controls on pesticide use and product quality as well as higher presentation and packaging standards.

Although corporate bodies, government agencies and individual developers are, out of necessity, the catalysts of the contract, farmers and their representatives must be given the opportunity to contribute to the drafting of the agreement and assist in the wording of specification in terms farmers can understand. Management must ensure that agreements are fully understood by all farmers. The terms and conditions entered into must be written down for independent examination and copies given to the farmers' representatives.

The legal framework of the agreement should comply with the minimum legal requirements of the Indian Contract Act**,** local practice must be taken into account and arrangements for arbitration must be addressed. Agreements, in the form of a written contract, usually cover the responsibilities and obligations of each party, the manner in which the agreement can be enforced and the remedies to be taken if the contract breaks down. In most cases, agreements are made between the sponsor and the farmer, although in the case of multipartite arrangements, the contracts can be between the sponsor and farmer associations or cooperatives.

In the majority of cases, it is highly unlikely that a sponsor will take legal action against a small holder for a breach of contract. The costs involved are inclined to be far in excess of the amount claimed, and legal action threatens the relationship between the sponsor and all farmers, not just those against whom action is being taken. Action by a farmer against a sponsor is similarly improbable. As neither side is likely to seek a legal remedy through the courts, it is important that quick and easy ways of resolving disputes are identified in the agreement. For the purpose, appropriate legal provision will have to be made in the law governing the marketing of agricultural produce (APMC Act) and to inter-alia provide for compulsory registration of all contract farming agreements and the procedure for settlement of disputes arising there from.

Risk Management

Agricultural investments always involve risk. The most likely reasons for investment failure are poor crop management, natural calamities, pest epidemics, market collapse and price fluctuations. The standard agribusiness approach to indemnify against quantity shortfalls is crop insurance. As the farming involved in a contract arrangement becomes technologically more advanced, the range of risks to which it is subject generally becomes more expensive.

Where there are fixed price contracts, there is no apparent risk to farmers with regard to payment for their crops. If a market collapses, the sponsor should automatically shoulder the loss. Where contracts are on a flexible on spot-price basis the stability of farmers' incomes is always at risk. However a qualified risk analysis has to be made to determinate the economic advantages of insurance against the specific risks applicable to the particular crop.

The sponsor of large volume of produce may, as part of the agreement, provide one or more the following services for coordination of production which includes identifying suitable production areas and forming farmers' groups; provision of extension advice on new cultivation/ harvesting practices, appropriate use of chemicals, and efficient farm management; transfer of technology leading to higher yield and / or improved quality; cropping schedules; and training and awareness programs for the success of the contract farming.

Linking Farmers to Sponsors

Intermediary bodies that link management/ sponsor and farmers for purposes of negotiation and interaction are necessary for all contracts. By creating farmer-management for a, sponsors can negotiate contracts with farmers either directly or through their representatives. The representatives should meet with management/ sponsor periodically, but at least three times in a season. The first meeting should be at the beginning of season in order to ratify the pricing structure and the season's crop schedules. A second meeting is advisable immediately before harvesting to discuss the crop progress and to confirm buying procedures. A final meeting to review performance at the end of harvest which, may coincide with the final payment to farmers. The farmers' management for a include Farmers Associations, Farmers Cooperatives, Farmers Groups or any other organization of the farmer by whatever name called (to be named in the agreement).

Each contract farming agreement must incorporate quality control and monitoring system suitable for its particular operation. Sponsor must prioritize monitoring procedures and decide how often they should be carried out, in what locations and who should be inspected and at what locations. Checking product quality can take place before, during and immediately after harvesting as well as at the time farmers grade their own production and when the produce reaches the company's processing or packaging facility.

Dispute Redressal Mechanism

A typical contract farming agreement is an agreement between two unequal parties involving large number of illiterate farmers on one side and a mighty sponsoring company on the other. These farmers do not have sufficient means to approach the court of law for resolution of disputes, if any, with the company. It is equally difficult for the company to redress the breach of agreement by the farmers through the present mechanism of civil court. Hence, it is necessary to create a dispute resolution mechanism near to the farmers, which can quickly settle the disputes in quasi-judicial manner. The dispute redressal authority should be a body at the sub-divisional level comprising a representative of the sponsoring company, a farmers' representative and the Sub Divisional Magistrate of the area under whose jurisdiction the contract farming land falls. The party aggrieved by the decision of the prescribed authority as above may prefer an appeal to an Appellant Authority within thirty days from the date of decision.

The farmers may be required to invest substantial amount of resources to raise the contracted crops and run the risk of incurring huge debt in the event of crop failure, which may result in their displacement from the land, affecting their livelihood. In order to protect the farmers from such displacement, it is considered necessary to prevent, by law, displacement of farmers from their land as consequence of the contract farming agreement.

Participatory Process for drawing up Contracts

The contracts should be managed in a more transparent and participatory manner so that there is greater social consensus in handling contract violation from either side without getting involved in costly as well as lengthy process of litigation. The best contract between parties is the contract of trust and loyalty. The sponsoring companies should discharge some social responsibilities for the farmers in respect of health, hygiene, education, and long term training in Good Agricultural Practices, Good Hygiene Practices, Good Marketing Practices, etc. This would help in the sustenance of long term relationship between the farmers and the sponsoring companies. Some governmental incentives should be given to the sponsoring companies for this purpose through a well-designed incentive program of contract farming through some state agency in the line of Punjab Agro Corporation.

The remaining states should amend their respective APMR Acts in the line of the Model Act of the Government of India so as to permit contract farming, direct marketing, and facilitate the appointment of authority for dispute redressal mechanism. The APMC Act should also be amended for the rationalization of market fees, formation of Bureaus of Standards at the state level, and marketing extension, etc.

Lease Market to Develop

In many parts of the country, agricultural tenancy is legally banned, although concealed tenancy exists. Tenants, who do not enjoy security of tenure, cannot participate in contract farming. Hence, legalization of tenancy would be a precondition for enabling the tenant farmers to benefit from contract farming. Although different forms of land tenants including share-croppers can be adopted to maintain the contract farming, security of tenure would be necessary.

Leasing of land should be permitted for a relatively long period, making it co-terminus with the life of asset created by mean of investment by the sponsoring company in the farmer's land. A long lease period will ensure security of tenure for the sponsoring companies encouraging them to go in for long term investment in the contracted land.

Incentives to Sponsoring Companies

Some contract farming incentives should be given to the sponsoring companies for disseminating technical knowledge or introduction of new technology amongst the farmers in the line of Punjab Model of partial reimbursement of extension expenditure of the sponsoring companies. At the time of registration itself, a company should given a declaration regarding the technology to be introduced in its contract farming model. This should simply be filed by the registering authority. While transferring a technology through the extension staff, the intellectual capacity of the workers, the technical feasibility, economic viability and cultural acceptability need to be taken into consideration.

Preservation of Bio-Diversity

It has to be ensured through an appropriate state agency that contract farming, which is generally commodity specific and tends to promote monoculture, does not grow beyond proportion to destroy bio-diversity and agricultural ecology. It may be necessary to provide necessary guidelines for land use planning in each region in order to prevent such eventualities. There is a need for widespread awareness for contract farming through campaigns, media, etc.

In fine, amendment of Agricultural Laws to promote Contract Farming and to provide for Dispute Redressal Mechanism coupled with institutional arrangements for recording of contract farming agreement would provide a framework for introducing an effective, speedy and inexpensive method of resolving legal disputes. The recommendations of the Sub-Committee of National Development Council (NDC) for constituting a Dispute Redressal Mechanism at the Sub-Divisional Officer's level is the only cost effective way to bring the law at the farm-gate level and to infuse its decisions with force of decree of law. While the ultimate test of trust and loyalty between the farmers and the sponsors would continue to be the lasting solution to developing symbiotic relationship between farmers and the sponsoring companies, this legal remedy will assist in ushering in such an environment in the long term.
The following paragraphs are the Case Study involving M/s Jain Irrigation Systems Ltd. (JSIL), *Jalgaon* in contract production of white onions for dehydration and exports in vertical integration of farmers in Maharashtra. While JSIL has adopted a unique approach to dispute settlement by adopting a 'double price system', sustainable solution to the challenging issue would come from appropriate risk management analysis and framing of a formal legal framework giving enforceability to Contract Farming Agreements in the agricultural sector in the country.

A Case Study in Dehydration Of White Onions In Maharashtra

Onions in Maharashtra

Onions and other allium species such as garlic, form one of the most important vegetable crops in India. India is the second largest producer of onion in the world with an annual production of 5.46 million tons. The total area in the country is 0.48 million ha which forms one fourth of the total world area under onion. Maharashtra produces 1.39 million tons and is the largest onion producing state in the country.

Most of the onions grown today are for fresh market, which is principally red. White onions are grown on a commercial scale, only in a few pockets of Maharashtra and Gujarat (accounting for about 10percent percent of the total area under onions) but these possess low Total Soluble Solid (TSS) content ranging between 10-12.5percent. Though these can be used for dehydrated, the local onions have certain constraints: (i) The local onion is of low solids hence resulting in poor recovery of the dehydrated product and (ii) during the bulb production, more than 40 percent bolting occurs which results in poor quality of the dehydrated product.

Current Status of risk management

Currently one of the critical issues in the country is to try to make agriculture a remunerative activity. This can be essentially achieved through enhancing investments in agriculture by way of higher budgetary allocations for research and development, irrigation, power, infrastructure etc., Private sector also needs to play a very prominent role in this regard by way of land improvement, on-farm practices, micro-irrigation and diversification. This also calls for effectively managing agriculture risks to mitigate, pool, share and transfer the rights from agriculture to other sectors and even to outside the country. One of the most important issues in this regard, is to work closely on post harvest management and enhancing value addition in the agriculture sector and integrating the small farmers in the value chain.

PPP in value addition

The other area of interest is to undertake an in-depth study on the market reforms that ensures that a larger share of the final price goes to the producers who are primarily farmers. India, as a country has a conceptually unified common national market wherein the produce can be sold freely without any hindrance. Currently, however, there is ample scope for the development of commodities markets and futures including introduction of warehousing receipts systems in the agriculture trade in the country. One of the most crucial aspects is the Public – Private Partnership which helps in leveraging financial resources and technologies for the sector. All these can be well executed through involvement of Farmers' organizations, producer Groups and NGOs in agriculture marketing. Promotion of Contract Farming for diversification, value addition and effective management of risks can be a very important aspect which can be duly addressed. Onion as a crop can be a good model for such a type of study.

JISL in Onion Dehydration

Jain Irrigation Systems Ltd. (JISL) has state-of-the-art world-class and scale, integrated dehydration facilities. Jain Irrigation has commissioned its first onion dehydration plant 10 years back, a 100percent export oriented unit. JISL is the largest processor of onion in the country (10,000 tons of DHO). The company entered into contract farming way back in 2001-02 with the principal objective of ensuring assured and consistent supply of onion bulbs, to enhance productivity and uniformity with better agronomical practices and also to improve the quality of onion bulbs. The raw materials undergo quality inspection, careful sorting & dehydration ensuring maximum retention of flavor, aroma, color & taste. Dehydrated flakes are then carefully milled into different fractions at its State-of-the-art milling facility ensuring strictest sanitation, food safety and hygienic conditions. During milling, the products undergo metal-detection, color sorting at the last stage and are then packed in bag-in-box. These are then stored under lower temperature and humidity and are supplied to the customers throughout the world.

In contract farming of onion undertaken by JISL, the seeds of high-yielding onion varieties are distributed to the registered growers and the seeds are sown and transplanted in the farmers' field by the farmers using their own resources. Company's R&D, extension wing and the contract farming team help the cultivators from time to time through frequent field-visits, guidance and input supplies. Contract Farming scheme not only offers guaranteed buy-back price to farmers but also provides a complete package of practices for improved productivity and quality. The package of practices that the company offers to farmers for obtaining quality bulbs with high yield, contains information on drip & sprinkler irrigation, fertigation and fertilizer doses, weeds management, pest & disease control, harvesting practices etc are noteworthy.

Criteria for Selection

The following criteria is determined for selection of farms and farmers to participate in the exercise:-

- Farms located within 200-km radius from Jalgaon are preferred for easy accessibility. Jalgaon, Dhule, Nandurbar districts have therefore been selected for contract farming.
- Farmers' having their own land, soil being suitable for onion cultivation supported by documents are only contracted.
- Farmers should be willing to adopt modern hi-tech precision farming practices.
- Availability of adequate irrigation water to get optimum yields.
- Selected farmers are committed to cooperate and discharge contractual obligations.
- Experience in onion cultivation, past production record competencies and reliability of the farmers and their ability to cooperate with others will be an added advantage.

Jain Gram Sevaks

The company has engaged a team of 52 well trained young committed, Jain Gram Sevaks (agronomists) who are involved in extension, convince the selected grower outlining the advantages of high solid white onion cultivation. It supplies elite seeds at a subsidized rate. Advisory services for raising nursery, transplanting, providing information on the quantum and form of fertilizer application, pest and disease management, pre and post-harvest care, proper packaging and transport are offered to them at no extra cost. Farmers' '*Mela'* to exchange views and experiences of individual farmers are organized in the villages before the sowing season in August-September of every year and the new technologies in onion production are demonstrated in their field as well as at its own R&D farms.

The Jain Gram Sewaks on an average contract approximately 30 farmers in each of the villages identified in the three districts of Jalgaon, Dhule and Nandurbar. Apart from this, on a trial basis, this year the company, on a small scale has ventured into contract farming in Khandwa and Pansamal in M.P and Jodhpur in Rajasthan. The *Jain Gram Sewak* invariably belongs to the same village or stays in the village assigned to him. Every Jain Gram Sewak is provided with a motorcycle, mobile phone and a digital camera. The *Jain Gram Sewaks* are the key link and they directly interface between the company and farmers. They are responsible to identify the farmers, provide seeds at the right season and advice/monitor the cultivation practices at every stage such as land preparation, timely sowing and raising nursery, transplanting, weeding, proper fertigation, pest & disease management, harvesting, curing, grading, packaging in the bags, and loading the onions in the truck for dispatch to the factory.

In short, the Jain Gram Sewaks possess good and first-hand knowledge of the onion crop. Two senior managers monitor and guide these Jain Gram Sewaks and are also in constant and direct touch with the farmers, Jain Gram Sewaks, bank officials and local heads of Panchayat Union, Community Leaders etc., Senior Scientists from the company also visit the farms and exchange views and periodically review the progress. Periodical meetings of *Jain Gram Sewaks*, managers and senior scientists are held to discuss new developments, the problems associated with onion cultivation practices.

Good Agricultural Practices

Valued customers from Europe, US, South America etc., during their visit to the company are also taken to these contract farms to see for themselves the Good Agricultural Practices (GAP) adopted by the farmers. The number of farmers contracted being so large occasionally; problems and disputes do arise quite often due to adverse climate etc. However, in the event of any problem, the dispute resolution mechanism by the company is so efficient that the problems are settled amicably. It is highly unlikely, that the processor will take legal action against a small farmer for any breach of contract. The costs involved are far in excess of the amount claimed and the legal action threatens the relationship with the farming community. The contract farming system enabled the company to get onions with high solids content (TSS>18percent) and homogeneity at the right time in required quantities at pre-agreed market prices.

Benefits to Farmers

The contract farmers are highly benefited by way of receiving elite seeds of onion which is supplied at a subsidized rate. The advance amount (50percent of the total seed cost) is usually deposited by the contract farmer at the time of purchase and the balance will be recovered from the sale proceeds of the produce at harvest of onion. Farmers are exposed to latest cultivation methods. The emerging technologies comprising of total package of timely agronomic practices are transferred to farmers. Record keeping, efficient use of farm resources, improved methods of irrigation through drip and/or sprinklers, fertigation, a knowledge of the importance of quality, the characteristics and demands of processing industry are some of the skills exposed to contract farmers. A booklet in Marathi/Hindi on hi-tech precision farming of onion is given to each contracted farmer free of cost. Being a micro irrigation system manufacturing company, over the years it has managed to bring more than 80percent contract onion farming under MIS, ensuring higher productivity, better quality of the produce.

Double Price Formula

By following the recommended package of cultivation practices, the farmer gets increased productivity and higher income. No price risk, whatsoever is involved as the company assures minimum guaranteed price of Rs.3/kg on delivery at the factory. However, on the date of purchase if the market price is more than Rs.3/kg, the company pays the farmer the prevailing market rate. If the market price fall below Rs.3/kg, the contract grower is paid the Minimum Guaranteed Price (MGP). Thus the group follows what is known as double price formula. The group believes that this is the only way it can work. There is no other way the farmer's behavior response can be predicted or policed. An increased farm yield, coupled with prevailing market price or MGP, earns him increased net revenue. Absence of middlemen, brokerage charges etc., is a welcome plus to his earnings. Moreover, premium produce of organic onions are purchased by the company at 15percent extra price. The company also provides jute bags for packaging the onion for dispatch to the factory.

Linking with Banks

One of the critical factors for the company's success in contract farming is the involvement of lead nationalized banks such as State Bank of India and Union Bank of India. These banks offer crop loan for onion cultivation and term loan for purchase of capital equipments like drip/sprinkler system. The company assumes the responsibility as facilitator, liaising between the farmers and the banks and pays back the dues directly to the bank by deducting from the sale proceeds of the onions, sold to the company.

The farmers are encouraged to instal micro irrigation along with fertigation System availing the term loan from State and Union Bank of India upto Rs.25,000=00 per acre. The company has entered into a Memorandum of Understanding with these banks wherein the pay back period is around 4-5 years.

The contracted farmers also avail crop loan to meet the cost of cultivation at Rs.8500 per acre from Union Bank of India, and at Rs.10,000 per acre from State Bank of India. The banker's dues are deducted by the company from the sale proceeds and the balance paid to farmers. Thus the banker gets far more comfort and the farmers get the credit delivered to his door steps. Micro Irrigation System being hi-tech input, productivity is enhanced significantly.

Quality Monitoring

One of the major advantages to the company through contract farming is a close monitoring of onion bulb quality. As a result, production and quality through this system is more reliable than open-market purchases and the company faces less risk due to losses resulting out of pest and disease attack. Since the farmers are well-versed with hi-tech cultivation, with proper harvesting and curing practices, the bulbs supplied are of superior quality and ideal for dehydration. This clearly spells out a 'win-win' situation for both the farmer as well as the company.

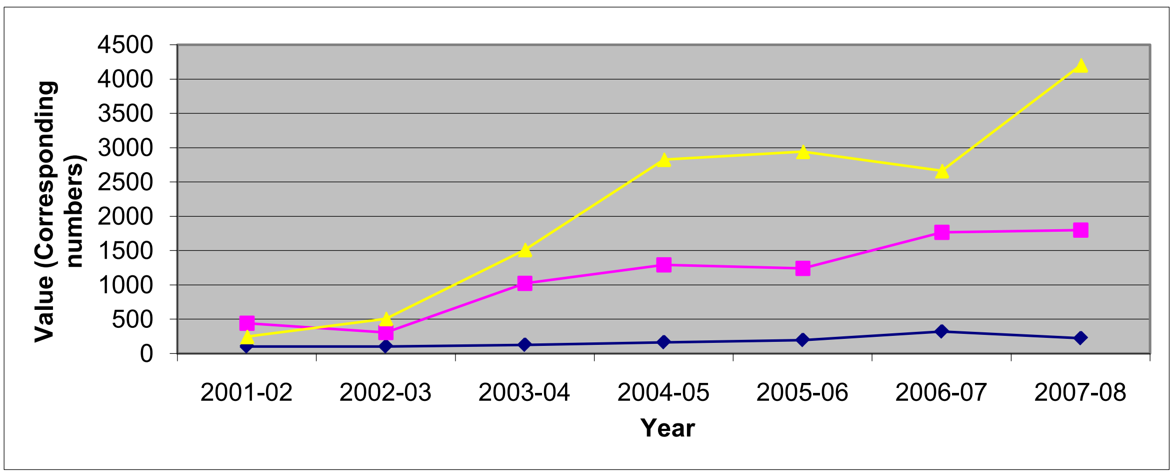
It has therefore been possible to perpetually obtain the desired quality and quantity of onions from nearby contract farms under stringent supervision and control. The data on onion contract farming is depicted in detail for perusal (Table 1, Figures 1 & 2).

Table 1: **Contract Farming Data – JV 12 Onion**

Year	No. of Villages	No. of Farmers	Area (Acres)
2001-02	105	441	246
2002-03	105	306	508
2003-04	128	1023	1512
2004-05	166	1293	2826
2005-06	198	1241	2941
2006-07	323	1766	2660
2007-08	225	1800	4200
Total	**1250**	**7870**	**14893**

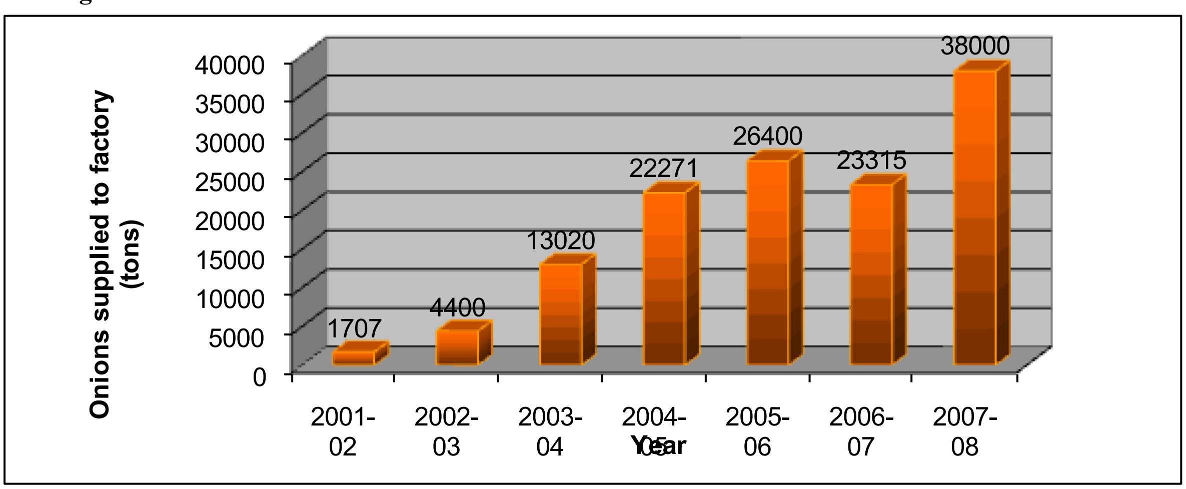
Note: 2007-08 - Expected

Figure 1: **Representation of Number of Villages (♦), Number of Farmers (■) and Area [Acres] (▲) under Contract Farming**



Note: 2007-08 - Expected

Figure 2: Quantities (tons) of JV12 onions supplied to factory through Contract Farming



Unique approach to dispute redressal

JISL has taken a very unique approach in regard to dispute settlement. For instance, in 2001-2002, the company gave a compensation of Rs.6 lakhs to farmers due to problems with quality of imported seeds and for the same reason, a compensation of Rs.35 lakhs was given to 425 farmers in 2004-05. Re-supply of onion seed at 50percent of the original rate to farmers in pockets reporting low germination. At this point, it is worth mentioning that during Rabi 2006-07, the onions were purchased from the farmers at a whopping at Rs.16.3 crores (@Rs. 7.00/kg) as against Rs.6.9 crores (if it had been on MGP of Rs. 3/kg). This means that the company shelled out Rs.9.4 crores extra suffering huge loss. This the company could do without resorting to any legal procedures because the management being farmer-friendly realizes the risks involved in farming, farmers' psyche and the response of farmers to fluctuations in the market price. The company also realized that the farmers risk taking capacity is challenged more frequently by vagaries of weather, incidence of pests and diseases, fluctuations in the market price within the same year and other factors like scarcity of labor, high cost of inputs etc