

ISSUES AND CHALLENGES OF CONTRACT FARMING IN NAGAPATTINAM DISTRICT OF TAMIL NADU

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Abstract

The paper analyses the issues and challenges of the existing institution of contract farming in the selected villages of Nagapattinam district. The tenants are selected from four different types of contract farming viz., Cash Contract, Sharecropping, Mortgaging and Temple contract lands. Among the four different contract lands, cash and sharecropping is short-term contract and mortgage and temple lands are long-term contract. The tenants are reluctant to invest on long term technologies and activities on contract land such as bore well, land reclamation, tree and etc. In conclusion, long term contract assures secure rights for the temple land tenants while insecure rights have affected the agricultural activity of cash, sharecropping and mortgage tenants. Thus, it is important that a tenancy reform has to be initiated for strengthening the contract farming.

Keywords: contract, legal registration, lone-term investment, tenant rights

Introduction

Contract farming is not a new concept; it was used in the 19th century in Asia and Latin America. Contract Farming can be defined as a system for the production and supply of land based and allied produce by farmers/primary producers under advance contracts, the essence of such arrangements being a commitment to provide an agricultural commodity of a type, at a specified time, price, and in specified quantity to a known buyer (Singh, 2005). Contract farming is an agreement that involves producers/farmers, intermediaries, processing and or marketing firms, to provide the farm produce at predetermined prices and quality, at specified places, after a specified duration. The institution of contract farming includes lease agreement, contract regulations and transaction cost. But, high cost of the registration system (Thomas *et al*, 2002) and the absence of registration, land title, and active land markets reduce the efficiency of tenants (Gavian and Fachamps, 1996). Long term contracts entail lower transaction costs (Bandiera, 2005). Given this backdrop, the present venture analyses the issues and challenges of the existing institution of contract farming in the selected villages of Nagapattinam district.

Types of Contract Farming

In the surveyed region, contract farming includes cash contract, sharecropping, mortgage and temple contract lands. Cash contract is concern the tenant and land owner negotiate and fix the amount and tenure of contract, which the amount has to be given before initiation of the cultivation. Sharecropping is concern the cost and yield will be shared between the land owner and tenant. Since the tenant incurs the cost of cultivation, one third of the yield is given to the land owner and two third to the tenant. Land owners mortgage land for an amount and after repayment of the amount the land has to return to the land owner. Temple land is managed by the trustee and the lands are rented to the local farmers wherein the tenant can cultivate the land continuously by giving regular rental amount. The above mentioned various contract lands has its own merit and demerit in cultivating the lands.

Methodology

The present study is based on the primary data. For the study, the tenants are selected from four different types of contract farming viz., Cash Contract, Sharecropping, Mortgaging and Temple contract lands. In contract farming, Cash Contract, Sharecropping and Mortgage lands are cultivated in all the regions of the State whereas temple lands are found only in few districts and it is high in Nagapattinam district (Hindu Religious and Charitable Endowments Department of Tamil Nadu, 2015). Therefore, Nagapattinam district is selected for the study and from the district the blocks and villages that have more temple lands will be identified. At the next level, paddy cultivation is selected to analyse the efficiency in contract farming in terms of investment, technology adoption and input use. Selection of paddy cultivation is appropriate as the tenure of paddy cultivation is less than six month and major crop of the district is paddy. From each contract, 60 tenants will be selected and simple random sampling method will be adopted to identify 240 tenants in total.

Result and Discussion

Tenure Period

The table 1 examines the tenure of contract lands for cultivation. The tenants have lease-in lands for less than three years, indefinite period and permanent. Regard to permanent tenure, temple lands are cultivated for long tenure wherein the temple trustee give rights to cultivate lands until the tenant’s handover. The mortgage land contract is based on the fixed amount paid over the land and the period of contract is indefinite until land owner returns the amount to the tenant. But, cash and sharecropping is short term contract less than three years, which is revived frequently once in three years. Among the four different contract lands, cash and sharecropping is short-term contract and mortgage and temple lands are long-term contract.

Table 6.1 Tenure of Contract Lands for Cultivation

Source: Computed

Note: Figures in parentheses are percentages to sample size

Details	Cash Tenancy (n=60)	Share - cropping (n=60)	Mortgage (n=60)	Temple Land (n=60)	Total (N=240)
Less Than 3 Years	60 (100)	60 (100)	0 (0)	0 (0)	120 (50.0)
Indefinite Period	0 (0)	0 (0)	60 (100)	0 (0)	60 (25.0)
Permanent	0 (0)	0 (0)	0 (0)	60 (100)	60 (25.0)

Registration of Contract Land

Agreements of contract lands are registered for providing security for the tenants to cultivate without any land owners intervention. The table 2 examines that the tenants follow three types of registration such as legal registration, informal

registration and oral collusion. Of this, 45 per cent of the tenants cultivate contract lands under informal registration, 28.8 per cent have legal registration and rest of them have oral collusion. Of this, legal registration is considered as highly secured as towards oral collusion. Oral collusion is made at local level under the village elders/leaders, which cannot provide security at all levels. All the temple lands are under legal registration and the tenants can also transfer his/her rights to others. Few of the mortgage tenants have registered their contract under legal system while cash and sharecropping tenants have registered their contract under informal and oral collusion agreement

Table 2 Registration of Contract Land

Source: Computed

Note: Figures in parentheses are percentages to sample size

Details	Cash Tenancy (n=60)	Share - cropping (n=60)	Mortgage (n=60)	Temple Land (n=60)	Total (N=240)
Legal Registration	0 (0)	0 (0)	9 (15.0)	60 (100)	69 (28.8)
Informal Registration	39 (65.0)	18 (30.0)	51 (85.0)	0 (0)	108 (45.0)
Oral Collusion	21 (35.0)	42 (70.0)	0 (0)	0 (0)	63 (26.3)

Rental and Registration Amount

The table 3 gives the details of the rental and registration amount involved in contract farming. The average rental amount is Rs. 4333.8 wherein the contract amount is high for cash tenancy, mortgage (based on

interest rate), sharecropping and temple land respectively.

Table 3 Rental and Registration Amount Involved in Contract Farming

Source: Computed

Details (in Rs.)	Cash Tenancy	Share - cropping	Mortgage	Temple Land	Total
	(n=60)	(n=60)	(n=60)	(n=60)	(N=240)
Rental Amount Per Cultivation	5427.0	5148.3	5260.0	1500.0	4333.8
Registration	301.7	526.7	1525.0	-	588.3

In particular, rental amount for temple land is Rs.1500, which is too meagre and the temple trustee provide for the benefit of the poor/marginal farmers. Regard to registration, temple lands are

registered once and there involves no registration cost. While other contract lands involves registration cost and that too mortgage lands are registered as the cost involved in mortgage land is high and the cost involved in registration reflects the same. Thus, legal registration assures security and the temple contact lands are comparatively better in cost of rental and registration of agreement.

Conditions and Regulations of Contract Lands

The table 4 examines the perception of the tenants regarding conditions and regulations of contract lands. The land owners have framed the following conditions and regulations: Not to cultivate long term crop, not allowed to ditch in land, not to claim loss and handover the land after stipulated period.

Table 4 Perception on Conditions and Regulations of Contract Lands

Source: Computed

Note: Figures in parentheses are percentages to sample size

Details	Cash Tenancy	Share - cropping	Mortgage	Temple Land	Total
	(n=60)	(n=60)	(n=60)	(n=60)	(N=240)
Not to Cultivate Long Term Crop	35 (58.3)	60 (100)	60 (100)	0 (0)	155 (64.6)
Not Allowed to ditch in land	35 (58.3)	5 (8.3)	9 (15.0)	0 (0)	49 (20.4)
Not to claim loss	32 (53.3)	0 (0)	0 (0)	0 (0)	32 (13.3)
Handover the land after stipulated period	49 (81.7)	0 (0)	9 (15.0)	0 (0)	58 (24.2)

Of the various conditions listed, 64.6 per cent of the tenants must not cultivate long term crop, 24.2 per cent of them have registered that land has to be handover in stipulated period after cultivation. Few tenants have reported that not to

ditch in land and not to claim the loss. In particular, there is no condition and a regulation for temple land since the rights of temple land is exclusive to the tenants.

Reasons for Informal Agreement

Informal agreement for contract land is followed by most of the tenants and the reason for the same is gathered and those areas as follows: local institution is strong, inexpensive, time consuming and good relationship with tenant-owner (see table 5). From the results, 80.4 per cent of the tenants feel that local institution is strong and 72.9 per cent of them register that informal contract agreement is inexpensive. Time consuming (56.3%) and good relationship with tenant-owner (24.6%) is also mentioned by few of the tenants. Thus, strong local institution has made the tenants to make informal agreement for the contract farming, which is inexpensive.

Table 5 Tenants Perception on Reasons for Informal Agreement

Source: Computed

Note: Figures in parentheses are percentages to sample size

Details	Cash Tenancy	Share - cropping	Mortgage	Temple Land	Total
	(n=60)	(n=60)	(n=60)	(n=60)	(N=240)
Local Institution is Strong	46 (76.7)	60 (100)	27 (45.0)	60 (100)	193 (80.4)
Inexpensive	60 (100)	60 (100)	24 (40.0)	31 (51.7)	175 (72.9)
Time Consuming	60 (100)	13 (21.7)	24 (40.0)	38 (63.3)	135 (56.3)
Good Relationship with Tenant-Owner	10 (16.7)	13 (21.7)	36 (60.0)	0 (0)	59 (24.6)

Reasons for Formal Agreement

The table 6 examines the perception of the tenants for having formal agreement for their contract lands. The perception registered by the tenants are formal agreement gives security, local institution is weak,

willingness of the tenant and owner, averts risk and mortgaged land.

Of the reasons mentioned, 58.3 per cent of the tenants opine that formal agreement gives security, averts risk (28.8%) and willingness of the tenant and owner (22.5%). Few of them have mentioned that local institution is weak and the land lease-in is mortgage land (3.8%) respectively. Thus, formal registration of contract land is a good approach of securing the tenants.

Table 6 Tenants Perception on Reasons for Formal Agreement

Details	Cash Tenancy	Share - cropping	Mortgage	Temple Land	Total
	(n=60)	(n=60)	(n=60)	(n=60)	(N=240)
Gives Security	11 (18.3)	60 (100)	9 (15.0)	60 (100)	140 (58.3)
Local Institution is Weak	0 (0)	0 (0)	9 (15.0)	0 (0)	9 (3.8)
Willingness of the Tenant and Owner	21 (35.0)	24 (40.0)	9 (15.0)	0 (0)	54 (22.5)
Averts Risk	0 (0)	0 (0)	9 (15.0)	60 (100)	69 (28.8)
Mortgaged Land	0 (0)	0 (0)	9 (15.0)	0 (0)	9 (3.8)

Source: Computed

Note: Figures in parentheses are percentages to sample size

Issues in Rental Lands

The previous discussion brought the positive aspects of lease-in lands. At the same time, there is various issues in lease-in lands and the researcher has found the following issues: Unable to Manage Effectively, Land Owners Interference, Unable to Use Environment Friendly Technologies, Short Duration affects our Long Term Investment and Insecurity Affects Our Decision Making (see table 6.9). Of this, 45.8 per cent of the tenants register that they are unable to manage effectively. Of the various type of contract, cash tenancy (100%) and mortgage (83.3%) tenants feel insecure and unable to manage the contract land effectively. But, none of the temple land and sharecropping tenants mention the same. Because, temple land contract provide secure rights as typical like a private land and sharecropping involves both owner and tenants and they are away from the problem of management. But, the cash tenancy and mortgage tenants opine that they are unable to manage effectively because of insecure right of the contract lands. Land owner’s interference have affected the tenants activity and 19.6 per cent of the tenants registered as a whole. Among the tenants, cash (41.7%), sharecropping (21.7%) and mortgage (15%) tenants have the problem of land owner’s interference. But, temple land tenants are free from owner’s interference. The tenants are unable to use environment friendly technologies and 72 out of 240 tenants have the issue. The issue is severe among the cash (58.3%) and mortgage (40%) tenants and comparatively less among the sharecropping tenants (21.7%). Since adoption of environment friendly technologies take long tenure for attaining the benefits from the land, the above three contract farming have the problem of using organic inputs/environment friendly technologies. But, long secure tenure of the temple contract land tenants have no such issues.

The tenants are reluctant to invest on long term technologies and activities on contract land such as bore well, land reclamation, tree and etc. Of the surveyed tenants, 37.1 per cent of the tenants have the issue of long term investment on contract land and all the tenants groups have the problem except the temple land tenants. Insecurity of contract lands have affected 51.3 per cent of the tenant’s decision making and the problem is high among cash (100%), sharecropping (60%) and mortgage (45%) tenants.

Table 7 Tenants Perception on Problems in Rental Lands

Source: Computed

Note: Figures in parentheses are percentages to sample size

Details	Cash Tenancy (n=60)	Share - cropping (n=60)	Mortgage (n=60)	Temple Land (n=60)	Total (N=240)
Unable to Manage Effectively	60 (100)	0 (0)	50 (83.3)	0 (0)	110 (45.8)
Land Owners Interference	25 (41.7)	13 (21.7)	9 (15.0)	0 (0)	47 (19.6)
Unable to Use Environment Friendly Technologies	35 (58.3)	13 (21.7)	24 (40.0)	0 (0)	72 (30.0)
Short Duration Affects our Long Term Investment	46 (76.7%)	25 (41.7)	18 (30.0)	0 (0)	89 (37.1)
Insecurity Affects Our Decision Making	60 (100)	36 (60.0)	27 (45.0)	0 (0)	123 (51.3)

Thus, the problem in cultivating contract lands is high among the cash, sharecropping and mortgage tenants. But, the temple contract land tenants are free from issues in management, technology adoption and decision making.

Thus, long term contract assures secure rights for the temple land tenants while insecure rights have affected the agricultural activity of cash, sharecropping and mortgage tenants.

Conclusion and Policy Suggestions

From the study, all the temple lands are under legal registration and the tenants can also transfer his/her rights to others. Few of the mortgage tenants have registered their contract under legal system while cash and sharecropping tenants have registered their contract under informal and oral collusion agreement. Of the various conditions listed, tenants must not cultivate long term crop and handover of land in stipulated period after cultivation is reported by more number of tenants. However, strong local institution has made the tenants to make informal agreement for the contract farming, which is inexpensive. The tenants are reluctant to invest on long term technologies and activities on contract land such as bore well, land reclamation, tree and etc. In conclusion, long term contract assures secure rights for the temple land tenants while insecure rights have affected the agricultural activity of cash, sharecropping and mortgage tenants. Thus, it is important that a tenancy reform has to be initiated for strengthening the contract farming.

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