



## International Journal of Economic Research

ISSN : 0972-9380

available at <http://www.serialsjournal.com>

© Serials Publications Pvt. Ltd.

Volume 14 • Number 3 • 2017

### Contract Farming in Sustainability of Medicinal Plants in India: Review Article

Ann Mary<sup>1</sup>

**Abstract:** Medicinal and Herbal plants play an important role in the healthcare of people around the world. Demand for medicinal plants is increasing due to growing recognition of natural products being non-narcotic, having no side-effects, easily available at affordable prices and sometime the only source of health care available to the poor. As per World Health Organization (WHO) estimates, almost 80% of the population of developing countries relies on traditional medicines, mostly plant drugs, for their primary health care needs. India is immensely graced with the Medicinal plants due to its diverse climatic conditions. They are the chief ingredients of Ayurveda, which is the mascot of our country. The medicinal properties of plant species in India have made an outstanding contribution in the origin and evolution of many traditional herbal therapies. The over dependence on forests and natural woodlands for extraction of Medicinal and herbal plants is threatening the survival of many valuable plant species. It is imperative therefore that such endangered species are cultivated outside their natural habitats to ensure their regular supply for human needs as well as to preserve the genetic diversity. Medicinal plants which are of great demand in India and having production technology will have to be popularised for cultivation as component through contract farming.

Contract farming can act as a solution to the problems in Indian Medicinal plants sector. The process of contract farming involves cultivating and harvesting for and on behalf of business establishments or Government agencies and forwarding the produce at a pre-determined price. In return, the contracted farmers are offered high price against their farm produce. There is bright scope of Contract farming of medicinal plants in India. This article reviews the available literature covering this topic and also examines the scope and extent of contract farming in agribusiness of medicinal plants in India with reference to rural and agricultural development where particular emphasis is given to marginal and small farmers.

**Keywords:** Contract Farming, Agribusiness, Medicinal plants, Rural development.

#### INTRODUCTION

Medicinal plant sector in India is often projected as one of the potential sectors of employment promotion, especially in the current context of growing Herbal product market and increasing relevance of indigenous

medicines in health care. It has importance of two-fold; one from an industrial and health care perspective and another importantly livelihood perspectives. While the medicinal plant forms the major raw material for the growing herbal industry, it is the source of livelihood for large group of farmers. The rates paid to farmers are extremely low, often just a fraction of the price paid by the final consumer. It is very much evident that it is because of exploitation of farmers by traders and intermediaries. The traders have two ways of increasing the profit margin, either reduce the purchasing cost or increase the selling cost. Traders usually select the first method to gain more profit. This is because of less bargaining ability and ignorance of the farmers regarding the market dimensions. So, the traders opt for the exploiting the farmers to increase the profit margin. This will ultimately end up in exploitation of natural resources and less money benefit to farmers.

These are the issues that have become a cause of concern and need expeditious action. Contract farming can act as a solution to the problems. It is a new dimension in the Indian agriculture sector. The process of contract farming involves cultivating and harvesting for and on behalf of business establishments or Government agencies and forwarding the produce at a pre-determined price. In return, the contracted farmers are offered high price against their farm produce. There is bright scope of Contract farming of medicinal plants in India.

Contract farming is generally defined as farming under an agreement between farmers and a 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 firm to support farmer's the production and to purchase the commodity. It improves farmer's efficiency, utilizing corporate management skills, providing assured markets and reduce transaction costs. Contract farming is a win-win situation for both the parties and helps to build a platform for improvement of farm incomes, development of agro-processing and expansion of rural economy.

Contract Farming System has the potential of addressing most of the urgent and critical needs of the Indian Medicinal Plants Sector. It offers 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 on a massive scale. Successful contract farming also provides a platform for supply of reliable medicinal and herbal plants of specified quality for the establishment and development of processing sector and reliable and competitive channel for supply of exports as well. Therefore, the need for contract farming, which would hopefully promote the linkages to the small-scale farming community to grow medicinal and herbal plants on commercial terms.

## **REVIEW OF STUDIES ON CONTRACT FARMING ON MEDICINAL PLANTS**

### **Role of Herbal Companies in Cultivation of Medicinal Plants**

Since the contract farming system in India is a recent phenomenon, research in this field is still at the early stages. In a study on contract farming on medicinal plants in Haryana, Choudhary Balram (2012) observed that. The fall in collection of wild herbs threatens the growth of the industry. The industry has been used to procuring medicinal plants through a network of traders who get their supply through collectors, the

sector needs to develop an intellect for contract cultivation. A majority of India's marginal farmers, already reeling under debt and wide price fluctuations for regular harvests of rice, wheat or vegetables, are unwilling to risk herb cultivation. In such circumstances, Himalaya tied up with one of its key suppliers, Gram Mooligai Co. Ltd, to set up a 75-acre nursery of high active ingredient plant species near Madurai in Tamil Nadu. By 2015, Himalaya aims to source 70% of its raw materials through cultivation.

The study also observed that Sami Labs has over 4000 acres of land under medicinal plant cultivation. Reiterating its commitment to contract farming for medicinal plants, the company is keen on acquiring nearly 20,000 acres of land in various parts of the country. The study analyse that through contract farming there has been tremendous development in medicinal plants sectors. It also provides various benefits like, improved access to local markets; assured markets, enhanced farmer access to production inputs, mechanization and transport services and extension advice.

### **Problems Faced by Farmers in Medicinal Plants Cultivation**

S. S. Hiremath and DR. K. R. Kadam conducted a case study on contract farming in medicinal plants sector (2012). They observed that cent percentage of farmers faced major constraint of non-availability of labours for work. A Manipulation of norms by firm (85.71%), followed by delayed payments (81.71 %), less price for the produce (75.71%), high rejection rate (73.57%), problem of pest and Diseases (66.42%), were also the problems faced by the contracting farmers. Provision of supportive price for their products (76.66%), followed by government intervention for enforcing strict laws (44.16%) and guidance over pests and diseases management (18.33%) were the other suggestions expressed by the contract farming farmers. The authors observed from the study that all the farmers were influenced to contract farming due to assured market value for medicinal plants followed by good irrigation sources for taking up of medicinal plants production, higher returns, timely supply of inputs, low risk and farmers were realized that short duration crop.

### **Developing A Sustainable Medicinal-Plant Chain in India through Contract Farming**

Petra Van De Kop and Ghayur Alam (2006) they conducted a research on contract farming in Uttaranchal and examined that, resource-poor people in Uttaranchal collect plants from the wild in order to complement their meagre incomes. Due to continued collection and increasing market demand, numerous plant species are threatened with extinction. This has a particularly negative impact on the incomes of the poorest sections of rural societies. For rational and regulated collection, strong local communities or strict governmental control measures are necessary. The first is not in place in Uttaranchal, while collection-control regulations tend to affect the poorest households hardest and push them into illegal, risky ventures. This brings to the possibility that cultivation of medicinal plants offers a greater opportunity for the poor people of Uttaranchal.

It is important that the potential of cultivation of medicinal plants is investigated and the possibilities of contract farming are explored through action research programmes. It is also important to focus this research on issues that affect the livelihood of the poor, including farmers with small landholdings, income opportunities for women, and food security of the poorer section of rural society. They also observed that in spite of considerable government efforts, large-scale cultivation of medicinal plants has not yet taken

place in Uttaranchal. It also highlights some of the difficulties that farmers face in carrying out the cultivation of medicinal plants. These include: long gestation period and high risk, poor institutional infrastructure to provide technical and marketing support, high transaction costs and insufficient social capital all these constraints can be overcome by the proper implementation of contract farming.

### **Socio economic Improvement through Contract farming**

The study done by Rajendra Singh Chauhan (2010) initiative towards improvement in socioeconomic through cultivation of medicinal plants. The study revealed that farmers' incomes had increased with the cultivation of Medicinal plants through contract farming. Now other farmers in nearby villages are taking interest in cultivation of these Medicinal plants. The income generated from Medicinal plants cultivation improved socioeconomic status of marginal farmers. The medicinal plant sector at present is not well organized and needs special attention (Nautiyal et al., 2002). A number of authors agree with the statement that cultivation of Medicinal plants through contract farming can improve socioeconomic status of farmers (Chandola and Singh, 2003; Singh and Tyagi, 2004; Chauhan and Nautiyal, 2005; Mathela, 2006). However, the income generated so far is a small part that will increase in the future. In this way, the economic status of marginalized farmers can be improved through contract farming.

### **Suggestions for Successful Implementation of Contract Farming in Medicinal Plants**

Major suggestions put forward by the S. S. Hiremath and Dr. K. R. Kadam (2012) was that, in view of delayed payment, manipulation of norms in procurement and breach of contract by following different practices and strategies by the companies in contract farming activities, the contract farming activities should be regulated by bringing under legal framework. It was also found that the contracting firms try to breach the legal contracts to increase their profits. Hence, it is necessary to bring in strict legislative measures by the government so as to protect the interests of both the farmers and the company.

## **CONCLUSIONS AND RECOMMENDATIONS**

Contract farming is defined as a system for the production and supply of agriculture under forward contract between suppliers and farmers. The key benefits of contract farming for farmers can be summarized as: improved access to local markets; assured markets and prices (lower risks) especially for non-traditional crops; assured and often higher returns; and enhanced farmer access to production inputs, mechanization and transport services, and extension advice. Additional key benefits for contract partners and rural development often include: assured quality and timeliness in delivery of farmers' products; improved local infrastructure, such as roads and irrigation facilities and lower transport costs. Herbal industry has been used to procuring medicinal plants through a network of traders who get their supply through collectors, the sector needs to develop an intellect for contract cultivation. Reviews have highlighted significant problems in some cases wherein: both firms and farmers breached contracts when market conditions provided arbitrage opportunities. Firms rejected more contracted produce on quality grounds when market prices dipped below contracted prices and farmers engaged in side-selling in open markets when market prices rose higher than contract prices. This review suggests that strict legislative measures by the government should be implemented so as to protect the interests of both the farmers and the company.

## REFERENCES

- Choudhary Balram (2012), Contract Farming of Medicinal Plants in India, International Journal of Pharmaceutical Erudition, pg no:1-5
- Dileep B.K., Grover R.K. and Rai K.N. (2002), "Contract Farming in Tomato: An Economic analysis, Indian Journal of Agricultural Economics no:21
- Eaton, C., A. Shepherd, et al. (2001), Contract farming: partnerships for growth, Food and Agriculture Organization of the United Nations.pg no:30
- Glover, D. (1987), Increasing benefits to smallholders from contract farming: Problems for farmers. World Development, Volume 15(4), pp. 441-448.
- Glover, D. (1990), Contract farming and outgrower schemes in East and Southern Africa. Journal of Agricultural Economics, Volume 41(3), pp. 303-315.
- Petra Van De Kop and Ghayur Alam (2006), Developing A Sustainable Medicinal-Plant in India, Agro-food chains and networks for development, pg no: 191-202
- Rajendra Singh Chauhan (2010), Socioeconomic Improvement through Medicinal and Aromatic Plants Cultivation in Uttarakhand, Journal of Sustainable Agriculture, pg no: 647-658
- Rangi, P. S. and M. S. Sidhu (2000), A study on contract farming of tomato. Agricultural Marketing, pp. 15-23
- S. S. Hiremath and Dr. K. R. Kadam (2012), A Study on Contract Farming in Medicinal Plants: A Case Study, Agricultural Situation in India, pg no:211-212
- Sharma, Vijay Paul (2007), "India's Agrarian Crisis and Smallholder Producers' Participation in New Farm Supply Chain Initiatives: A Case Study of Contract Farming, pg no: 15
- Singh, Sukhpal (2002), Contracting out solutions: Political economy of contract farming in the Indian Punjab. World Development, Volume 30, No. 9, pp. 1621-1638.