**General Studies – 3; Topic: Agriculture**

**Contract farming in India**

1) **Introduction**
   - Contract farming, a system of contractual production of agricultural raw produce by the farmer for procurement by private companies who process and sell it further
   - It entered the Indian agricultural scenario in a big way in the early 2000s.
   - Recognising the potential and benefits of contract farming arrangements in the agriculture sector, NABARD took the important initiative of supporting such arrangements

2) **Advantages**
   - Growers stand to benefit from farm extension programmes of agro-processors
   - Lifting of farmer's entire production by processing units at fair and remunerative prices will be a step to doubling their income.
   - Since the factories will be next to clusters of farms, wastages, now between 35 and 40 per cent, will be very largely eliminated
   - Contract farming will usher the best agri practices from different parts of the world, from Israel to the US
   - This will free growers from middlemen and moneylenders.
   - Rural women, instead of being employed as farm labourers will work in sorting and grading of fruits and vegetables, adding value to the produce.
   - Encourage the new generation to take to farming instead of migrating to cities
   - Farmers will have a guaranteed price and also have access to quality inputs.

3) **Need for a model law on contract farming**
   - Financial incentivisation of farming through private investment is recognised as a need to support India’s largely stagnant agricultural sector
   - The present contract farming framework available in the country only covers marketing of produce
   - A model law is needed to streamline the system and make it more uniform across states.
   - For addressing the dependency that farmers can develop on the private parties for seeds and farm equipment
   - Idea behind the separate law is to ensure that APMCs themselves do not become arbitrators on contract farming
   - An integrated approach to re-energise farming activity in rural areas and also double farmers income.
   - To attract large investments from within and outside the country in agro-processing units

4) **Success Stories of Contract farming in India**
   - There are few success stories on contract farming such as Pepsico India in Madhya Pradesh and Andhra Pradesh which helped the growers in realization of better returns for their produce.
   - Amul and National Dairy Development Board (NDDB) for milk procurement and sugarcane cooperative in Maharashtra

5) **Model law on contract farming**
   - The finance minister announced that a model law on contract farming would be formulated
The law could encompass all the agricultural commodities and not restrict itself to only one or two commodities.

A model law on contract farming is expected to help farmers by virtue of better price realisation and reduction of post-harvest losses.

The law can effectively merge assured markets for farmers with sustainable agriculture.

Niti Aayog is preparing a model contract farming law to connect farmers with the food processing industry.

It would cover farming right from distribution of seeds to marketing of final produce.

6) Criticism
- Contract farming might not be suitable for agriculture in India where the majority of farmers depend on small or marginal landholdings.
- It can also be detrimental by encouraging large monoculture farming.
- Dependency of farmers on companies for seeds and equipment also needs to be looked at.
- High incidence of conflicts in some places between the farmer and the procuring entity on quality/quantity of produce as well as a high risk of post-harvest losses.

7) Way Forward
- Integrate farmers who grow fruits and vegetables with agro processing units for better price realisation and reduction of post-harvest losses.
- The existing trust deficit between millions of growers on one side and politicians, bureaucrats and corporates on the other has to be bridged.
- Facilitate import of varieties / hybrids for contract farmers. Growth will be led by productivity enhancement & market focus.
- Required - a quasi judicial system of contract enforcement.
- Collect no taxes from food processors involved in contract farming. Compel them to invest in lieu in rural infrastructure & farmer upliftment.
- No taxes or duties on import of agri equipment to be used in a registered contract farming program.
- India, given the diverse agro climatic zones, can be a competitive producer of a large number of crops. Contract farming offers one possible solution.