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.