



## CONTRACT FARMING: ECONOMIC

**NEWS:** The shift from importing to exporting frozen French fries in India, highlights the importance of contract farming for both the agricultural industry and farmers.

### WHAT'S IN THE NEWS?

#### What is Contract Farming?

- Contract farming is agricultural production carried out according to an agreement between farmers and a buyer, which places conditions on the production and marketing of the commodity.
  - **Farmers:** They agree to produce specified agricultural commodities based on the buyer's requirements, adhering to quality, quantity, and timing standards.
  - **Buyers:** They are usually agribusiness firms, processors, exporters, or retailers who provide inputs like seeds, fertilizers, and technical know-how, along with a guaranteed price for the produce.

#### Objectives of Contract Farming

- To promote a steady source of earnings at the individual farmer level.
- To expand private sector investment in agricultural business.
- To inspire financially rewarding employment opportunities in rural communities, especially for landless agricultural labour.
- To bring down the burden of central and state-level procurement systems.
- To minimize migration from rural to urban areas.
- To create a market focus on crop selection by Indian farmers.
- To promote value addition and processing.
- To bring down as far as feasible, any seasonality associated with such employment.
- To encourage rural self-reliance by pooling locally available resources and expertise to meet new challenges.

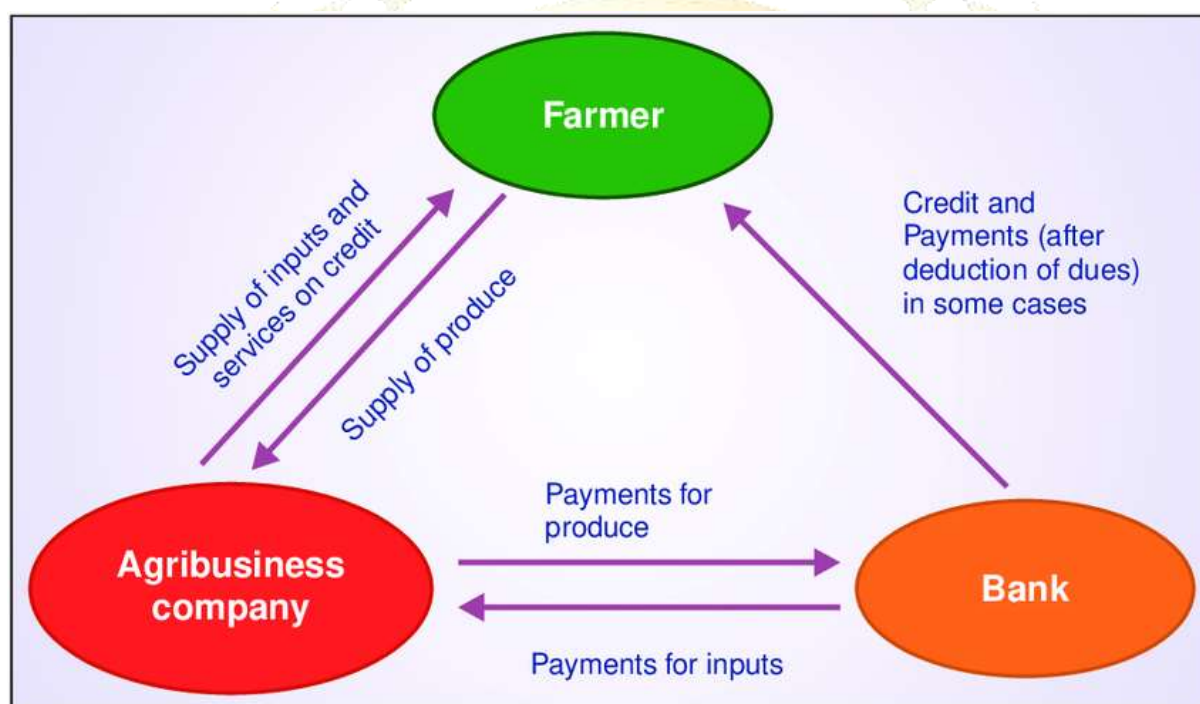
#### Types of contract farming arrangement

- **Direct Input Provision by the Company:** The company supplies all necessary inputs to the farmers, and the cost of these inputs and services is deducted from the price the farmer receives for the produce after harvest and delivery.



- **Partnership with Local Input Dealers:** These arrangements represent a spectrum of company involvement, balancing between direct control and reliance on third-party service providers. The choice of arrangement depends on:
  - Availability of local service providers.
  - The company's resources and capabilities.
  - The complexity of the crop production process.

*Tamil Nadu has become the first State in the country to enact a law on contract farming with President giving assent to the Agricultural Produce and Livestock Contract Farming and Services (Promotion and Facilitation) Act.*



## Advantages of Contract Farming

- **Assured Income:** Farmers are assured of a market for their produce at a predetermined price, reducing income uncertainties.
- **Access to Quality Inputs:** Buyers provide high-quality seeds, fertilizers, and advanced technology, enhancing productivity and quality.
- **Reduction in Post-Harvest Losses:** With proper guidance and market access, post-harvest losses can be minimized.
- **Facilitates Credit Access:** Contracts often enable farmers to secure loans from financial institutions due to the guaranteed income stream.

## Concerns associated with Contract Farming



- **Power Imbalance:** Farmers, particularly smallholders, may have limited bargaining power, making them vulnerable to exploitation.
- **Side-Selling:** Sometimes farmers sell the contracted produce to other buyers if offered a better price, breaching the agreement.
- **Quality Disputes:** Disagreements over quality standards lead to conflicts and delays in payments.
- **Exclusion of Marginal Farmers:** Buyers prefer to work with larger farmers for economies of scale, sidelining small and marginal farmers.
- **Environmental Concerns:** Emphasis on specific crops lead to monocropping, soil depletion, and overuse of inputs.

## Regulatory structure on contract farming in India:

- Initially, contract farming regulated under the **Indian Contract Act, 1872**.
- **The Model APMC (Agricultural Produce Market Committee) Act, 2003** provides specific provisions for contract farming, like compulsory registration of contract farming sponsors and dispute settlement.
  - However, due to resistance from commission agents, States were lukewarm towards promoting Contract farming.
- In 2004, the **MS Swaminathan-headed National Commission on Farmers (NCF)** recommended the design and implementation of a comprehensive code of conduct on contract farming.
- **The National Policy for Farmers 2007**, based on the recommendations of NCF, also encouraged Contract farming practices and promised to prepare a code of conduct for contract farming.
- In February 2018, Ministry of Agriculture came out with a **draft Model Contract Farming Act, 2018**. The draft Model Act seeks to create a regulatory and policy framework for contract farming. Based on this draft Model Act, legislatures of states can enact a law on contract farming
- Currently, contract farming requires registration with the **Agricultural Produce Marketing Committee (APMC)** in few states. This means that contractual agreements are recorded with the APMCs which can also resolve disputes arising out of these contracts.

## Salient features of the Model Contract Farming Act, 2018 are:

1. The Act lays special emphasis on protecting the interests of the farmers, considering them as the weaker of the two parties entering into a contract.



2. In addition to contract farming, services contract all along the value chain including pre-production, production and post-production have been included.
3. “Registering and Agreement Recording Committee” or an “Officer” for the purpose at district/block/ taluka level for online registration of sponsor and recording of agreement is provided.
4. Contracted produce is to be covered under crop/livestock insurance.
5. Contract framing is to be outside the ambit of the APMC Act.
6. No permanent structure can be developed on farmers’ land/premises.
7. Promotion of Farmer Producer Organizations (FPOs)/Farmer Producer Companies (FPCs) to mobilise small and marginal farmers has been provided.
8. It ensures buying of the entire pre-agreed quantity of one or more of agricultural produce, livestock or its product of the contract farming producer as per the contract.
9. Contract Farming Facilitation Group (CFFG) is being created for promoting contract farming and services at village/panchayat the level provided.
10. An accessible and simple dispute settlement mechanism at the lowest level possible is provided for the quick disposal of disputes.

## Way Ahead

- To ensure the sustainable growth of contract farming, it is essential to focus on inclusive practices, technological advancements, and robust evaluation mechanisms.
- Contracts should be tailored to accommodate small and marginal farmers, simplifying terms and providing affordable input support.
- This inclusivity will empower underrepresented farming communities, ensuring equitable growth across the agricultural sector.

**Source:** <https://www.nextias.com/ca/current-affairs/20-01-2025/contract-farming>

SINCE 2006