Government’s Role in Contract Farming

What is the issue?

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- Union government is taking efforts to ensure farmers that they get better prices for their produce.
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- For achieving this goal emphasis is made on contract farming act.
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What is contract farming?

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- Contract farming refers to an agreement between farmers and marketing firms for the production and supply of agricultural products under forward agreements, frequently at predetermined prices.
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- The contract between farmers and buyers insulates farmers from price risk, helps them develop new skills, and opens new markets.
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- Under Monopsony contract firms enter into an agreement with farmers to grow differentiated crops.
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- This turns the firm into a sole buyer and farmers into price-takers.
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What are the concerns with Contract farming?

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- Contracting firms can exploit monopsony situation to their advantage by offering lower prices to farmers.
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- Contracting firms do not have complete information on productivity and land

quality.
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- This can lead to a situation where farmers produce below-quality crops.
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- Farmers sometimes do not understand contract specifications like the quantity and quality to be produced, or the effect of price change.
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- In some cases buyers may penalize farmers and farmers may indulge in side-selling or leak the technology provided by the contracting firm.
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What were the measures taken by India in this regard?

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- In India, contract farming is regulated under the Indian Contract Act, 1872.
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- The Act has many general provisions that are relevant to contract farming, including the formation of contracts, obligations of parties, and consequences in case of breach of contract.
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- In addition, 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.
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- The department of agriculture and farmers welfare has now come out with a draft model contract farming Act, 2018.
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- It intends to establish a win-win framework for both farmers and sponsors. Instead, some of the clauses do the opposite.
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What is the significance of contract farming Act 2018?

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- The model contract farming Act proposes a state-level agency, the Contract Farming (Development and Facilitation) Authority, which would put contract farming outside the ambit of the APMC.
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- The model Act requires the sponsor and the farmers to register the contracts with a registering and agreement recording committee.

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- Registration imposes additional procedures and costs on the parties, and small and medium farmers cannot easily afford these costs.
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- The Act also proposes price protection for farmers by determining a pre-agreed price.
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Source: Live Mint

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