Taking Forward Contract Farming

What is the issue?

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- The government recently came out with a Model Contract Farming Act, 2018.
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- Better Centre-State co-operation on land lease will ensure that both farmers and sponsors gain.
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How is the growth scenario?

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- Agriculture growth is under stress at 3.4% in 2017-18 compared with 6.3% in 2016-17.
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- This is largely attributed to
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i. declining soil fertility
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ii. fragmentation of landholdings
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iii. increasing restrictions to commercialisation and modernisation of farming and farm-related activities
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What is contract farming?

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- It refers to a system in which bulk purchasers enter into contracts with

farmers.
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- It includes agro-processing, exporting and trading units.
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- They purchase a specified quantity of any agricultural commodity at a pre-agreed price.
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- The contracting firm/company is also known as the sponsor.
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- As, it provides all production support to the contacted farmers.
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- This includes the extension services with full protection of land rights.
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What are the benefits?

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- **Income** - The idea is to increase farmers' income by creating an alternative market mechanism.
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- It would provide linkages between national and international markets.
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- Prior to this, several States have been hesitant to allow contract farming.
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- With the Act being notified, the focus has shifted to the operational aspects.
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- **Middlemen** - Agricultural markets invariably remain in the clutches of the middlemen.
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- The Act allows farmers and farmer producer organisations (FPOs) to directly link with companies.
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- It thus enhances market linkage and removes dependence on middlemen.
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- **Price** - 86% of total landholdings in the country belong to the small and marginal category.
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- The Act will have an indirect effect on farmers forming FPOs.
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- It helps pooling their land for a better say in determining the prices of their produce.
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- **Cost** - Farmers no longer have to transport their produce to the mandis.
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- As, sponsors usually collect the produce from the farm gate.
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- It thus reduces farmers' cost and thereby translates into increased incomes.
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- **Land** - Fear of losing land has always inhibited farmers from embracing new policy.
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- The Act does well to insulate land ownership rights of the farmers.
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- It prevents them from any potential infringement from the sponsors or the buyers.
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- **Market** - Contract farming creates new markets for farmers' produce.
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- It facilitates better access to technology, crop diversification, and extension services.
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- It can thus positively impact the production process.
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- **Financing** - Lack of formal financing mechanism and lower penetration of crop insurance are prime causes of farmer distress.
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- Contract farming facilitates financing and crop insurance as well.
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What are the shortcomings?

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- **Board** - The Act mandates the formulation of a contract farming board.
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- This is to guide several aspects of the contract, including pricing of produce.
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- The intent is to provide a cushion against possible exploitation of the farmers.
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- However, if not exercised judiciously, the board may set high price, deterring sponsors.
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- **Quality** - The sponsor is mandated to buy the entire contracted amount of produce.
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- This is even if the quality parameters are not met, though at a lower price.
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- This affects the sponsors, as, they enter into agreement to procure a specific grade of produce.
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- **Insurance** - The spirit of providing insurance support to the farmer is good.
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- But the sponsor is burdened with this additional cost.
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- The government can instead consider covering this cost.
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What lies ahead?

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- **Cooperation** - Being a State subject, operationalising agriculture reforms needs State cooperation.
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- Most often, these reforms fall victim to Centre-States political differences.
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- The need is for proactive support and guidance of the sponsors at the State level.
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- **Leasing** - The Model Agricultural Land Leasing Act, 2016, has not seen much uptake at the State level.
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- None of the States has adopted the Act in its entirety.
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- The Contract Farming Act has to be supplemented by well-balanced leasing laws at the State level.
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- This is essential to tap the full potential of contract farming.
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- Allowing leasing of land will help address the issue of fragmented landholdings.
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- It would encourage the private sector for bigger commitments in terms of technology and capital.
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- This will boost productivity, by benefiting from economies of scale.
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Source: BusinessLine

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