



**Seminar on
Sustainable Contract Farming for Increased Competitiveness
July 18-22, 2005, Sri Lanka**

Farm-Firm Linkages Through Contract Farming in India

by

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FICCI

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National Apex Body of Indian Business**ORIGINS**

- Born of the freedom struggle in 1927 with the patronage of the Father of the Nation
- Largest apex organization of the Indian business and industry
- Leading the way for economic freedom

TODAY

- Rallying point for Indian and overseas businessmen and investors
- Proactive business solutions provider through research, interaction at the political and bureaucratic level and global networking
- Aims to provide a meaningful platform for long term Public-Private Partnership

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National Apex Body of Indian Business (Contd...)**MEMBERSHIP**

Huge membership, wide reach

- Primary Members – Over 500 Regional, State, Local Chambers and All India Industry Associations
- Corporate Members – 50 Leading Business Houses and Mega Corporations including MNCs
- Associate Members – Over 2000 frontline companies
- Represents directly and indirectly over 250,000 enterprises employing 10 million people

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→ **FICCI's Thrust on Agriculture & Agri-Business**

- Strong and vibrant Agriculture Task Force, Chaired by Mr P M Sinha, Chairman, Bata India
- Task Force has been working strongly on specific areas of agriculture, with a view to increase the income of farmers, farm productivity and make Indian agriculture globally competitive

→ **FICCI's Allied Bodies Related to Agriculture**

- Agri-Business Centre
- Confederation of India Food Trade and Industry (CIFTI)
- Food Research and Analysis Centre (FRAC)
- FICCI Quality Forum (FQF)

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FICCI's Presentations on Priority Areas for Agri Policy Reforms/Investment before.....

- Shri Montek Singh Ahluwalia, Deputy Chairman, Planning Commission & Other Members of Planning Commission
- Shri Sharad Pawar, Hon'ble Union Minister for Agriculture, Consumer Affairs, Food & Public Distribution & Other Senior Government Officials of Ministry of Agriculture
- State Agriculture, Revenue & Marketing Ministers
- Shri Atal Bihari Vajpayee, Former, Prime Minister of India
- Shri K C Pant, Former Deputy Chairman, Planning Commission
- Shri Ajit Singh, Former Minister of Agriculture
- Shri Rajnath Singh, Former Minister of Agriculture
- Captain Amrinder Singh, Chief Minister of Punjab 6

FICCI's Presentations on Priority Areas for Agri Policy Reforms/Investment before (Contd.....)

- **Shri Sompal, Former Member, Planning Commission & other former Planning Commission Members**
- **Smt Radha Singh, Secretary, Department of Agriculture & Cooperation, Ministry of Agriculture, Government of India**
- **Former Secretaries of Ministry of Agriculture –**
 - **Mr J N L Srivastava**
 - **Mr R C A Jain &**
- **Senior Ministry of Agriculture Officials**
- **Former Members of Parliament**
- **Former Secretary, Food Processing**

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FICCI's Initiative in Contract Farming

- **Seminar on Contract Farming Agreement and Its Model Specifications - August 2003 , New Delhi**
- **Seminar on Interface with Private Sector Organizations on Policy Framework for Agricultural Extension - October 2001, New Delhi**
- **National Seminar on Role of Private Sector in Agriculture Marketing – September 2001, New Delhi**
- **Agriculture Summit 2005 – Reforms for Raising Farm Income jointly organized with Ministry of Agriculture - April 2005, New Delhi**
 - **Dr Manmohan Singh, Hon'ble Prime Minister of India inaugurated the Summit**
 - **Shri Sharad Pawar, Hon'ble Union Minister for Agriculture, Consumer Affairs, Food and Public Distribution delivered the Key Note Address**
 - **Shri P Chidambaram, Hon'ble Union Minister of Finance delivered the Valedictory Address**

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The Initiatives by FICCI have led to the following Path Breaking Agri Policy Reforms

- Implementation of recommendations of Inter-Ministerial Task Force on Agricultural Marketing Reforms
- Ministry of Agriculture, Government of India (GoI) drafted a concept paper on model specifications of a contract farming agreement between processing industry and the farmers
- Ministry of Agriculture discussed the paper with leaders of trade and industries who are engaged in contract farming arrangements to seek their views for its finalization, through a Seminar organized by FICCI

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The Initiatives by FICCI have led to the following Path Breaking Agri Policy Reforms (Contd...)

- Amendment of the Agriculture Produce Marketing Regulations Act (APMC) Act
 - States have been advised by Ministry of Agriculture, GoI to amend the APMC Act to support contract farming
 - Amendment of the Act
 - Would facilitate greater private sector investment in agriculture, agri infrastructure, marketing and open up contract farming
 - Encourage direct marketing, free the farmers to sell to whoever they want, enable them to get the best price for their produce, and create partnerships with banks, finance and logistics companies, for lowest cost financing and marketing
- The following Ten States have amended APMC Act
 - Andhra Pradesh, Andaman & Nicobar, Himachal Pradesh, Kerala, Madhya Pradesh, Meghalaya, Nagaland, Punjab, Sikkim, Tamil Nadu

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**The Initiatives by FICCI have led to the following
Path Breaking Agri Policy Reforms (Contd...)**

- **Amendment of the Essential Commodities Act**
- **Amendment of the Warehousing Receipt System for agricultural commodities**
- **Government of India is bringing forward an Integrated Food Law - which will assimilate the myriad legislations that presently exist in India. This would provide the much needed growth in the food processing industry**

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**The Initiatives by FICCI have led to the following
Path Breaking Agri Policy Reforms (Contd...)**

- **Ministry of Agriculture, GoI is coming up with a godown accreditation policy to attract investment in the agriculture storage sector**
- **To enable a transparent price discovery mechanism the Ministry of Agriculture have plans to electronically interlink Mandis, so that prices of agriculture commodities are available online. The various commodity exchanges are working towards this**
- **Government of India is looking into the possibility of FDI in food retail in India and converting wastelands for agricultural purposes**

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What is Contract Farming ?

Essentially

- **The farmer is contracted to plant the crop on his land**
- **Harvest and deliver, a quantum of produce, based upon anticipated yield and contracted acreage**
- **This is at a pre agreed price**
- **Towards these ends, key equipments & inputs are supplied to the farmer**

Takes A Lot More To Succeed

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Need for Contract Farming in India

- **The present farm-firm linkages of contract farming model integrates production and marketing and are very critical for high value agricultural commodities**
- **Overcome inadequate linkages with markets**
- **Presence of fragmented land holdings**
- **Lack of capital, poor infrastructure, inadequate information dissemination, etc**
- **Loss/wastage of large quantities of fruits and vegetables**
- **Agri-based and food industry's inability to acquire timely and adequate good quality agricultural produce**

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Need for Contract Farming in India (Contd...)

- Amendment of Agriculture Produce Marketing Act (APMC) and its adoption in 10 states in India
- The liberalized marketing system coming up in India
- Closing down of marketing boards
- Changes in consumption habits
- Increasing number of fast-food outlets
- The growing role played by supermarkets
- Continued expansion of world trade in fresh and processed products

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The Key Functions Rendered by Corporates in Contract Farming

Extension Services

- Recruitment & Training
- Execution of Technology Transfer
- Selection of Farmer & Contracting
- Farmer Training & Education
- Provision of Implements
- Provision of Agricultural Inputs
- Nursery & Seed Supplies
- Post Transplantation Care
- Maturity & Harvest Prediction

Procurement

- Farmer Training on Harvesting & Quality Control
- Management of the Quota Slip System.
- Produce Collection
- Quality Inspection
- Transportation of the Produce to the Processing Unit
- Management Information System
- Management of Farmer Payments

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Private Sector Involvement in Contract Farming in India

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- Amira Foods India Ltd
- Appachi Cotton Company
- AVT Natural Products Ltd
- Cargill India Pvt Ltd
- DD international Inc.
- Escorts Machinery Group
- Gherkin Exporters
- Global Green Company Pvt Ltd
- Green Agro Park Pvt Ltd
- Himalaya Drugs Pvt Ltd
- Hindustan Lever Ltd
- ICICI Bank Ltd
- IDBI
- Ion Exchange Enviro Farms Ltd
- ITC-International Business Division
- Ken Agrotech
- Marico
- Mahindra Shubhlabh Services Ltd
- Natural Remedies Pvt Ltd
- Nestle India Ltd
- Nijjer Agro Foods Ltd

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Private sector Involvement in Contract Farming in India (Contd...)

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- Pepsi Foods Pvt Ltd (PepsiCo)
- Rallis India
- Saguna Hatcheries Ltd
- Satnam Overseas Ltd
- Soyabean-Tinna Oils & Chemicals ltd
- Southern India Mills Associations
- State Bank of India
- Super Spinning Mills Ltd
- Tinna Oils and Chemicals Ltd
- Ugar Sugar
- Unicorn Agrotech Ltd
- United Breweries Ltd
- UTI
- Venkateshwara Hatcheries

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State-wise Contract Farming Initiatives by Private Sector FICCI			
State	Crop	Company/Corporate	Area (ha)
Karnataka	Ashwagandha	Himalaya Health Care Ltd	700
Karnataka	Dhavana	Mysore S N C Oil Company	400-500
Karnataka	Marigold & Caprica Chili	AVT Natural Products Ltd	4000
Karnataka	Coleus	Natural Remedies Private Ltd	150
Karnataka	Gherkins	20 Pvt Companies (Global Green Company Pvt Ltd, Unicorn Agrotech Ltd, Green Agro Park Pvt Ltd, Ken Agritech Pvt Ltd, etc)	8000 (inc of Tamil Nadu and AP)
Maharashtra	Soybean	Tinna Oils and Chemicals	134800
Maharashtra	Several Fruits, Vegetables, Cereals, Spices & Pulses	Ion Exchange Enviro Farms Ltd (IEEFL)	19

State-wise Contract Farming Initiatives by Private Sector (Contd...) FICCI			
State	Crop	Company/Corporate	Area (ha)
Madhya Pradesh	Wheat, Maize & Soybean	Cargil India Ltd	
Madhya Pradesh	Wheat	Hindusthan Lever Ltd (HLL)	15000
Madhya Pradesh	Several Fruits, Vegetables, Cereals, Spices & Pulses	Ion Exchange Enviro Farms Ltd (IEEFL)	
Madhya Pradesh	Soybean	ITC_IBD	1200
Punjab	Tomato & Chilly	Nijjer Agro Foods Ltd	250
Punjab	Barley	United Breweries Ltd	2270
Punjab	Basmati, Maize	Satnam Overseas, Sukhjit Starch (Mahindra Shubhlabh Services Ltd)	4000 20

State-wise Contract Farming Initiatives by Private Sector (Contd...)			FICCI
State	Crop	Company/Corporate	Area (ha)
Punjab	Basmati	Satnam Overseas, DD Intl Incorp, Amira Foods India Ltd (Escorts Ltd & Grain Tech)	14700
Punjab	Basmati, Groundnut & Potato, tomato, chilli	PepsiCo India Ltd	Around 6000
Punjab	Milk*	Nestle India Ltd	65000000 kg/day
Tamil Nadu	Cotton	Super Spinning Mills	570
Tamil Nadu	Maize	Bhuvi Care Pvt Ltd	800
Tamil Nadu	Paddy	Bhuvi Care Pvt Ltd	200
Tamil Nadu	Cotton	Appachi Cotton Company	260
<small>* Involving about 90000 farmers in about 1600 villages Source: NIAM (2003), Times Agriculture Journal (2003) and (FICCI-IFPRI-ICRISAT: 2003).</small>			21

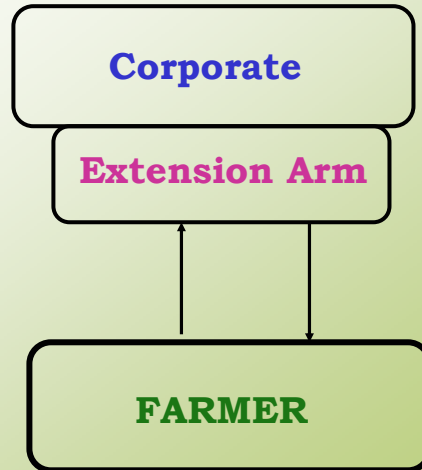
FICCI

States that Provide Favourable Conditions for Contract Farming

- Andhra Pradesh, Chattisgarh, Haryana, Karnataka, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Uttrakhand, and Uttar Pradesh
- The success of contract farming in these States owes to lower total land under marginal fields, better irrigation facilities, soil productivity and yield per hectare

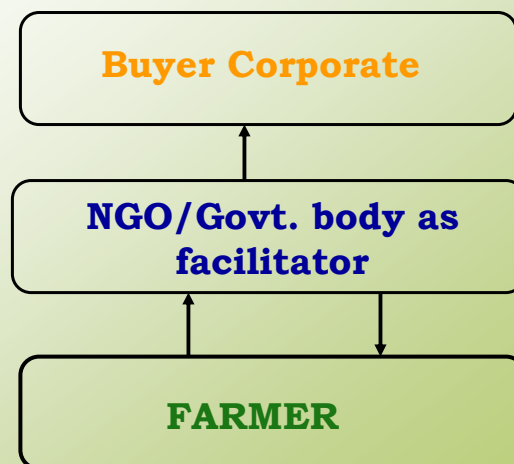
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Contract Farming Model – Type 1



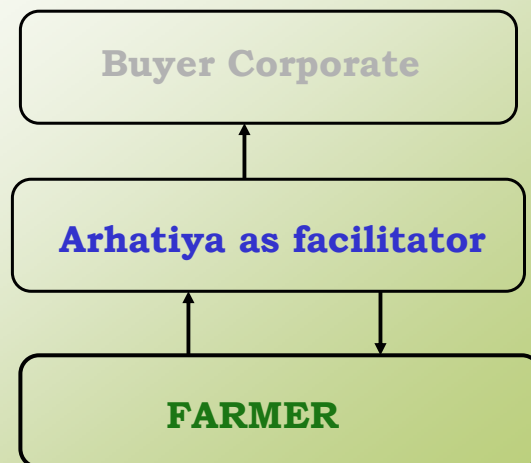
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Contract Farming Model – Type II



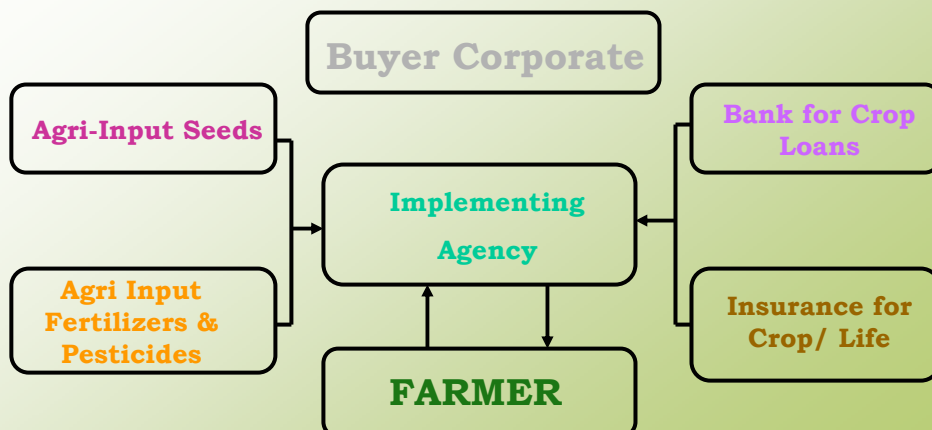
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Contract Farming Model – Type III





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Contract Farming Model – Type IV



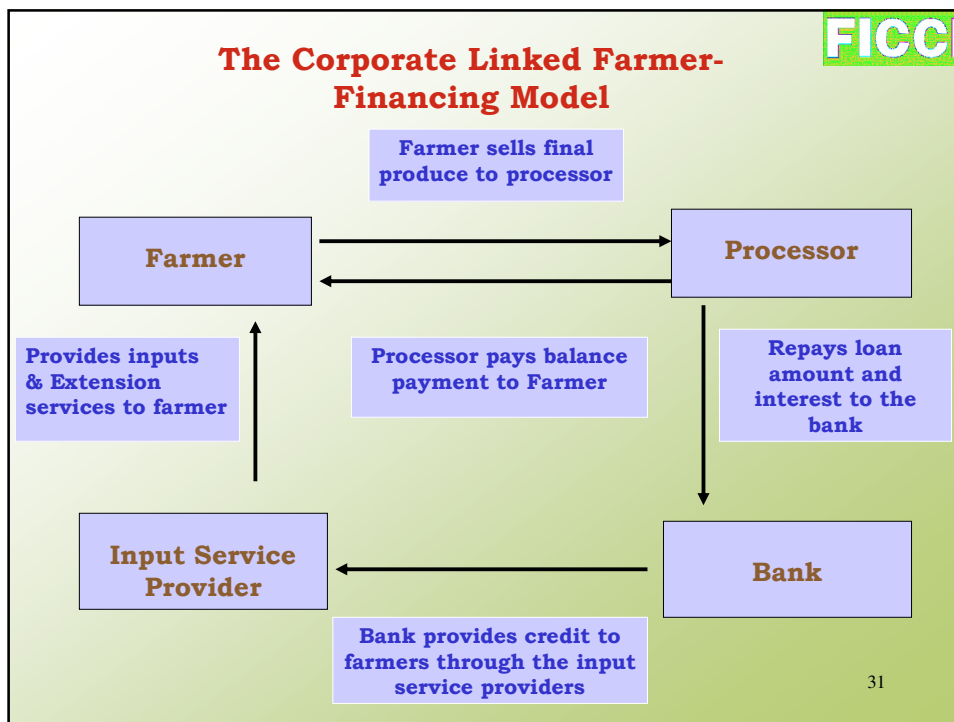
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Comparison of Contract Farming Models in India 				
Component	Type 1	Type 2	Type 3	Type 4
Cost increments due to channel partners	Nil	Minimal	Considerable	Maximum
Scale of operations	Can be taken up with smaller scale of operations	Can be taken up with smaller scale of operations	Applicable for large scale of operations	Applicable for large scale of operations
Channel Partners	No channel partners	Non profit organizations as partners	Traditional channel members as partners	Corporates act as channel partners
Source: NIAM (2003)				27

Comparison of Contract Farming Models in India (Contd...) 				
Component	Type 1	Type 2	Type 3	Type 4
Transparency in price fixation	Completely Transparent	Transparent	Low transparency	Lower Transparency
Services offered to the farmer	Only extension services other services subjective to the operating company	Extension services and other services at the discretion of the contracting firm	Extension services and other associated services such as loans and other inputs	Wide range of services ranging from the crop loan to life insurance are taken care
Source: NIAM (2003)				28

Grouping of Major Contract Farming Initiatives of Corporates Under Different Models FICCI			
Type	Initiative	Crop	State
Type I	Nijjer Agro	Tomato & Chilly	Punjab
	Tinna Oils	Soyabean	Mahrashtra
	SNC Oil	Dhavana	Karnataka
	AVT Natural Products Ltd	Marigold	Karnataka
	Natural Remedies Pvt Ltd	Coleus	Karnataka
	Himalaya Drugs Pvt Ltd	Ashwagandha	Karnataka
	PepsiCo	Basmati	Punjab
Type II	Ion Exchange Enviro Farms	Organic Produce	Maharashtra
Source: NIAM (2003) 29			

Grouping of Major Contract Farming Initiatives Under Different Models (Contd...) FICCI			
Type	Initiative	Crop	State
Type III	United Breweries Ltd ITC-IBD	Barley Soyabean, Wheat	Punjab Madhya Pradesh
Type IV	MSSL	Basmati, Non-Basmati, Maize Basmati	Punjab, Tamil Nadu Punjab
	Escorts Machinery Group Super Spinning Mills Cargill India Pvt Ltd	Cotton Soyabean, Wheat, Maize	Tamil Nadu Madhya Pradesh & Uttar Pradesh
	Appachi Cotton India Gherkin Exporters	Cotton Gherkin	Tamil Nadu Karnataka, Tamil Nadu, Andhra Pradesh
Source: NIAM (2003) 30			



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Private Banking Institutions Providing Credit/Finance to Farmers for Contract Farming Projects

- Private banks like ICICI Bank, UTI Bank, IDBI Bank, etc are providing finance for contract farming
- The finance extended by the private banks for contract farming are termed as Corporate linked agri finance. Neither the corporate nor the farmer is interested in fixing the price upfront. Banks have adopted the market price as the relevant price on the date of the procurement
- The private banks have no differential rates for contract farming. However the rates have been competitive wherever their experience have been good
- The crop loans are given for a crop cycle with one or two months time for the farmer to harvest and sell his produce. Hence in most of the cases the period is about 6-8 months except for sugarcane where the period could be upto 18-24 months based on the nature of the crop either eksali or adsali

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**Private Banking Institutions Providing
Credit/Financing to Farmers for Contract
Farming Projects (Contd...)**



- In most of the cases the corporate extending the extension activities becomes the managing agent for the crop loans. The loan is disbursed in cash as well as in kind. Kind Inputs are distributed by the agent and cash is issued in the way of Payorders/demand drafts/account credits or in cash sometimes to the individual borrowers
- Repayment is given at the fag end of the season. Generally on supply of the produce by the farmer to the corporate the loan amount is deducted and the balance is paid to the farmer. Most of the situations there is no corporate comfort however in a few of the cases a first loss deficiency guarantee is obtained

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**Private Banking Institutions Providing
Credit/Financing to Farmers for Contract
Farming Projects (Contd...)**



- The model has been very successful in the niche crops like sugarcane, tobacco, etc., where it is in a way bound to be sold to the respective corporate. It has not been that successful in grain crops because of the non-delivery risk. Many of the project they have finance have been successful and shows productivity improvements ranging from 5 -15%
- A few of the companies that have been associated in this model are Rallis, HLL, Cargill, all sugar companies, gherkin companies, cotton ginners like Appachi, Tobacco board, Pepsi, etc

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ICICI Bank Ltd's Initiative in Financing Contract Farming in Agriculture

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States	Crops	Acreage covered
Uttar Pradesh	Basmati	1,700
	Maize	10,000
	Wheat	20,000
	Sugarcane	3,000
Madhya Pradesh	Wheat	4,000
Punjab	Basmati	60,000
Tamilnadu	Cotton	1,100
	Paddy	300
	Gherkins	80
	Sugarcane	3,000
Andhra Pradesh	Paddy	1,100
	Sugarcane	17,000
Maharashtra	Fruits & Vegetables	380
Karnataka	Sugarcane	28,000

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ICICI Bank Ltd's Initiative in Financing Contract Farming in Agriculture (Contd...)

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- ICICI Bank has donned the facilitative role of tying up the loose ends in the chain by bringing together an input supplier, farmers and a procurement company
- Provided financial assistance to all participants associated with these ventures
- Financed Rs 180 crore for contract farming projects covering approximately 1,50,000 acres in 2000-2003. It is in the process of signing up projects in various states

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Contract Farming – Stakeholder Benefit Analysis			FICCI
	Input sector	Output sector	
Farmer	<p>Modern mechanized agro technology</p> <p>Quality inputs</p> <p>Extension support</p> <p>Enhanced productivity</p>	<p>Assurance of stable price of produce</p> <p>Market outlet for his produce</p>	
Input Provider	<p>One stop for most requirements</p> <p>Better inventory management</p> <p>No requirement to grade fruit, as maintenance of fresh market sale</p> <p>Continued working with farmers basis</p>	<p>Opportunity to capture created wealth of farmer</p>	37

Contract Farming – Stakeholder Benefit Analysis (Contd....)			FICCI
	Input sector	Output sector	
Procurement Company	<p>Superior quality produce</p> <p>Uninterrupted and regular flow of raw material</p> <p>Protection from fluctuations in market pricing</p> <p>Long term planning made possible</p>	<p>Elimination of intermediary costs</p> <p>Realization of higher price of produce</p>	
Bank	<p>Concept can be extended to other crops</p> <p>More coverage under credit to agriculture</p> <p>Reduction in transaction cost</p> <p>Dedicated input supply with farmer</p> <p>Separates good will from the</p>		38

Contract Farming – Stakeholder Benefit Analysis (Contd....)

State

- High socio-economic benefits to the state's population
- Improved efficiency of the entire Agri-business system
- Promotion of activities with income and employment multiplier effect
- Uplifting of agribusiness on a global level in terms of markets, sourcing, technology, and competition
- Build up of technical, financial and market expertise to make the system efficient and cost effective

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The Success Stories of Some of the Private Companies Involved in Contract Farming

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Key Elements of PepsiCo's Success

- ➔ Strong focus for field preparation
- ➔ Deep chiseling for the first time in Punjab
- ➔ New imported & locally developed varieties and hybrids introduced
- ➔ Crop management techniques disseminated to the farmers
- ➔ Core R&D team
- ➔ Execution of technology transfer through well-trained extension personnel
- ➔ Their extension services team were user friendly, informed and available at the farmers call

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Key Elements of PepsiCo's Success (Contd...)

- Supply of all kinds of agricultural implements free of cost to contracted farmers
- Supply of timely and quality farm inputs on credit
- Prompt dispatch/delivery/procurement of the mature produce from every individual contracted farmer through the system of 'Quota Slips'
- Effective adoption/use of modern communication technology like pagers for communication with field executives
- Regular and timely payment to contracted farmers through computerized receipts and transparent system
- Maintenance of perfect logistics system and global marketing standards

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Key Elements of Nestle India's Success

- Nestle India's success was a result of developing effective backward and forward linkages
- Their prime aim was to win the confidence of the farmers. So they set up:
 - Transparent and economic milk collection system, which because of low rate of production per family, had to reach thousands of farmers
 - large scale programme of technical inputs / advice to farmers aimed directly or indirectly at increasing their milk production at reduced cost
- Right from the day one Company embarked upon a development plan to help farmers improve farm production / productivity through systematic provision of various inputs
- The company provides free veterinary aid and extension, breeding services, fodder production techniques, etc. for quality production

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Key Elements of Nestle India's Success **(contd...)**



- The company provides stable and remunerative market to the milk producers. Most of the milk comes from the small dairy producers
- 357 tube wells were installed at exceptional speed, low cost to farmers as loans at favourable interest rates. This helped the farmers to meet the irrigation requirement of fodder and other crops thus improving their farm production substantially
- Company has also arranged loans firstly from its own resources and then from commercial banks for the farmers to buy milch animals. These loans were secured against Tripartite Agreements and installments were recovered from farmers milk payments and passed on to the banks
- To improve livestock quality, Company provides good quality bulls to farmers. These bulls are purchased from breeding farms and given free / 75% subsidy. Though availability of bulls is very low, yet 326 pedigree bulls have been supplied by 2002

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Key Elements of Nestle India's Success **(Contd...)**



- Company is also running 51 Artificial Insemination Centres. The persons working at these centres have been trained by Punjab Agricultural University, Ludhiana and then given all the required equipment / tools to work in villages. Semen is arranged from reliable source and made available at these centres. Farmers can get the service by paying just the labour cost to the inseminator
- In order to motivate farmers to improve livestock quality / management, Milk Yield Competition and other such activities are organised on yearly basis. The outstanding performers at such programmes are honoured with attractive prizes. Such incentives are really motivating the farmers to put in all out efforts to efficiently manage their milch animals

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Key Elements of Nestle India's Success



(Contd...)

- In an effort to move towards mechanization of dairy farming, milking machines are made available to large farms. Farmers were given financial assistance to the tune of 80% to install latest farm equipment such as milking parlour and farm cooler to handle the milk hygienically and commercially
- Provision of chilling facility by the Company at village milk collection point has given a big boost to milk production. This Project has given dairy farming a commercial and professional look. 558 such cooling units have been installed by 2002. This Project is continuing and the Company will be spending nearly Rs. 45 - 50 crores on this Project

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Key Elements of Nestle India's Success



(Contd...)

- Company also supplies literature on regular basis to update farmer's knowledge on the dairy farming and related field. Company's quarterly Newsletter "SUNEHA" - about 30000 copies are reaching the farmers
- The assistance to farmers has resulted in a very good response from the farmers in taking up the dairy farming commercially and increasing the milk production in the area

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Case Study 3 - Appachi Cotton Company (ACC) - Appachi's Integrated Cotton Cultivation

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Key Elements of Appachi Cotton Company's Success

- ACC has developed unique farmer's Self-Help Groups (SHGs)
- Adopted one village, one variety/hybrid of cottonseed
- Provided crop loan at 12% per annum on Group's guarantee
- Door delivery of quality inputs at discounted rates
- Technology inclusion which has resulted in higher production
- Timely access to desired quality seeds, fertilizers and pesticides plus field extension service at regular intervals
- Introduced cotton crop insurance

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Key Elements of Appachi Cotton Company's Success (Contd....)

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- Synchronized sowing
- Integrated crop management through competent Farm Service Centres
- Contamination control measures from farm to factory
- Assured buyback of final produce from farmers' doorsteps
- Supply chain was a two-tier model with complete absence of any intermediary
 - direct procurement of contracted cotton by BCPL at the farm gates
- The sponsor (ACC) played the role of a perfect coordinator/facilitator between the producer and the consumer

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**Private Initiatives in Contract Farming, which were
Failure
The Kuppam Project in Andhra Pradesh**

The reasons stated for selecting Kuppam for the experiment were:

- Kuppam area is part of DPAP (Drought Prone Area Programme) block and chronically drought affected
- Eighty-five percent of the population in the area live below the poverty line
- Only 10% of the gross cropped area is under assured source of irrigation
- Saline lands
- Soil composed of gravel and stones of varying sizes with low level of organic matter

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**Private Initiatives in Contract Farming, which were
Failure Case Study - The Kuppam Project in
Andhra Pradesh (Contd...)**

- The total estimated cost of the project was around Rs 964 lakh, with a large part spent on costs of technology transfer from an Israeli company
- The actual area covered is only 170 acres, thus bringing the cost per acre to Rs 5.668 lakh. This order of investment is at least ten times more than those of even rich farmers adopting the most modern intensive cultivation practices
- The crops grown were mostly vegetables like Gherkin, Onion, Tomato, Potato, Water Melon, Sweet Melons, Capsicum, Chillies, Beans, Peas, Carrot, Okra and field crops like Groundnut, Baby Corn, Popping Corn, Grain Corn, Sunflower and Gram (dal)

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Private Initiatives in Contract Farming, which were Failure Case Study - The Kuppam Project in Andhra Pradesh (Contd...)

Factors for the Failure of Kuppam Project

- The Kuppam project was more of corporate farming rather than contract farming
 - The involvement of farmers was nil
 - The lands taken over from the farmers were being managed by the corporate body (BHC Agri India Pvt. Ltd.) at all stages, right from the planning to the development and management stages
 - Every farm operation, including marketing, was managed by the corporate body, which had employed heavy mechanisation except for harvesting (which is mostly manual since it is a hand picking operation) and cleaning of the produce
 - Even weed control was done through intensive use of pesticides

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Private Initiatives in Contract Farming, which were Failure - The Kuppam Project in Andhra Pradesh (Contd...)

- The team found that the Kuppam project was not sustainable in net energy terms, and that there were problems with the full technology package. Deep ploughing, with or without turning the soil, was practiced before every cropping
- Large amounts of expensive agro chemicals, both pesticides and weedicides, were applied for every crop. These tend to leave considerable residues in the soil, raising serious environmental concerns. No organic manures were applied
- The irrigation system involved rapid depletion of groundwater with no provision for its recharge, or for any other rainwater harvesting measures

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Private Initiatives in Contract Farming, which were Failure - The Kuppam Project in Andhra Pradesh (Contd...)

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- The social impact of the project has been adverse. First, farmers tilling their lands have been driven out from their profession and only some are able to work as hired labourers on the demonstration farm
- The benefit of subsidiary occupations like dairying with the use of crop residues, which is a by-product of mixed farming, has been lost
- Indeed, farmers who have tried to use some of the by-products for fodder, such as the leaves of cauliflower plants, have been punished, and there is strict policing of the labourers to prevent such "theft" from their won lands
- Foodgrain production has almost ceased in the project area. Only vegetables and other similar crops are being cultivated. This had adversely affected foodgrain supply to the people living in the area

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Private Initiatives in Contract Farming, which were Failure Case Study - The Kuppam Project in Andhra Pradesh (Contd...)

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- The problem of finding alternative employment for displaced cultivators has become a serious concern. While the total membership of the society comprised 167 heads of cultivating households, the project typically employed only 60-70 women and 7-10 male workers per day
- Thus, both subsistence and livelihood of the local people have been threatened by this "model" project
- Local farmers now want to revert to self-cultivation, and are hoping that the State government will intervene and help them to resume their cultivation as before

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**Factors Contributed to the Failure of
Some of the Contract Farming Projects**



- Reluctance of farmers to pay extension charges
- Clashes and disagreements between parties involved in contract farming
- Corporates violated the agreement when the prevailing price fell below the contracted price, which lead to unsold surplus with farmer in contract
- When the market price of the commodity start falling the buyers become more conscious about quality and maintain strict control over quality specifications
- Farmers sold their produce in the open market when the prevailing prices were higher than the contracted price
- Weather harshness

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**Factors Contributed to the Failure of
Some of the Contract Farming Projects (Contd...)**



- While the contract gave the company right of refusal to pick up contracted produce, growers were liable to be penalized if they defaulted from their commitment
- At times growers were reluctant to continue contract farming in the next season, as they hardly have any incentive to stay with the company as they bore the entire risk while it was the companies that had the insurance against them

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Major Issues/Challenges being faced by Private Companies/Firms in Contract Farming in India

FICCI

- **Highly restrictive and regulated agricultural marketing system**
- **Monopoly of the State Governments to set up of markets**
- **Mandi revenues not deployed for infrastructure development**
- **Price setting not transparent - both producers and consumers are often cheated**
- **Processing industries cannot buy directly from the farmers, except through the notified markets**
 - intermediaries collect a sizable share from the price of the produce
 - adds cost & limited value
 - “Arthiyas” replace the old village money lenders

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Major Issues/Challenges being faced by Private Companies/Firms in Contract Farming in India (Contd...)

FICCI

- **Cascading effect of multiple taxes at various stages from harvesting to marketing**
- **Considerable variation in tax & fee structure across states**
 - **Purchase arbitrage opportunities for all players to the detriment of the farmer**
- **Multiple laws, standards and enforcing agencies plague the Processed Food Sector. The myriad of rules, regulations and standards are often overlapping and contradictory**
- **Stringent controls on storage & movement of several agriculture commodities**
- **Non-existence of scientific and modern warehousing mechanism and infrastructure**

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Major Issues/Challenges being faced by Private Companies/Firms in Contract Farming in India (Contd...)

FICCI

- **Lack of established 'Warehouse Receipt' system**
 - **Farmers under pressure to sell produce immediately after harvest**
- **Lack of proper retail supply chain**
- **No linkages between spot & future markets**
- **Lack of modern transportation and packaging facilities**
- **Lack of agro processing industry and related infrastructure**
- **Inadequate R&D infrastructure and initiatives**
- **Inadequate facilities for grading, sorting and evaluation of the produce**
- **Inadequate facilities for soil analysis, crop analysis, quality analysis and water analysis**

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Recommendations

FICCI

Government Policy Support

- **The Government should play the role of a facilitator and not that of a regulator in developing and promoting a healthy system of farmer-corporate relationship for mutual benefit**
- **Implement the model Agriculture Produce Marketing Act (APMC Act) in all the States**
- **Amended Essential Commodity Act should be made effective**
- **Have an Integrated Food Law. The Integrated Food Law should be finalized and passed by the Parliament at the earliest.**
- **Encourage retailing including FDI in the food retail sector, to promote backward linkage with the farmers**

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Recommendations

FICCI

Government Policy Support (Contd...)

- Define Standards & Grades for agricultural commodities
- Reform Phytosanitary Regulations and make it more user friendly
- Shift in government support and investments in agriculture from subsidizing agri-input to provision of infrastructure and education (technological) to the farmers
- Encourage Decentralized Procurement and involve private sector and banks in procurement
- Build quality warehouses and expedite warehouse receipt system to become a negotiable instrument

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Recommendations

FICCI

Government Policy Support (Contd...)

- Incentivise creation of facilities for collection, sorting, grading and transportation of agri produce to Processors/Markets
- Introduce electronic linkages of markets to make transparent pricing (post offices and railway stations may be instructed to carry agri produce prices, as they are access points for farmers)
- Development of Waste Lands
- Development of Degraded Forest Land
- Leverage the ICAR, University System to provide region specific crop solutions - make them part of public information domain
- Research system synergy with both farmers & private sector

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Recommendations

Government Fiscal Support

- Taxes and fees on raw agricultural commodities should be rationalised, with a limit ceiling of 4 per cent.
- Raw agricultural commodities should attract zero tax (including purchase tax, mandi tax, commission of agents, and so on, which in Punjab today accounts for about 11 per cent on wheat)
- Feasible by allowing grain companies/traders to buy directly from farmers without going through commission agents, and abolishing purchase/sales tax

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Recommendations

Government Fiscal Support (Contd...)

- Abolish or reduce fees, cess, taxes, duties etc. on procurement of agricultural or horticultural produce procured through any registered contract-farming programme
- Octroi and Entry Tax should be abolished wherever applicable. Uniform Value Added Tax (VAT) in agriculture, should be introduced, which would help the growth of the agro-processing industry in the following manner:
 - On processed products of a perishable nature – 0 per cent
 - Other processed foods (excluding tobacco & alcoholic beverages) – 4 per cent

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Recommendations

FICCI

Government Fiscal Support (Contd...)

- Use Market Fees to build market infrastructure, not as an additional source of revenue for the State
- Investments in the entire agri value chain like creation of cold chain, new agricultural marketing infrastructure or modernization of existing markets should be eligible for agricultural loans under priority sector lending

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Recommendations

FICCI

Government Fiscal Support (Contd...)

- Create an enabling environment for private investment in:
 - Modern marketing infrastructure – warehousing, post management facilities, collection centers, grading centers
 - Cold Chain transportation system e.g. air – conditioned cargo, coaches in railways, roadways etc. and refrigerators/insulated containers for perishables, processed products to minimize post-harvest losses at transportation stage and at retail level
 - Rural Roads
 - Food parks, agro export or processing zones, export processing zones, etc. (for specific potential crops for contract production), which have inherent advantages for investment

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Recommendations

FICCI

Government Fiscal Support (Contd...)

- Treat 150 per cent of investment by private sector in agri infrastructure chain as deduction of expenditure like in the case of R & D
- Capital subsidy for green house, irrigation and cold chains
- No taxes or duties on import of agri equipment to be used in a registered contract farming program
- Support to farmers by providing cash incentives for diversifying
- Funds to support diversification of agriculture efforts in States like Punjab to promote crops requiring lesser water and improve soil health
- Funds for R&D on new seeds and crops for better returns to farmers per acre for success of diversification of agriculture
- Funds for setting up laboratories for soil analysis, crop analysis, quality analysis and water analysis

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Recommendations

FICCI

Government Regulations

- Legislation support for early settlement of disputes between farmers and contracting companies
- Make purchase interference by a third party in a contract farming program, a cognisable offence
- Required - a quasi judicial system of contract enforcement
- Single tier regulation for contract farming at the state level
- Eliminate red tapism In import of varieties / hybrids for contract farmers

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Recommendations

FICCI

Government Regulations (Contd...)

- Contract farming organisations be allowed to take out realistic & deregulated crop insurance policies
- Incentivise Ph.D. Candidates in agri studies to work on contract farming programs
- There should be no requirement to process, grade, value add etc., the produce procured, only in the state, in which it is procured, in order to qualify for any rebates, duties, taxes, exemptions, etc
- Licensing procedures to be simplified. A registered Program should be able to apply for a single license at the national level to enable procurement in any district or market without hindrance or requirement for additional paper work

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Recommendations

FICCI

Other Suggestions

- Pesticide free farming as both an interim & long term opportunity
- Use of tourism & recreational opportunities at the farm level, to generate off farm incomes
- Suitable policies to encourage inter cultivation with appropriate crops within the contracted acreage for better efficiencies wherever possible, need to be devised

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Recommendations

Other Suggestions (Contd...)

- Both companies and state should promote consortiums/group contracts involving financial institutions, agri-input agencies and local NGO's to collaborate to service the farmers, keeping in view the factors of quality maintenance, credit recoveries and sales volume for the respective players
- In spite of drawbacks, an enabling environment should be created to promote contract farming and companies should be incentivised to invest in dryland areas to have a sustainable agriculture development

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Thank You

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