Contract Farming

One Option For Creating A Role For The Private Sector In Agriculture Development?

By N. Ajjan

What Is Contract Farming?

ESSENTIALLY

• The Farmer Is Contracted to Plant the Contractor’s Crop on His Land
• Harvest and Deliver to the Contractor, a Quantum of Produce, Based Upon Anticipated Yield and Contracted Acreage
• This Is at a Pre Agreed Price
• Towards These Ends, the Contractor May or May Not Supply the Farmer With Selected Inputs
The Govt. Of India Runs The Largest Contract Farming Model

The “Green Revolution” was a resounding success.
- Improved varieties & hybrids
- Assured availability of inputs
- Administered / Controlled pricing for fertiliser.
- Guaranteed procurement.
- Attractive & ever increasing output minimum support prices.

RESULTS
- Food security was assured.
- Farm incomes boomed.
- Import substitution -PL 480
- Safeguarding our public distribution system.
- Employment for rural landless.

Success However Came At A Cost

- Agriculture today is not diversified.
  - Overemphasis on cereals & sugarcane.
  - Low or no focus on pulses & oilseeds.
- Marginal role for the Pvt. Sector.
- Essential Commodities Act became a means of ensuring Govt. procurement.
- MSP becomes a benchmark reference pricing, rather than a farmer safety net.
- Productivity decay - paucity of incentive
**What Else Did It Do?**

- Mono-culture, over fertilisation & excessive water usage
- Soil degradation..
- Singular focus on supported crops discourages diversification.
- Subsidised exports to liquidate stock creates a further distance between the international market & domestic reality.

To succeed in this context contract farming needs to go well beyond its simple definition.

---

**Why Contract Farming?**

- To reduce the load on the central & state level procurement system.
- To increase private sector investment in agriculture.
- To bring about a market focus in terms of crop selection by Indian farmers.
- To generate a steady source of income at the individual farmer level.
- To promote processing & value addition.
- To generate gainful employment in rural communities, particularly for landless agricultural labour.
- To flatten as far as possible, any seasonality associated with such employment.
- To reduce migration from rural to urban areas.
- To promote rural self-reliance in general by pooling locally available resources & expertise to meet new challenges.
Moving From Food Security To Market Demand

THE TRADITIONAL MODEL

<table>
<thead>
<tr>
<th>Farmer</th>
<th>Mandi</th>
<th>Buyer Processor</th>
<th>Mfrs., Brand Marketeers</th>
<th>Distributors</th>
<th>Retailers</th>
<th>Consumers</th>
</tr>
</thead>
</table>

CONTROL ZONE

Moving To A Value Delivery Sequence

Choose the Value  
Provide the Value  
Communicate the Value

<table>
<thead>
<tr>
<th>R&amp;D Activity</th>
<th>Seed Selection</th>
<th>Variety Evaluation</th>
<th>Contract Farming</th>
<th>Processing</th>
<th>Mfrs., Brand Marketeers</th>
<th>Dist. Retail</th>
<th>Consumer</th>
</tr>
</thead>
</table>

SPAN OF INVOLVEMENT
A Need To Radically Change The Way We Look At Our Agriculture

- New markets are necessary.
- Newer marketing strategies.
- New thinking to boost Indian agriculture.
  - Building capabilities
  - Promoting investment
- Technology enhancements should improve the lot of our farmers.
- Broad based contract farming programs can be one possible solution.

Set Up The Building Blocks For The Business

Land Preparation & Planting, Crop Monitoring During Growing Period, Harvesting & Procurement, Transportation Logistics, Commercialisation, Prompt Farmer Payment System

The Extension Services Team
- Selection and Training
- Farmer Education Program
- Field Trials at Farmer Fields
- Multi-locational & Crop Timing

Technology Transfer

- Evaluation of Promising Varieties and Hybrids
- Multi Locational Trials and Short-listing - Selection
- Blueprint for Agricultural Practices After Adapting To Local Conditions, To Suit Intellectual & Financial Means Of The Farmer
- Evaluation of Farmer Economics Model
- Demonstration Farming

R & D Activities
**The Advantages Of Contract Farming**

To The Farmer

- Exposure To World Class Mechanised Agro Technology.
- Obtains An Assured Up Front Price & Market Outlet For His Produce.
- No Requirement To Grade Fruit, As Mandatory For Fresh Market Sale.
- Bulk Supplies Versus Small Lots As Again Reqd By The Fresh Market.
- Supplies Of
  - *Healthy Disease Free Nursery*
  - *Agricultural Implements*
  - *Technical Bulletins Etc*
- Remunerative Returns

---

**The Advantages Of Contract Farming**

To The Company:

- Uninterrupted & Regular Flow Of Raw Material.
- Protection From Fluctuation In Market Pricing.
- Long Term Planning Made Possible.
- Concept Can Be Extended To Other Crops.
- Builds Long Term Commitment
- Dedicated Supplier Base
- Generates Goodwill For The Organisation.
R & D Can Assist Farming Reinvent Itself

- A “partnership” approach is called for...
  - between private sector contract farming initiatives &
  - Govt. Research infrastructure.
- Agri Universities & ICAR/ it’s associates do the locational specific research trials.
- Extension services provided by the private sector.
- Fair & equitable distribution of expenditure & revenues.
- Benefits will however, percolate down to the grass root farmer.

Contract Farming - Industry Related Issues

- Honouring Contracts - there is no credible enforcement mechanism in place.
- Small size of land holdings.
- Need to contract with a larger number of farmers, thereby increasing risk.
- Lack of a comprehensive crop insurance scheme
A Lot Can Be Done Despite The Absence Of A Legal Framework

- Maintain a proper database on farmers.
- Incentives, rewards & public recognition.
- Publicising the names of defaulters in the locality of default.
- Farmer encouraged to set own targets, assist with draft of QC standards etc.
- Clearly allocate quantities for the fresh market.

- Repeat defaulters are not considered again
- Maintains a high motivation level.
- The social stigma usually suffices as a disincentive to default.
- Promotes “ownership” of the business, builds loyalty over the long term.
- The difference becomes apparent very quickly

A Problem For The Government

- How does it ensure that the Pvt Sector performs their contract?

- How can it ensure that farmers are not short changed?
Some Suggestions To Promote Contract Farming

Government Policy Support Technology

- Leverage the ICAR, University System to provide region specific crop solutions - make them part of public information domain.
- Facilitate import of varieties / hybrids for contract farmers. Growth will be led by productivity enhancement & market focus.
- Incentivise Ph.D. Candidates in agri studies to work on contract farming programs
- Research system synergy with both farmers & private sector
Government Policies & Regulations

- 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
- Contract farming organisations be allowed to take out realistic & deregulated crop insurance policies

Government Fiscal Support

- Collect no taxes from food processors involved in contract farming. Compel them to invest in lieu in rural infrastructure & farmer upliftment to the extent of tax saved
- Offer 150% deduction on investments made in the creation of extension services for participating farmers linked to procurement of output
- Legislation needs to be clarified in order to determine whether or not it is permissible to procure agricultural produce directly from the farmers.
- No taxes or duties on import of agri equipment to be used in a registered contract farming program
- Abolish all fees, taxes, cess, duties, levies on procurement effected by a registered contract farming program
In Conclusion

• India, given the diverse agro climatic zones, can be a competitive producer of a large number of crops.

• Need to convert our factor price advantage into sustainable competitive advantage.

• Contract farming offers one possible solution.