

Contract Farming

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

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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 ?

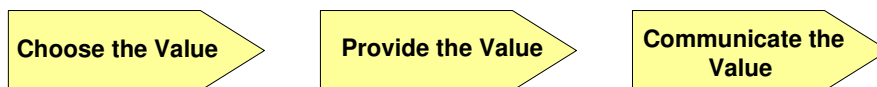
- ***To reduce the load on the central & state level procurement system.***
- ***To increase private sector investment in agriculture.***
- ***To bring about a market focus in terms of crop selection by Indian farmers.***
- ***To generate a steady source of income at the individual farmer level.***
- ***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



Moving To A Value Delivery Sequence



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

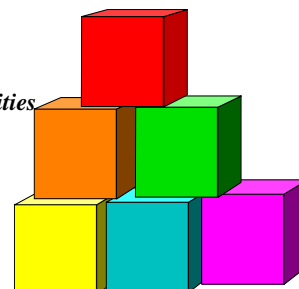
**Land Preparation & Planting,
Crop Monitoring During Growing Period
Harvesting & Procurement, Transportation Logistics *Commercialisaation*
Prompt Farmer Payment System**

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

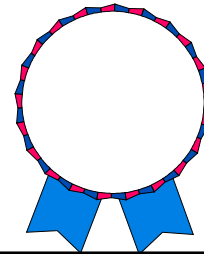
R & D Activities



The Advantages Of Contract Farming

To The Farmer

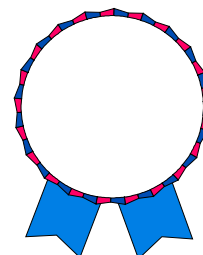
- **Exposure To World Class Mechanised Agro Technology.**
- **Obtains An Assured Up Front Price & Market Outlet For His Produce.**
- **No Requirement To Grade Fruit, As Mandatory For Fresh Market Sale.**
- **Bulk Supplies Versus Small Lots As Again Req'd By The Fresh Market.**
- **Crop Monitoring On A Regular Basis. Technical Advice, Free Of Cost At His Doorstep.**
- **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.**