Contract Farming

Introduction

Contract farming can be defined as agricultural production carried out according to an agreement between a buyer and farmers, which establishes conditions for the production and marketing of a farm product or products.

Typically, the farmer agrees to provide agreed quantities of a specific agricultural product. These should meet the quality standards of the purchaser and be supplied at the time determined by the purchaser.

In turn, the buyer commits to purchase the product and, in some cases, to support production through, for example, the supply of farm inputs, land preparation and the provision of technical advice.

Objective of contract farming

To reduce the load on the central & state level procurement system by increasing private sector investment in agriculture and related sector.

To bring about a market focus in terms of crop selection by Indian farmers and promote processing & value addition of farm product.

To generate a steady source of income at the individual farmer level and gainful employment in rural communities particularly for the landless agricultural labour.

To reduce migration from rural to urban areas and promote rural self-reliance in general by pooling locally available resources to meet the existing challenges.

Regulations of contract Farming

Since agriculture is a state list subject, therefore contract farming is not uniform.

In India, contract farming is regulated under the Indian Contract Act, 1872.

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.

The Ministry of Agriculture released a draft Model Contract Farming Act, 2018. the draft Model Act seeks to create a regulatory and policy framework exclusively for contract farming.

Contract farming business models

Various contract farming business models are -

1- Informal model

2- Intermediary model

3- Multipartite model

4- Centralized model

5- Nucleus estate model

Contract Farming

Informal model

- This model is the most transient and speculative of all contract farming models, with a risk of default by both the promoter and the farmer.
- Features of this model are:
  - Small firms conclude simple, informal seasonal production contracts with smallholders.
  - The success often depends on the availability and quality of external extension services.
  - Embedded services, if at all provided, are limited to the delivery of basic inputs, occasionally on credit; advice is usually limited to grading and quality control.

Intermediary model

- In this model, the buyer subcontracts an intermediary (collector, aggregator or farmer organisation) who formally or informally contracts farmers.
- Features of this model are:
  - The intermediary provides embedded services and purchases the crop.
  - This model can work, if well-designed and if incentive-structures are adequate and control mechanisms are in place.
  - This model can bear disadvantages for vertical coordination and for providing incentives to farmers.

Centralized model

- In this model, the buyers' involvement may vary from minimal input provision to control of most production aspects.
- Features of this model are:
  - The buyer sources products from and provides services to large numbers of small, medium or large farmers.
  - The production and harvesting processes and qualities are tightly controlled, sometimes directly implemented by the buyer's staff.
  - The quantities, qualities and delivery conditions are determined at the beginning of the season.

Multipartite model

- This model can develop from the centralised or nucleus estate models. It involves various organisations such as govern- mental statutory bodies alongside private companies and sometimes financial institutions.
- Features of this model are:
  - This model may feature as joint ventures of parastatals/ community companies with domestic/ foreign investors for processing.
  - This model may also feature as farm-firm arrangement complemented by agreements with 3rd party service providers (e.g. extension, training, credits, inputs, logistics).

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Nucleus estate model

- In this model, the buyer sources both from own estates/ plantations and from contracted farmers.
- The estate system involves significant investments by the buyer into land, machines, staff and management.
- Features of this model are:
  - The nucleus estate usually guarantees supplies to assure cost-efficient utilisation of installed processing capacities and to satisfy firm sales obligations respectively.
  - In some cases, the nucleus estate is used for research, breeding or piloting and demonstration purposes and/ or as collection point.

Advantages of Contract Farming

- It helps in skilling of farmers as they learn to use various resources efficiently like fertilizer,pesticides and get in touch with new technology in some cases.
- Farmers get the opportunity for diversification of crops.
- Price risk is drastically reduced as many contracts specify prices in advance.
- Contract farming can open up new markets which would otherwise have been unavailable to small farmers.
- Client get uninterrupted & regular flow of raw material of high quality which helps in protection from fluctuation in market pricing.

Disadvantages of contract farming

- Contract farming arrangements are often criticized for being biased in favor of firms or large farmers, while exploiting the poor bargaining power of small farmers.
- Contracting agreements are often verbal or informal in nature and even written contracts often do not provide the legal protection in India.
- Most of the crops grown under contract agreement are cash crops which give more income to farmers but at the same time due to this profit motive food crops are being neglected.
- When the farmers grow new crops, they face the risks of both market failure and production problems
- There are no standard legal procedures in resolving disputes arising under contract agreements.