



# Can contract farming help farmers?

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The agriculture sector in India has been in crisis for more than two decades. The policy makers' negligence, the central government's lower allocation of funds for agricultural sector, particularly in the new economic policy regime, poor pricing of agricultural products, fluctuation of natural phenomenon, etc. are some of the main reasons behind the agricultural stress in the country. A section of economists, like professor Ratan Khasnobis, think that in the present world, even in the developed country, agriculture has been a subsidy sector. If government does not subsidise the sector its economic impact will fall on other sectors by arising inflation or in other ways. Rise in wage cost, for example, in industry and service sector will be a natural outcome as consequences. This would reduce profits of the industry and service sectors which in turn reduces the revenue of the government. So the subsidy amount in agriculture may have a stabilising impact of the economy as a whole. In India not less than half of its population still earns their livelihood from the agricultural sector. In this situation there has been a policy for the farmers to go for contract farming.

## Why contract farming is suggested?

Contract farming means an agreement between farmers and marketing firms for the production and purchase of

agricultural products. The agreement generally happens under forward agreement, mostly, at predetermined prices. In an article, Contract farming in India: An Introduction by Ashok Gulati, P. K. Joshi, and Maurice Landes point out that an important concern in Indian agriculture is that while "front end" activities-including wholesaling, processing, logistics and retailing- are rapidly expanding and consolidating the back end" activities of production agriculture have been continuously fragmenting. The challenges lie in linking the two ends and ensuring variable business opportunities for both farmers and agri-business. They also mention that establishing farm-firm linkages is not only about providing assured markets, reducing risks, and ensuring remunerative prices, but also providing critical services such as credit, insurances, grading and inspection, technology extension, and market information.

## Virtual absence of enforcement of contract is to be addressed

The Model Contract Farming Act 2018 has addressed several issues of contract farming. Agriculture is in concurrent list in India and hence this Act has not been mandatory for states to adopt. The Act aims to create a regulatory body to enforce contract. An article of Gautam Sadhu and Sazzad

Parwez of School of development Studies, IHMR University, Jaipur, mentions that neither farmer and buyer party want law enforcement to intervene. In this situation, the marginal farmers are being affected the most. They suggested that village level courts, subsidized legal support and minimum prices will ensure a fairer settlement.

#### Some positive aspects of contract farming

Several studies observe that several contract farming models earn net profits for contract farmers which is more than double those for non-contract farmers. The share of marketing and transactional costs to total cost is much lower for contract farmers. Gulati, Joshi and Landes observe that the small farmers often find themselves locked in a situation of income uncertainty and low risk bearing capacity. Hence it creates constraints shifting towards higher value and income generating activities. But in contract farming risk can be shared and this can also overcome resource constraints that emerge as a possible approach to facilitate the transformation of small holders to high value agriculture.

#### The actual position is not so fruitful

It is also observed that as an idea contract farming is a very good thing where farmers stand to gain from contractual agreements that provide lower transaction costs, assured markets and better allocation of risks. The contracting firms, on the other hand, have the advantage of more assured supplies and reasonable control over quality and other specifications. But in practice most of the contracts are verbal or informal and hence there is little scope for enforcement of the contract. In such a situation both parties lose at times. But naturally the small and marginal farmers are biggest victims.

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Professor L. Das from Bidhan Chandra Krishi Viswavidyalaya, pointed out some negative impacts of contract farming. If an agricultural land is given to a farm on lease for a few years the nature of the land may be changed, for example, from paddy cultivation to fisheries. After the lease contract expires it is very difficult to use the land if the land owner wants to cultivate paddy or vegetable or oilseeds, etc. In most of the cases firm owners overuse land, over exploit its

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productivity by using more fertilizers or pesticides or by using special type seeds of high yielding varieties. So huge quality degradation of soil in contract farming is a matter for concern.

Another serious environmental matter, which has been pointed out by Professor Das, is that the adjacent or nearby fields which are not in contracting also affected by excessive fertilizers and pesticides used in the lease land. This affects the quality of the products of the farmers who are interested, mainly, in family use.

#### Why is contract farming not working in India ?

In the last decade some big companies tried to enter into contract farming in some states. Reliance chose to enter in Uttar Pradesh, ITC chose Madhya Pradesh for example. Sudipta Bhattacharyay, professor, Viswabharati University, West Bengal and a noted agricultural economist, termed this phenomenon as "territorial division" of the big companies. He told BE that in the beginning, ITC successfully entered into contract farming as farmers were against the exploitation of the traders. But after a period of time, it was claimed that ITC started to behave similarly, in collecting products, paying prices, grading products, etc. At present, the farmers are going against big companies not only in Madhya Pradesh but also in different states. In Uttar Pradesh, the Bahujan Samajwadi Party led by Mayavati also supported Reliance's entry into contract farming. But later the BSP supporters went against Reliance retail business.

Professor Bhattacharyay also cited several instances in the world where entry of the big companies has been opposed. In some countries of Africa and Latin America are bright examples of this phenomenon. Even some of the parliaments of the countries of the European Union have expressed their concern and in some cases contracts have been banned.

#### What can be done?

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