Contract Farming

Published On: 14-12-2022

Why is in news? Government has made a provision for Contract Farming in the Model Acts circulated to the States for their adoption

Though **Agriculture and Agricultural Marketing is a State Subject**, Government has made a provision for Contract Farming in the Model Acts circulated to the States for their adoption.

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.

The **various agricultural produce are suitable for practices under contract farming** like tomato pulp, organic dyes, poultry, pulpwood, mushrooms, dairy processing, edible oils, exotic vegetables, baby corn cultivation, basmati rice, medicinal plants, potato for making chips and wafers, onions, mandarin oranges, durum wheat, flowers and orchids, etc.

NABARD developed a **special refinance package** for contract farming arrangements (within and outside AEZs) aimed at promoting increased production of commercial crops and creation of marketing avenues for the farmers.

Agricultural marketing is regulated by the States' Agricultural Produce Marketing Regulation (APMR) Acts.

As per the Model APMC Act, 2003, 15 States have provisioned Contract Farming in their state APMC Acts.

Advantages:

For Farmers: Makes small scale farming competitive - small farmers can **access technology**, credit, marketing channels and information while lowering transaction costs

Assured market for their produce at their doorsteps, reducing marketing and transaction costs

It reduces the risk of production, price and marketing costs.

Contract farming can **open up new markets** which would otherwise be unavailable to small farmers.

It also **ensures higher production of better quality**, financial support in cash and /or kind and technical guidance to the farmers.

For Agri firms: Optimally utilize their installed capacity, infrastructure and manpower, and respond to food safety and quality concerns of the consumers.

Make **direct private investment** in agricultural activities.

The **price fixation** is done by the negotiation between the producers and firms.

The farmers enter into contract production with an assured price under term and conditions.

Challenges:

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.

Problems faced by growers like undue quality cut on produce by firms, delayed deliveries at the factory, delayed payments, low price and pest attack on the contract crop which raised the cost of production.

Contracting agreements are often verbal or informal in nature, and even written contracts often do not provide the legal protection in India that may be observed in other countries. Lack of enforceability of contractual provisions can result in breach of contracts by either party.

Single Buyer – Multiple Sellers (**Monopsony**)

Adverse gender effects - Women have less access to contract farming than men.