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A Vexed Contract!
Contract Farming and its Implications on Small Scale Farming in India

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and its **Implications** on **Small Scale Farming in India**

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A Vexed Contract! Contract Farming and its Implications on Small Scale Farming in India

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Introduction

In a developing country like India, where more than half of its 1.23 billion population is dependent on subsistence farming, both 'Kisan' (Farmer) and 'Krishi' (Agriculture) become vital constituents of the political economy of the country. Woven around these two unavoidable constituents are the conditions of food security and livelihood, which determine the survival of a vast majority of the country's population.

However, currently in India, both 'Kisan' and' Krishi' are in great crisis, partly due to faulty policies that are drawn up by the State and partly due to climate change and related vagaries of nature. By Government's own admission, more than 22 percent of the 118.7 million cultivators and 144.3 million agricultural workers, continue to live below the poverty line (BPL).

In its eagerness to address the agrarian crisis, the Government is keenly changing agricultural polices and facilitating corporate take-over of agriculture by bringing in agri-business corporations.

Hundreds of private agribusiness companies – big and small - who have forayed into contract farming, are influencing farmers to move away from traditional agricultural practices and engage in high-tech contract farming. The farmers are enthused to cultivate crops that have an international market. Lured by attractive schemes, and in a desperate bid to protect their lives and earn some extra income, farmers are switching to contract farming. The government through various policy changes are pushing contract farming as a solution to all the agrarian woes and is promising to double farmers income in the near future. Can the government succeed in this or would this prove dangerous to the agricultural scenario in India, in the long run?

Contract farming is also considered as an excuse for private corporations to grab agricultural land, thereby leading to 'accumulation by dispossession', a concept put forth by David Harvey to define the neo-liberal capitalist policies that leads to over-accumulation of wealth in the hands of a few. Accumulation of agricultural land through corporate intervention obviously involves confiscation of peasantries through global market forces. Contract farming and linking small farmers to the vulnerable international market forces become the means and method to sustain this accumulation.

In order to protect against price volatility and market fluctuations, the Ministry of Agriculture & Farmers' Welfare, Government of India, in association with its think tank, NITI Aayog, identified a basket of agricultural reforms to create a more conducive environment for the farmers to produce & market and earn enough to improve their standard of living. In fact the Union Finance Minister in his budget speech for 2017-18 announced the Government's commitment to prepare a "Model Contract Farming Act" and circulate the same to the States & UTs for its adoption. The Ministry along with NITI Aayog is already working on a new draft model APMC law, which aims to increase farmers' income by reducing the intermediaries between producer and buyer and ensure remunerative prices to farmers but at the same time it will address all the constraints in adopting contract farming in a big way. The idea is to have a win-win situation for both the farmers and the sponsoring company, so that the risks & uncertainties in meeting the obligations of the contract are addressed. The aim is to let the farmers benefit from a pre-agreed future price for his produce, besides efficiency in resource management and knowledge at production stage.

In view of latest move by the government to further reform the contract farming laws, we have tried to look at the existing rules and laws of contract farming in India and to what extent it has benefitted our farmers. In this booklet, we would be looking at some of the most crucial aspects of contract farming and its impact on small and marginal farmers in India. Some of the key issues we would introspect in the coming chapters are:

What are the pros and cons of contract farming in India?

What would be the situation of subsistence farmers in the context of commercialisation of agricultural?

Will contract farming solve the contemporary agrarian crisis in India?

Why are very marginal and extremely small farmers not included in contract farming?

What would happen to the food security of farmers and agricultural workers under contract farming?

While fixing the price for the crops will the company take into account the food requirement of the farmer and his family?

What is a contract agreement and what features should the agreement contain?

What are the long impacts of contract farming on the soil and the environment?

1. APMC Model Act 2003

The agricultural legislation that gives legal legitimacy to contract farming is the Agricultural Produce Marketing Regulation Model ACT, 2003 (*APMC* Model Act 2003). This Central Government formulated Act promotes private players in agriculture market so that intermediaries and agents could be eliminated. The main objective of the APMC Act 2003 was to bring about increased income for framers, who could sell directly to firms) and reduce procurement costs for companies, who could now purchase the raw materials at lower prices.

Prior to the formulation of *APMC* Model Act 2003, direct procurement of agricultural produces from farmers was not permitted and most of the States did not allow the establishment of private wholesale markets (*mandis*). This led to, local traders forming cartels and manipulating purchase prices, which resulted in lower price realization for the farmers.[1]

As is the case even now, rural infrastructure and market facilities for farmers are not well established in many parts of the country. Farmers trek long distances to the nearby town to transact business. The absence of nearby markets gave rise to the increasing role of middlemen or local intermediaries, who took advantage of farmers and obtained their produce at cheap prices.

The rural agricultural supply chain has many intermediaries which make the situation worse for the farmers. This is explained in figure 1. One of the reasons for such long supply chain is the lack of proper infrastructure.

Figure 1

Thus providing infrastructure became a priority for the government so as to enable private players in agriculture.

Objectives of APMC Act, 2003

- To provide for development of efficient marketing system
- Promotion of agri-processing and agricultural exports
- Lay down procedures and systems for putting in place an effective infrastructure for the marketing of agricultural produce.

[1] *Arora, V.P.S.; Agricultural Policies in India: Retrospect and Prospect; Agricultural economics Research Review; Vol. 26, No. 2(July-December 2013): 135-157*

- Ensure transparency in pricing system
- Provide market-led solution to farmers
- Ensuring same day payment
- Promote activities that results in value addition in agricultural produce
- Promote Public Private Partnership (PPP) in agricultural.
- Support and promote Contract Farming.
- Compulsory registration of all farming sponsors, recording agreements, resolution of disputes if any, providing indemnity to producers' title
- Exemption from levy of market fee on produce covered by contract farming agreements.

The ultimate objective of this ACT was to attract private players and investment in constructing market yards and post-harvest value chains comprising of cold stores, warehouses and logistics infrastructure. In reality, all these policies are just adopted but their actual implementation is doubted because increasing contract farming is another reason behind increasing number of farmers suicides. As per 2014 data, 16 States had adopted APMC Act 2003.

1.1 Implications of APMC Model Act 2003 on Contract Farming

1.1 (i) APMC and its roles

Historically, marketing system in India was very traditional characterized by rural sales of agricultural and livestock goods, post-harvest immediate sale by farmers, weekly markets where villagers often buy agricultural commodities, seeds etc. Traditional marketing structure changed when in 1928 the Royal Commission pointed out the problems of traditional marketing such as high marketing cost, unauthorized deductions, and prevalence of various malpractices and thus arose the need for a more regulated market system in India.

A regulated market aims to eradicate unhealthy, unethical and malpractices in the marketing system. It also aims to reduce market cost and provide benefits to both the producers and the buyers.

Agricultural Produce Market Committee (APMC) is a statutory or legal body constituted by a State Government in respect of trade in certain notified agricultural, horticultural or livestock products, under the Agricultural Produce Market Committee ACT, issued by that State government.

During the 1960s and the 1970s, many States enacted the Agricultural Produce Market Regulation ACTs (APMR ACTs) which authorized a State to set up and regulate marketing practices in wholesale markets. The objective was to ensure that farmers get a fair price for the products. The APMR ACT works on two principles:

a) It ensures that farmers are not exploited by intermediaries (or moneylenders) who compel farmers to sell their produce at an extremely low price.

b) All food produces should first be brought to a market yard and then sold through auction.

The ACT had provisions for the formation of agricultural produce market committees (APMC) in States and is responsible for the operation of the markets. The main objective behind setting up APMCs in States was to regulate the agricultural market and to ensure that farmers are offered fair prices in a transparent manner. Currently, there are around 7500 APMC regulated markets all over the country but their functioning has not been very satisfactory. Some of the criticisms these markets faced were :

- Lacks a competitive market for farmers
- No possibility for direct marketing and retailing
- Not very innovative in adopting new systems and technologies
- Markets functioned in a primitive way
- Corruption among market officials
- The prevalent system in the Mandis prohibits farmers to really enjoy all the benefits

1.1 (ii) Problems with the old APMCs

Some of the problems faced by private companies and agri-business enterprises under the old APMC regulations were :

- Under the APMC regulations, exporters and agri-business processors could not buy directly from farmers. The regulations were not export friendly and discouraged processing and exporting of agricultural products.
- Only the State Government was eligible to set up markets and prevented private players from setting up markets and investing in marketing infrastructure.
- The system encouraged formation of cartels with links to caste and political networks resulting in price variations.
- An increased number of middlemen formed a virtual barrier between the farmer and the consumer.
- The mushrooming of commission agents who regulated markets leading to monopoly of the licensed traders acting as a major entry barrier for new entrepreneurs.
- The fragmentation of markets within the State hindered the free flow of agro-commodities from one market area to another and multiple handling of agri-produce and multiple levels of Mandi charges end up escalating the prices for the consumers without commensurate benefit to the farmer.

In order to find a solution to some of these issues and to create a more competitive agricultural market, a Task Force was set up by Government of India whose report suggested the need to set up a new competitive agricultural market system where private sector and cooperative sectors could participate and where direct marketing and contract farming could be promoted. The report further suggested the necessity of effective linkages between farm production and retail chains where farmers could do contract farming and sell their produce directly to companies.

Accordingly, the Government of India introduced reforms of the Agricultural Produce Market Committee ACT in 2003, and the new ACT was circulated to all the State Governments requesting them to amend their agricultural marketing laws in line with this ACT.

Some of the salient features of the APMC Model Act 2003 are as follows :

- The APMC Act, 2003 facilitates contract farming;
- Provision for the creation of markets for perishable produce such as vegetables and fruits etc;
- Permits farmers and private persons to set up markets (mandis);
- Provision for setting up more than one market in a particular area – thus enabling competition and better bargaining power for farmers;
- The ACT relaxed licensing norms; farmers have freedom to sell their produce directly to contractors or sponsors;
- It proposed a single market fee on the sale of notified agricultural commodities;
- Revenue generated by APMCs to be used for building and improving market infrastructure for the effective marketing of agricultural produce;
- Promotes contract farming, provisions for compulsory registration of all contract farming sponsors, recording of contract farming agreements and resolution of disputes.
- Exemption from levy of market fee on produce covered by contract farming agreements.

Soon after the formation of APMC Model Act 2003, several States jumped to the fore and amended their own APMC ACTs. States like Gujarat, Punjab, Karnataka, Maharashtra and Madhya Pradesh have been at the forefront in this regard. Some States did not amend it. Bihar Government repealed the ACT in 2006. Given below is the status of APMC Model Act 2003 amended by various States in India.

Table 1 : State-wise Progress of Reforms in Agricultural Markets (APMC Act)

Sl/ No.	Stage of Reforms	Names of States/Union Territories
1.	States/ Union Territories (UTs) where reforms to the APMC Model Act 2003 have been legislated to provide for direct marketing, contract farming and markets in private / cooperative sectors	Andhra Pradesh, Arunachal Pradesh, Assam, Chhattisgarh, Goa, Gujarat, Himachal Pradesh, Jharkhand, Karnataka, Maharashtra, Mizoram, Nagaland, Odisha, Rajasthan, Sikkim, Telangana, Tripura and Uttrakhand.

2.	States/ UTs where reforms to APMC Model Act 2003 have been done partially	a) Direct Marketing : NCT of Delhi, Madhya Pradesh, Punjab (in Rule only) and UT of Chandigarh (in Rule only), West Bengal. b) Contract Farming : Madhya Pradesh, Haryana, Punjab (separate Act) and Chandigarh (only waiver of market fee and in Rule only). c) Private Market : Punjab, West Bengal and UT of Chandigarh.
3	States/ UTs where there is no APMC ACT and hence do not require reforms	Bihar (repealed on 1 September 2006), Kerala, Manipur, Andaman and Nicobar Islands, Dadra and Nagar Haveli, Daman and Diu and Lakshadweep.
4	State where APMC Act already provides for the reforms	Tamil Nadu
5	States/UTs where reforms have not yet been initiated.	Meghalaya, Jammu and Kashmir, Pondicherry and Uttar Pradesh.
Source : State of Indian Agriculture 2015-16. The Government of India, Ministry of Agriculture & Farmers Welfare, Department of Agriculture, Cooperation & Farmers Welfare, Directorate of Economics & Statistics New Delhi. http://eands.dacnet.nic.in/PDF/State_of_Indian_Agriculture,2015-16.pdf		

There are some States, which do not have APMC Act, and some have partially amended their ACT. For example, the Karnataka Model provides for a single licensing system and facilitates automated auction, post-auction facilities, the warehouse-based sale of produce, commodity funding, prices dissemination and private sector investment in marketing infrastructure.

Some of the major institutions marketing agricultural products under contract marketing :

- Karnataka State Agricultural Marketing Board;
- Krishi Maratavahini;
- Madhya Pradesh State Agricultural Marketing Board;
- Maharashtra State Agricultural Marketing Board, Pune;
- Meghalaya State Agricultural Marketing Board;
- Odisha State Agricultural Marketing Board, Bhubaneswar;
- Punjab State Marketing Board;

- Punjab Agro Foodgrains Corporation Ltd. (PAFC);
- Rajasthan State Marketing Board;
- AP Agricultural Marketing Board;
- Domestic & Export Market Intelligence Cell;
- Tamil Nadu Agricultural University and Agri Marketing Board;
- HP State Agricultural Marketing Board.

1.1 (iii) Problems with the Model APMC Act 2003

The ACT does not facilitate a national or even State level common market for agriculture commodities. The ACT still enforces the buyers to pay APMC charges even if the produce is directly outside the APMC area. The provision for setting up markets by the private sector has not created much competition since the private market owners also have to collect fees on behalf of the APMC and their own charges from the sellers.

Suggestions in Economic Survey 2014-15 to create a National Common Market in Agricultural Commodities :

The Economic Survey 2014-15 emphasizes the need for a national common agricultural market (a Budget Announcement of 2014-15). The Economic Survey suggests some incremental steps as possible solutions for setting up a national market:

a) Get all States to drop fruits and vegetables from APMC schedule of regulated commodities and followed by other commodities.

b) State governments to provide policy support for alternative or special markets in private sector.

c) To attract capital for infrastructure, liberalization in FDI in retail could create possibilities for filling in the massive investment and infrastructure deficit in supply chain inefficiencies.

d) Use Constitutional provisions to create a national common market for agricultural commodities.

e) Create a national common market for agricultural commodities and make APMCs just one among many options available for the farmers to sell their produce.

1.2 The National Agricultural Market (NAM)

Union Budget 2014-15 and Union Budget 2015-16 had suggested the creation of a National Agricultural Market (NAM) as a priority issue. On 2 July 2015, Union Cabinet unveiled its plan to go ahead with the project.

- The National Agriculture Market (NAM) is envisioned as a pan-India electronic trading portal which seeks to network the existing APMCs and other market yards to create a unified national market for agricultural commodities.
- NAM is a "virtual" market but it has a physical market (mandi) at the back end.
- NAM is a common e-platform to which initially, 585 APMCs selected by the States will be linked.
- The Central Government will provide the software free of cost to the States.
- The initial grant of up to Rs. 30 lakhs per mandi will be given as a one-time measure for related equipment and infrastructure requirements.
- To promote genuine price discovery, it is proposed to provide the private Mandis also with access to the software but without any monetary support from Government.
- Willing States to accordingly enact suitable provisions in their APMC ACT for the promotion of e-trading by their State Agricultural Marketing Board/ APMC.
- Liberal licensing of traders/ buyers and commission agents by State authorities without any pre-condition of physical presence or possession of shop/ premises in the market yard.
- One license for a trader valid across all markets in the State.
- Harmonization of quality standards of agricultural produce and provision for assaying (quality testing) infrastructure in every market to enable informed bidding by buyers. Common tradable parameters have so far been developed for 69 commodities.
- Single point levy of market fees, i.e. on the first wholesale purchase from the farmer.
- Provision of Soil Testing Laboratories in/ or near the selected mandi to facilitate visiting farmers to access this facility in the mandi itself.

Though Punjab had enacted a separate law on contract farming in 2013, it has so far not implemented it. Under the Punjab Contract Farming Act, a registered buyer can enter into an advance agreement with farmers for a minimum of one crop season or a maximum of three years. It also provides for recovery of crop losses or damages as per prior agreement. It has a provision where district level authority is responsible for dispute resolution. Many such provisions are expected to be incorporated in the new model law on contract farming, which NITI Aayog is drafting and is expected to be out in public domain soon.

1.3 Punjab Contract Farming Act, 2013

Although Punjab was the first State in India that gave a green signal to contract farming and promoted it vigorously, the Punjab Government had also taken major steps in the diversification of crops for more than a decade.

Even then the State Government has still not amended the APMC Act. Despite that in April 2013, the State Government passed a Bill, which led to the enactment of Punjab Contract Farming ACT, 2013. Some of the key elements in the ACT are as follows :

- The duration of a contract can be one crop season to three years;
- A total of 108 crops are notified under the ACT;
- The buyer will have to submit reports of the contract transactions to the registering authority as well as the commission;
- Buyers need to register themselves with the registering authority after paying a fee;
- Buyers will provide support for production like inputs, land use, technical advice so that in case of failure of crop or loss the buyer can be held responsible;
- Loan and advance by buyers can be recovered from sale of agricultural produce and cannot be raised by sale, mortgage or lease of farmers land;
- The ACT recommends the constitution of Punjab Contract Farming Commission for proper implementation of ACT;
- State Government can give directions to the Commission for proper implementation of the ACT.

Problems with the Punjab Contract Farming ACT, 2013

The ACT is silent on mandatory and optional provisions of contract farming.

- The ACT fails to address the advanced problems of contract farming such as quality determination, price determination conflicts and sharing of production and market risk.
- The list of products mentioned in the ACT is partial. It does not mention cash crops like garlic, baby corn etc., which are largely contracted these days.
- The ACT is not very clear on contract farming of agroforestry – a 3-year contract period cannot protect agroforestry which takes more than 3 years to nurture.
- The ACT has notified 108 crops also included value-added products of sugarcane such as gur, shakkar and khandsari.
- The States of Gujarat and Haryana had amended the APMC ACT to protect the interest of farmers. Whereas, the Punjab Contract Farming Act does not.
- In Haryana, the ACT prescribes that wherever applicable, the contracted price will not be less than the Minimum Support Price (MSP) of the contracted crop.
- Punjab ACT has no provision to guarantee the price at par with the MSP. This can put the farmer in trouble as the buyer could fix the price at his own will.

1.4 Model Agricultural Land Leasing Act, 2016 by Niti Aayog

Key Features

1. Legalise land leasing to promote agricultural efficiency, equity and poverty reduction. This will also help in much-needed productivity improvement in agriculture as well as occupational mobility of the people and rapid rural change.
2. Legalise land leasing in all areas to ensure complete security of land ownership rights for landowners and security of tenure for tenants for the agreed lease period.
3. Allow automatic resumption of land after the agreed lease period without requiring any minimum area of land to be left with the tenant even after termination of tenancy, as laws of some States require.
4. Allow the terms and conditions of the lease to be determined mutually by the landowner and the tenant without any fear on the part of the landowner of losing land right or undue expectation on the part of the tenant of acquiring occupancy right for continuous possession of leased land for any fixed period.
5. Facilitate all tenants including sharecroppers to access insurance bank credit and bank credit against pledging of expected output.
6. Incentivise tenants to make an investment in land improvement and also entitle them to get back the unused value of the investment at the time of termination of tenancy.

Niti Aayog's[2] Recommendations to States for agriculture marketing reforms :

a) Immediate need to amend existing regulations in order to liberalize markets. The farmer should be given the freedom to decide to whom, where and how he wants to sell his produce.

b) Special treatment of fruits and vegetables from other farm produce as they are perishable and produced in small quantities.

The recommended reforms place importance on Information Technology (IT) in marketing for the creation of a 'national market' for agriculture, so that farmers across the country may benefit from interconnected markets, through the use of appropriate technology.

Indicators of ***"Agriculture Marketing and Farmer Friendly Reforms Index"***

The NITI Aayog came out with a study report on agriculture marketing and farmer friendly reforms implemented by various States and Union Territories (UTs) and they also ranked States based on how many reforms these States have implemented, which includes :

(a) Implementation of 7 reforms which are part of the Model APMC Act 2003, like e-NAM

[2] *The National Institution for Transforming India (also called NITI Aayog) replaced Planning Commission of India on January 1, 2015.*

initiative, special treatment to fruits and vegetables, single licence throughout the State; single levy in the State; direct sale by producers and direct marketing, electronic trading etc.

(b) Relaxation in restrictions related to lease in and lease out of agricultural land, change in laws to recognise tenants and safeguard landowners' liberalisation.

(c) Freedom is given to farmers for felling and transit of trees grown on private land. This represents an opportunity to diversify farm businesses.

Based on these indicators, NITI Aayog also developed an index to rank States and UTs, called as “Agricultural Marketing and Farmer Friendly Reforms Index” and the index has an score which can have minimum value “0” implying no reforms and maximum value “100” implying complete reforms in the selected areas. States and UTs have been ranked in terms of the score of the index. For example, score for notification of contarct farming has been assigned depending upon the coverage, i.e. the number of crops notified under contract farming; so larger the number of crops covered under the contract farming, the better the score given to States.

2. Contract Farming : Definations

In the era of globalization and liberalization, agricultural production model in India is fast changing. With many people claiming that the benefits to be reaped from agricultural crops can significantly be increased by value-addition. Value-added agriculture involves changing a raw agricultural product into something new through packaging, processing, cooling, drying, extracting or any other type of process that differentiates the product from the original raw commodity.[3]

Agriculture in India is now being seen with a commercial outlook. The focus of the medium and large farmers in India has now shifted from subsistence farming - which had an inward looking strategy - to export oriented growth that promoted by external investments. Contract farming has come to stay in India.

2.1 Why Contract Farming?

The main reason behind portraying contract farming as a panacea for all problems plaguing the agricultural sector is lack of value addition. Value-added agricultural products require a heavy dose of costly inputs, improved crop varieties and advanced technologies to be able to adhere to the standards set by International agencies. Thus value-added agriculture can be made profitable when done in large-scale and on large farmlands. As regards the Indian agricultural scenario is concerned, this is not quite possible as land is highly fragmented and holding sizes are comparatively smaller when compared to other countries.

As per the India's Agricultural Census report 2010-11, more than 85% of the cultivated agricultural land is owned by small and marginal farmers who hold less than 2 hectare. They are largely poor and have limited access to resources and technology.[4] This is one of the main reasons why agribusiness companies prefer medium and large farmers for contract farming, leaving out the majority of marginal and subsistence farmers in India.

Table 2 given on next page is an indicator of the size of landholdings of marginal, small medium and large farmers in India.

Since corporations and companies cannot own large tracts of land due to tenancy rights in India, they cannot directly do large-scale farming. Companies bypass these limitations by bringing forth contracts to the farmers, wherein they provide the required inputs and technology to the farmers

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[3] *Matthewson, Melissa, (2007). "Exploring Value-Added Agriculture". Small Farms, Oregon State University, Summer 2007. Vol. II No. 2. Retrieved 23 August 2017. http://smallfarms.oregonstate.edu/sfn/su07valueadded*

[4] *The government of India. (2014). All India Census 2010-11. All India Report on Number and Area of Operational Holdings. Agriculture Census Division Department of Agriculture & Co-Operation Ministry of Agriculture. Retrieved 6 September 2017. http://agcensus.nic.in/document/agcensus2010/completereport.pdf*

Table 2 : Landholdings of marginal, small medium and large farmers in India

Particular	Number of Holdings (in '000)	Number of Holdings (in %)	Average (in ha.)	Operated Area (in (in'000 ha.)	Operated Area (in %)
Marginal	92826	67.1	0.39	35908	22.5
Small	24779	17.91	1.42	35244	22.08
Semi-Medium	13896	10.04	2.71	37705	23.63
Medium	5875	4.25	5.76	33828	21.2
Large	973	0.7	17.38	16907	10.59
All Sizes	138348	100	1.15	159592	100

to produce quality crops. The farmers mainly provide land, labour (including animal power) and water. After the harvest, the produce is supplied to the contracting firm and gets paid for it. The contracting firms supply the produce to other agri-processing companies or process themselves. Some companies also directly export the product after processing on their own. In the first scenario, the agro-business companies act as mere facilitators and in the second, they are involved more intensely in the process of exports. Thus, contract farming has attained a mega role in the commercialization of agriculture in India and its popularity is largely increasing.

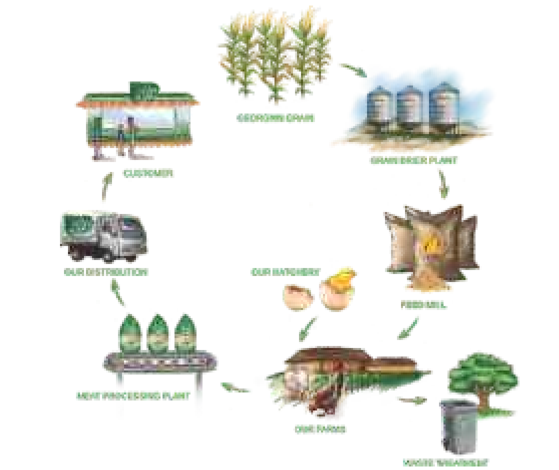
However, such a simple procedure is better suited for theory and it is necessary to consider the practical implications of contract farming before depicting it as a 'nostrum' for the agricultural sector.

2.2 Definition of Contract Farming

Vertical integration in Agriculture Contract farming is a firm lending “inputs” — such as seed, fertilizer, pesticide, credit or extension — to a farmer in exchange for exclusive purchasing rights over the specified crop. Technically, it is a form of vertical integration within agricultural commodity chains, where the contractor has greater control over the production process and the final product.

- ***Vertical integration*** can be defined as an arrangement in which the supply chain of a company is owned by that company. Usually, each member of the supply chain produces a market specific product or service, and the products combine to satisfy a common need. Contract farming is a form of vertical integration which involves agricultural/ horticultural/ poultry/ dairy production being carried out on the basis of an agreement (contract) between the buyer (Company/Corporation) and producer (usually small/big farmer/s, or farmers group and in some cases producer cooperatives) and the company has control over production.

- **Contract** : When a farmer or producer engages in contract farming, in most cases, the buyer (company) specifies the quality and quantity of the product required. The buyer (company) also fixes the price of the product and the delivery schedule in the contract. In many cases, the buyer (company) inserts clauses into the contract outlining conditions for the production of farm products and for their delivery to the buyer's (company) premises. The farmer (producer) undertakes to supply agreed quantities of a crop or livestock product, based on the quality standards and delivery requirements of the buyer (company).



Vertical integration in Agriculture
Source : http://biubiu.ge/index.php?page=about_us&lang=english

- **Pricing for the produce** : In contract farming, the buyer (company) agrees to buy the product, often at a price agreed in advance. The company often also agrees to support the farmer through, supplying inputs, assist in the land preparation, provide production advice and assist in the transportation of the produce to its premises.

Contract farming is practised for cultivating many agricultural products. Even staple crops such as rice and maize are being cultivated on a contract basis and in some cases, organic crops are also put into contract farming. Horticultural products, poultry and dairy are also have come under the ambit of contract farming. Seed is another agricultural produce that has attracted the attention of major international seed companies to India for contract farming and patenting of seeds.

A few of the most commonly quoted definitions are listed below :

1. Pari Baumann (2000)[5]
    - System where contracting firm purchases the harvests of independent farmers;
    - Terms of the purchase are arranged in advance;
    - The terms of the contract vary and the quantity and price that the contractor will pay are pre-decided;
    - Contractor provides credit inputs and technical advice;
    - Contracting allows a way of allocating risk between the producer and the firm as the producer bears all production related risks (like crop failures, maintaining quality standards) and the firm bears all marketing related risks (like assuring a market for the product)

[5] *Baumann, P. (2000). Equity and efficiency in contract farming schemes: the experience of agricultural tree crops (Vol. 139). London: Overseas Development Institute.*

2. Charles Eaton and Andrew W. Shepherd (2001)[6]
   - An agreement between farmers and contracting firms for the production and supply of agricultural products under forwarding agreements frequently at predetermined prices
   - Contracting firm provides some production support and supplies inputs and technical advice.
   - Farmer agrees to provide a specific crop or produce whose quantity and quality is set by the contracting firm
   - Contracting firm commits to provide production support and marketing of the produce
3. Sukhpal Singh (2003)[7]
   - Farming contracts in which farmers of landowners with marketing or processing firms enter into a contract of delivering the farm produce at a specified price, time, quality and quantity.
   - Contracting firm or agribusiness firm may supply inputs and may even control and supervise the farm operations.
4. Nigel Key and MacDonald (2006)[8]
   - Agreement between farmers and commodity buyers
   - Firms govern the terms under which products are transferred from the farm
   - Firms specify the date of delivery, product price and required production practices.

Based on all of the definitions, contract farming can be described as a middle ground between independent farming and corporate farming. It basically involves four things: pre-agreed price, quality, quantity or acreage and time.

India being one of the largest agricultural producers in the world, corporate see a vast potential in India for contract farming. As private investment is increasing in the agricultural sector, we need to see who are going to be the bigger beneficiaries of contract farming and whether it could sustain India's food security issues. Farmers have to make a choice whether to go for contract farming or non-contract farming since there are many options for sustainable farming practices without damaging the environment. Also contract farmers and contracting firms need to take into consideration what crops to be grown in a particular area as well as the local socio-economic conditions and environmental issues.

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[6] *Eaton, C., & Shepherd, A. W. (2001). Contract Farming: Partnership for Growth[PDF]. Rome: Food And Agricultural Organisation (FAO).*

[7] *Singh, S. (n.d.). Understanding Practice of Contract Farming in India: A Small Producer Perspective [PDF]. New Delhi: ICAR-National Institute of Agricultural Economics and Policy Research.*

[8] *Kumaravel, K. S. (2006). Contract Farming Concepts and Issues. In Contract Farming in India: An Introduction (pp. 3-17). Agartala, Tripura: Icfai University Press.*

3. Contract Farming in India : History & Structure

The genesis of Contract Farming could be traced to 1885 in Taiwan when the Japanese colonial State engaged Taiwanese farmers on contracts for sugar production. Towards the end of the 20th century, contract farming had spread across Western Europe, North America and Japan.

The history of contract farming in India can be traced to the colonial era when certain agricultural products like Collin Indigo were produced by Indian farmers for the British companies in England. During the colonial period, several cash crops such as tea, coffee, rubber and poppy were also done through estate model contract farming. In the 1920s, Indian Tobacco Company began contract farming of the cultivation of Virginia Tobacco in the coastal regions of Andhra Pradesh. ITC here incorporated a good element of fair contract farming system which became popular among farmers in the region.

After Independence, the emergence of seed companies in the 1960s had organized farmers to grow seeds in their fields on a contract basis. Since the seed companies did not own any land they engaged farmers for the propagation of seeds.

Another classic milestone in the history of contract farming in India is the example of Wimco, a Swedish multinational company that specialized in matches introduced poplar plantation in North India

In 1989 Pepsi Co (Pepsi Foods Ltd.) and Nijjer Agro Foods in Punjab began tomato contract farming in the district of Hoshiarpur which can be told as the emergence of contract farming system in India and an important milestone in the history of contract farming in India. Contract farming in India much popularity after the arrival of Pepsi into the agri-processing scene.

During the 1990s, contract farming spread to other parts of India. States like Karnataka, Andhra Pradesh and Kerala showed great interest in contract farming and stipulated rules for engaging with private companies and agro-processing industries.

By the year 2000, the new agricultural policy in India began to promote the role of private sector in agriculture and contract farming.

Contract farming has now spread to most parts of India and is being promoted by several States in several innovative ways to improve agricultural performance and increase farmers income. Apart from cash crops and exotic crops, even crops like paddy, maize, wheat and barley are being intensively cultivated on a contract basis and many of the crop contracts now have become a very complex affair involving several specialized agencies acting between the farmers and the company.

Given below is a short timeline of important events in the history of contract farming in India.[9]

[9] *http://shodhganga.infibnet.ac.in/gitstream/10603/87247/9/09_chapter%20%203.pdf*

Period	Events
1850s - 1860s	Cotton exported to Britain after disruption of US supplies.
1860s	Plantations for tea and coffee in the hills of the Northeast and the South, indigo and poppy cultivation in plains.
1910s	Distress and unrest among indentured contract farmers.
1930s 1948-50	Virginia tobacco contract farming in Andhra Pradesh Sugar co-operatives emerge in Maharashtra and milk cooperatives in Gujarat incorporating many elements of contract farming.
1950s	Emergence of seed business based on contract farming.
1980s	Poplar introduction through contract farming; also tomato contract farming.
1990s	Tomato introduced in Punjab through contract farming.
1990s	Numerous, mostly abortive, efforts at introducing contract farming in Horticulture.
2000s	Variants of contract farming introduced for wheat in MP and crop diversification in Punjab; the emergence of specialist contract farming firms.
2003-04	Contract farming accepted in new policy framework for agriculture reforms.
2004 onwards	Contract farming vigorously spreads to various parts of India
2017	New Model APMC Act 2017 is introduced and formation of National Agricultural Market (NAM)

3.1 Classifications of Contract Farming

Contract farming could be defined as "forms of vertical coordination between growers and buyers-processors that directly shape production decisions through contractually specifying market obligations (by volume, value, quality, and, at times, advanced price determinations); provide specific inputs; and exercise some control at the point of production (i.e., a division of management functions between contractor and contractee)". [10]

Contract farming is also defined as those contractual arrangements between farmers and other firms, whether oral or written, in which non-transferrable contracts specify one or more conditions of marketing and production involves two or more parties the grower and the contractor.[11] The contractor could be a public or private firm focusing on either procuring, processing, marketing and trading.

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[10] *Little, P. D., & Watts, M. J. (1994). Living under contract: contract farming and agrarian transformation in Sub-Saharan Africa. Madison, WI: University of Wisconsin Press.*

[11] *Glover D., Kusterer K. (1990) "Introduction. In: Small Farmers, Big Business". International Political Economy Series. Palgrave Macmillan, London. DOI https://doi.org/10.1007/978-1-349-11533-4_1*

As contract farming has evolved over the last several decades, a range of contracting models have also been developed. What model of contract farming to be followed depends on several factors such as the nature of crop, soil conditions, easy availability of resources like water and irrigation, needs of the farmers, the relationship between the company and the farmers and so on. Therefore it has always been a challenge for a company to decide exactly what model would suit their purpose. There are several models under different names being practiced in many parts of the country. Presented below are the five most commonly used contract farming in India.

3.2 Models of Contract Farming

Contract farming usually follows one of five broad models that are distinguished by Eaton and Shepherd (2001)[12] and Bijman, Jos (2008)[13] includes Centralized model, Nucleus estate model, Multipartite model, Informal model and Intermediary model.

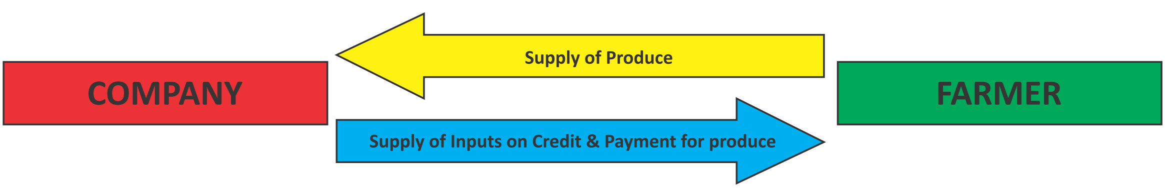
3.2 (i) Model No. 1 - Centralised Model/ Bi-Partite Model/ Direct Procurement Model

The first model is called the Centralised model which is also known as Bi-Partite or Direct Procurement model. This is the simplest contract farming model in which there is a direct contract between the farmer and the company.

The centralized model is usually conceived as the classical contract farming model. The commodities in these schemes often require a high degree of processing, for example, tea, coffee, sugarcane and cotton. In this model, the involvement of the contractor in the production varies from a strict control of the process to very limited participation.

This model is a simple vertical coordination where farmers and companies engage in direct procurement but both parties are free of any contractual or legal obligations or any other tie-ups or complex contractual issues. Many farmers prefer this model because they get inputs and extension services from the company and the company agrees to buy the produce at a fixed price. The farmers are also free to procure their inputs from any other source as well as have the freedom to sell the produce wherever they prefer. Many of India's big retailers like Reliance, Food Bazar, Spencers etc follow this model.

Figure 2 : Centralised Model



[11] *Eaton, C., & Shepherd, A. W. (2001). Contract Farming: Partnership for Growth[PDF]. Rome: Food And Agricultural Organisation (FAO).*

[12] *Bijman, Jos (May 2008). Contract Farming in Development Countries : An overview; http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.465.4868&rep=rep1&type=pdf*

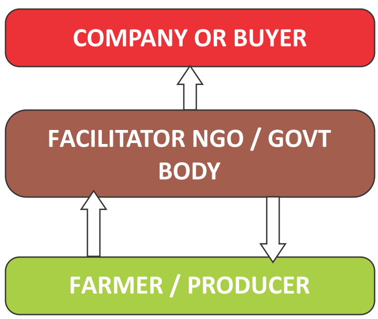
When Pepsi Foods introduced contract farming of tomato in Punjab, it followed the centralized model and later when the company was transferred to another multinational company, the model of contract farming was retained.

3.2 (ii) Model No. 2 - Tripartite Contract or Multi-Partite Contract Model

The Tripartite or Multi-partite model has been evolved from the organisation of farmers into cooperatives or the involvement of financial institutions. The Tripartite model ensures the presence of an intermediary who acts as a channel of communication between the farmer and the company. This model has become quite prominent in the Indian context. The intermediary or the facilitator in the middle tier often includes a statutory body in a joint venture with a private firm. Sometimes even governmental and non-governmental organizations are also included as the facilitator.

The Tripartite or Multipartite model involves several organizations and companies working with the farmers and each of them carrying out different types of activities that range from credit, inputs, machinery, transportation, processing and marketing.

Figure 3 : Tripartite Contract



The foray of Dabur India Limited into contract farming scene is a case in point for the Multipartite model of contract farming practices. Dabur in collaboration with an Indian Bank and other agencies has managed to massively expand the contract farming of medicinal plants in India. In 2016, the company 2100 acres of medicinal plants cultivated through contract farming across eight States in India. By 2017, the company has managed to have around 3800 acres under herbal and medicinal plants cultivations across 10 States in India.

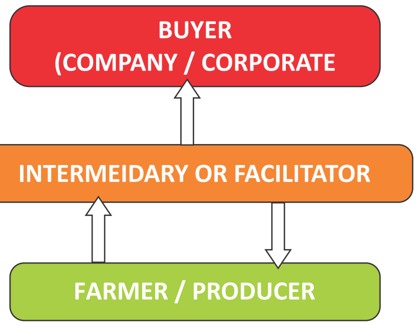
Several other companies are also using this model for contract farming. Ion Exchange Enviro Farms Limited, a company specializing in the production, processing and marketing of organic food products internationally has forayed into contract with Community Grower Groups (CGG) using this contract farming model. For their contract farming activities, CGG acts as a facilitator.

Government controlled contract farming also uses this model. In Punjab, the State owned Punjab Agro Foodgrains Corporation (PAFC) has been using tripartite agreements with seed companies. The PAFC determines the price to be paid to the farmers for the produce they supply.

3.2 (iii) Model No. 3 – Intermediary Model

The intermediary model includes a contractor, normally a processor or trader, who contracts formally with an intermediary i.e. cooperatives, NGOs, extension agent etc. The farmers are then contracted by the intermediary. This model is similar to the Tri-partite model with a difference that it reduces the risk of the company by transferring some of the works to the intermediary such as identifying the farmers as well as procurement of the product from them.

Figure 4 : Intermediary Model



Hindustan Lever Limited which is engaged in processed foods has appointed Rallis (another company) for procurement of wheat and paddy in Madhya Pradesh and Uttar Pradesh. Most of the work related to identifying farmers, dealing with inputs and extension services and procurement of products are all done by Rallis.

In this type of contract farming model, the company (Buyer) has no control over the production process that is totally managed by the intermediaries, which could actually breed corruption and in some cases compromise on the quality of the product delivered to the company. Also the intermediaries may compromise with the farmer for a lower price for the produce and in such case, the farmers tend to lose as they do not get the prevailing market price.

3.2 (iv) Model No. 4 - Nucleus Estate Model

Nucleus Estate Model is an elaborate and complex model of contract farming. In this model, the contractor not only acquires commodities from contracted farmers but also administers a central estate or plantation for production. The central estate is commonly used for guaranteeing throughout for the processing plant, it is also used for research or breeding purposes. The nucleus estate model provides a significant degree of material and management assistance.

The main idea is that the buyer is involved in farming from their own estate and contracting other small farmers to mainly supplement supply for their own processing. It is a directed form of contract farming wherein the sponsor is committed to providing material and management inputs to farmers.

The sponsors include State development agencies, private/ public plantations and private corporate sector. This model is mostly used in tree plantations, oil palm plantations etc.

3.2 (v) Model No. 5 - The Informal Model

It consists of contracting schemes based on individual entrepreneurs and small firms characterized by informal contracts which are often on a seasonal basis. The crops involved in informal model require a low degree of processing and the input support provided is usually limited to the provision of seeds and basic fertilizers with limited technical advice, for example, fresh fruits and vegetables.

The crops involved require a minimum amount of processing. Agribusinesses are mainly concerned with quality and hence intervene only in the 'sorting, grading and packaging' activities. It is not a method of directed farming and is common for short-term crops like fresh vegetables to be sold in supermarkets. Contracts are transitory and based on informal registrations like on a verbal basis. This makes these types of contracts subject to a high risk of default by both parties as it is usually not written.

Therefore, in a vast country like India with varying cultures, climatic and soil conditions and innumerable farming practices, it would be a difficult choice to say what model of contract farming should a company adopt for successful contract farming experience. The model to be used in a particular region is very much dependent on the availability of resources there. However, the model should be farmer oriented and should keep his interest at the front. Some of the key features that any contract farming model should have are :

- Trust and appropriate scope of negotiation/ fair terms,
- Economic viability/ incentives for buyers and farmers,
- Contract arrangements that mitigate associated risks,
- Technology transfer, extension, and innovation,
- Stable and transparent land tenure regime,
- Sound analysis, planning, and monitoring of contract farming schemes.

3.3 Agricultural Production Contract Agreements

One of the key factors that associated with farming uncertainties is linked to the market price. What subsistence and marginal farmers in India are always worried about is also the uncertainty that arises from the fluctuation in the price of crops, especially at the time of harvest. One of the reasons why farmers resort to contract farming is certainty of the price for the produce. Contractual agreements guarantee a fixed price and a calculated income for the farmers.

The agricultural contract is an agreement where one agrees to produce and market a specific agricultural commodity for the contractor, under the terms of an agreement. The contract might be a simple and single page agreement or multiple pages agreement with detailed legal provisions. A contract creates a unique relationship between the producer and the buyer and requires one to follow its terms and conditions mentioned in the contract.

Some of the reasons why companies involved in agribusiness engages in contract farming are listed below:

Quality Control – Contracts can provide control over the use of technology, production methods, and inputs used, and help ensure uniformity and quality of the commodity produced.

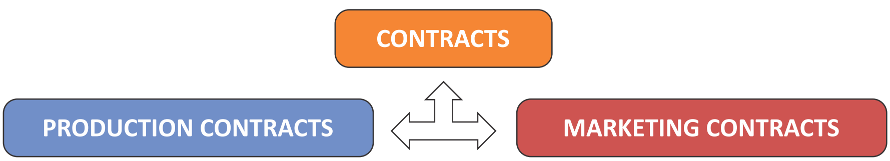
Assuring Adequate Supply – Agro-processing companies needs adequate supply of raw materials to efficiently run the company. Contract farming helps in a big way to deal with the regular supply of materials. Companies also determine how much the produce will be brought from the farmers.

Use of Technology – Contracts can promote the use of related technologies, such as "packages" of seeds, fertilizers, chemicals and pesticides, machines. While signing the contract farmers agree to use the inputs provided by the company to produce the crop.

3.4 Types of Contracts

There are two main types of contractual agreements that companies use for contract farming: Production contract and Marketing contract. Some of the key features of both forms of contracts are given below:

Figure 5



3.4 (i) Production contract

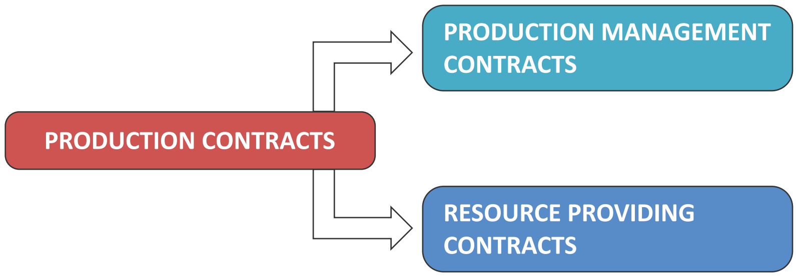
- Farmers are paid to cultivate a particular crop or grow a particular livestock
- A cornfield where babycorn is being grown in Punjab
- In Production Contracts, contracting firms have a huge say and thus, more control on the production process. Under production contracts, the farmer doesn't have much decision-making rights in the

A cornfield where babycorn is being grown in Punjab production process. Most of the decisions are taken by the company.

- The firm specifies the quality standards and technology to be used in the process of production. The firm dictates the process of production to be followed and the farmer has to comply with it.
- The marketing risks involved in the pricing of the produce is shifted to the contracting firm.

Different Types of Production contracts:

Figure 6 :



There are two types of Production Contracts :

a) Production management contracts :

- In such an arrangement, the firm has control over all the production decisions,
- Due to such a control by the firms, the probability of procuring quality output by the firm rises,
- Even though the firm bears the marketing risk, the farmer still has to bear the price risks as the final price paid depends on the quality of the crops. Thus, if the quality of the crops is not up to the standards dictated by the contracts, the farmers are paid lesser. Further, the farmers do not get paid in event of a disaster that destroys their crops. Thus, there is significant risk associated with the farmers,
- There is a significant risk on the farmer in the event of natural calamities like flood, drought, hailstorm, failure of the monsoon etc.
- Such contracts are common for perishables like vegetables.

b) Resource providing contracts :

- In this arrangement, Contractors have an even higher degree of control over the production process than in the case of production management contracts.
- It is used when specialised inputs and management control measures are required to ensure final product attributes.
- The firm dictates the specifics of the process and the farmer becomes a labourer on his land.

- This type of contracts is usually used in contract farming of poultry where the contracting firm usually provides the inputs and technical advice and the production process.
- The farmer is merely a custodian of the production operation for the contracting firm.

3.4 (ii) Marketing contracts

In marketing contracts, the farmer makes the production decisions and the firm assures a market for the farmer's crops. However, the contract specifies a quantity and a level of quality that the farmer has to ensure to be able to sell his/her crop.

Advantages of Contracting:

There are some notable benefits of contracting in agriculture and these include :

- Farmers get to know in advance the required quantity and quality of the produce to be cultivated
- Information about the price and the grade for the produce are also given to the farmer in advance
- Farmers are able to manage their crop using the requirements as targets.
- Easy to plan contract farming.
- Farmers also benefit from input packages which often include appropriate seed varieties, fertilizers, agro-chemicals, payment for labour as well as extension support.
- Some contracts include free transport of produce to Company premises.

Disadvantages of Contracting:

Despite few advantages to contract agreements, there are several limitations to contracting. Some of these limitations are:

- Contractors usually avoid very small and extremely marginal farmers. So not all farmers are able to enter into a contract.
- Certain perishable produces are limited to few farmers whom the company relies on.
- The volatility of agricultural produce and the price fluctuations in the market affect the company and the farmers.
- Farmers differ in abilities and commitment to contracts and adversely affect the company.
- The companies often default on payments since most farmers seldom go for litigation.
- Delayed payment: Companies often delay the payment to farmers who in turn suffer from financial difficulties.
- The downgrading of quality: companies sometimes purposely downgrade quality and reduce the payment to farmers causing immense loss to farmers.
- Derailment of contracts causes disruptions to farmers' production programmes.

3.5 Proclaimed Benefits of Contract Farming

It is assumed that contract farming, if well-managed, could effectively promote agricultural production and marketing. Contract farming, if efficiently organised, could also contribute to increased income for farmers and high profitability for the companies as well as reduce the risks and uncertainties centred around agriculture.

The advantages of contract farming and the degree of benefits that farmers can garner could vary depending on the conditions of market, environment, soil conditions, favourable political environment etc.

Proclaimed Advantages for Farmers[14] : The first and foremost advantage that the farmer can expect from contract farming is the contractor's guarantee to purchase the product and make payment within a stipulated time. As such contract farming creates an avenue for farmers from being exploited by middlemen. Food and Agricultural Organisation (FAO) after studying several cases on contract farming across the world, has meticulously drawn out some of the advantages of contract farming both for the farmer and the company. They are summarized below :

1. Provision of inputs and production services
2. Access to credit;
3. Introduction of appropriate technology;
4. Skill transfer;
5. Guaranteed and fixed pricing structures; and
6. Access to reliable markets etc.

(i) Provision of inputs and production services

Contract farming agreement usually involves some production support in the form of seed, fertilizer, pesticides and so on. Many contractors also provide other extension services like timely advice on watering, manuring, weeding coupled with regular field visits by extension officers, giving instructions, educating and training farmers to ensure the desired quality of the crop.

Inputs and production services supplied by the contractor are usually done on credit. Once the produce is supplied by the farmer, the contractor makes the final payment to the farmer after deducting the input and service cost. For farmers who do not have ready cash to invest during cultivation, inputs and services received on credit is a blessing.

(ii) Access to credit

Farmers in the rural areas have very little access to institutional credits. In most cases, during peak

[14] Adapted from *Eaton, C., & Shepherd, A. W. (2001). PDF [CONTRACT FARMING Partnerships for growth]. Food And Agricultural Organisation (FAO).Retrieved 13 September 2017, from http://www.fao.org/docrep/004/y0937e/y0937e03.html*

agricultural season, farmers usually depend on highly exploitative local moneylenders for credits. Contract farming comes as a solace to farmers due to easy access to credit to support production. Recently banks have come forward to lend credit to contract farmers by forming an alliance with agri-business companies. Agribusiness companies stand as a guarantor for farmers for lending credit to farmers, due to the involvement of very high cost of production.

(iii) Introduction of appropriate technology

Very often contract farming involves the use of new techniques, machinery, equipment and new methods of farming. Ordinarily, farmers are not capable of acquiring these things due to high cost. Contract farming helps farmers get access to all these and increase their knowledge and capacity to cultivate. Contractors often demand high-quality produce and higher productivity which is only possible when farmers have access to appropriate technology.

(iv) Skill development

Farmers learn new skills while engaging in contract farming which could include:

- record keeping – which traditional farmers seldom do
- efficient use of farm resources
- improved methods of applying chemicals and fertilizers
- understand the importance of quality and the characteristics and demands of export markets.

Farmers gain experience in strictly following the advice of extension service providers. Farmers also learn investment in market infrastructure and human capital, thus improving the productivity of other farm activities. Farmers often apply techniques introduced by management (ridging, fertilizing, transplanting, pest control, etc.) to other cash and subsistence crops.

(v) Guaranteed and fixed pricing structures

Getting a proper price for agricultural produce is one of the key issues that a farmer always faces. Contract farming takes away the farmers' price risk, as contracts specify prices in advance.

Prices of agricultural produce always fluctuate depending on the prevailing market prices. There is always an uncertainty associated with agricultural produce marketing. This is overcome in contract farming as farmers are already aware of the price that he would fetch for his produce.

(vi) Access to reliable markets

Traditional farmers are often constrained by the limited opportunities prevailing in the market. Thus farmers are not willing to change their farming practices or take up new crops. Contract farming gives various opportunities for farmers to experiment different crops because of the market guarantee provided by the company. It also saves farmers time from searching for buyers and negotiating price.

3.6 Advantages for Investors and Sponsors

As contract farming is becoming very popular, it has become a preferred way for agribusinesses to directly engage with farmers. As demand for better quality products rises, more and more companies are turning towards contract farming to meet the aspirations of the urban middle class. There is increasing commercial investment in agricultural retailing and processing.

(i) Control and influence over production

Unlike traditional farming which doesn't follow precise scientific methods, contract farming involves highly technical equipment and processes. As such tight control over production is required to achieve a maximum quality product. Agribusiness companies keep a close watch on the cost of production and inputs like labour, equipment used etc. Contractors also exert influence over the production process to achieve uniformity in production. Producers need to quickly adapt to increasing consumer preferences which is not possible in traditional farming. Contract farming enables the farmer to quickly learn this aspect and adapt accordingly.

There are several benefits for the agribusiness companies when they engage with millions of small farmers in India. Some of the advantages for sponsors of contract farming are summarized below:

- The uninterrupted & regular flow of raw material for processing companies,
- Protection from fluctuation in market pricing.
- Long-term planning made possible.
- The concept can be extended to other crops.
- Builds long-term commitment.
- Dedicated supplier base.
- Generates goodwill for the organisation.

(ii) Political acceptability

Land tenancy laws often prevent big companies and corporations from taking over large tracts of land from farmers. Besides, there is the Land Ceiling Act which prohibits corporations from acquiring large tracts of agricultural land. In this scenario, agribusiness companies can do business only by involving several farmers who own small plots of land. This involves the political will of the government. Contract farming is thus seen as a benevolent activity, which apparently helps the poor farmer get out of poverty.

(iii) Overcoming land constraints

Most of the agricultural land in India is owned and operated by small and marginal farmers. Unlike Brazil, United States and other countries where large tracts of agricultural land are abundant, India has highly fragmented very small landholdings. Moreover, there are legal barriers in India to prevent hoarding excessive land by a single individual. In such scenario, contract farming can only happen by involving a large number of small farmers and overcome the land constraints paused by the legal obstacles. Contract farming, therefore, offers access to crop production from land that would not otherwise be available to a company, with the additional advantage that it does not have to purchase it. Besides, land can be very expensive and difficult to obtain, thus contract farming can often be competitive, particularly for crops where large-scale economies of scale are difficult to achieve.

(iv) Quality production and risk sharing

Farming, in general, is a risky affair and subject to the vagaries of nature and therefore highly vulnerable to failure both from the side of the farmer as well as the crop. Contract farming enables the management and the farmers to understand the risks involved in the production and share them. Failure to honour the contract both by the farmer and the company is another risk involved in contract farming. Working with contract farmers enables the company to build mutual trust and ability to share the risks involved in the production.

(v) Quality consistency

Contractors demand high-quality products for their export and distribution in supermarkets. Consumers who are increasingly more aware of their food requirements, also demand high-quality products. As such, contract farmers are asked to maintain stringent quality standards while production. Companies give extra-ordinary stress on the quality and quantity of agricultural produce and thus keep tight control on the production for consistency.

4. FAO Guidelines for Contract Farming

FAO Guidelines[15] for Contract Farming is intended to serve as guidance for farmers and buyers engaged in contractual relationships, in order to promote good business practices and maintain an atmosphere of trust and respect that is essential if contract farming is to prove effective.

- The agreement should promote agricultural production and guarantee a secure market for the commodity.
- The contracts should be based on the "object" i.e. the good or service that constitutes the obligation and clearly, specifies the responsibilities i.e. "cause" of all parties involved.
- Clear Documentation with written or verbal contracts.
- Written agreements to provide clear guidelines regarding the agreed quality of products, conditions regarding prices, payment and product delivery and to prevent conflicts arising due to misunderstandings.
- In case of a verbal agreement, there should be one or more witnesses who have no interest in the economic relationship between the farmer and the buyer.
- Contracts are to be made readable while being drafted in the language with which both parties are mostly familiar.
- Text of the contract should be read aloud by a third party in cases where farmers are illiterate.
- Contracts should be concluded well in advance of the commencement of an agricultural season
- Farmers should not be pressured to agree to a contract without having first taken necessary advice.
- Buyers should have the right to cancel the contract within a designated period.
- Once the agreement is concluded, buyers should provide a copy of the signed contract to farmers.
- The contract should be transparent in all their dealings i.e. clear indication of the quantity of the commodity to be supplied, the quality standards required and the means of assessing these on delivery.

[3] Adapted from *FAO. (2012). Guiding principles for responsible contract farming operations [PDF]. Rome: Food And Agricultural Organisation (FAO). Retrieved 10 September 2017, from http://www.bibme.org/bibliographies/184218052?new=true*

- Terms and conditions for the eventual supply of production inputs to farmers should be clearly outlined in the contract. Criteria for product price determination and their means of verification should also be specified clearly.
- Contracts should establish the contract duration and conditions for termination, i.e a written notice of termination within a reasonable time period.
- Transparency in price determination and payment procedures, a price that is mutually satisfactory, and that both sides strictly honour this agreement.
- Contracts should clearly disclose any charge or deduction that may affect the net amount paid to the farmer under the terms of the contract.
- Contracts should also provide transparency on information regarding the costs of any inputs and services to be supplied.
- The contracts should make provision for re-negotiability of prices in case of large differences in prices.
- The contracts should indicate the type of production process recommended for farmers and the post-harvest handling materials to be used, specifying which party will supply them and their price.
- Buyers should strictly adhere to agreed commodity grades and should promote fair and transparent ways of assessing the quality of products delivered. Farmers and their representatives should have the right to be present at the time of delivery and receive a full explanation, in the event of any rejection or downgrade
- The contract should stipulate which party will be responsible for supplying and applying farming inputs.
- Where contracts envisage the supply of inputs (i.e. pesticides, fertilizer, seeds, fuel, veterinary inputs, feed, etc.), before the start of each season all inputs should be identified and ordered well in advance of farming operations such as sowing, transplanting or livestock breeding.
- The contract should have a provision for renegotiation and no one party should bear the liability in cases of natural or man-made disasters, which can be classified as force majeure that cause farmers or buyers to be unable to meet the conditions of the contract.
- Renegotiation should be based on the principle of equal sharing of the costs, or benefits, arising from the event classified as force majeure.
- Contracts should not prohibit or discourage farmers from associating with other farmers to compare contractual clauses or to address concerns or problems

- Buyers should not engage in retaliatory or discriminatory practices against farmers. In order to maintain trust and respect, they should ensure transparency and fairness during the buying process.
- Buyers should avail all necessary information to the farmers to enable them to plant, grow, harvest and deliver the products and provide a guarantee to buying the agreed products.
- Farmers should not indulge in counterfeiting the contract by indulging in the illegal sale of the product under contract to other sellers. And the buyers should also not renege should the market conditions change.
- Open dialogue is considered necessary as lack of communication can promote misunderstanding between the parties under contract. They should meet and clearly understand the management programme and duties that each party needs to undertake.
- Both parties should agree to a neutral third party in case of disputes.

5. Foreign Direct Investment (FDI) and Agriculture

Foreign Direct Investment (FDI) is the capital flow into the county from another country for investments in various sectors to increase productivity.

5.1 Why FDI in Agriculture?

The agricultural sector in India is currently under severe crisis. There is a sharp deceleration in the agricultural sector despite an overall impressive growth of the Indian economy. This is a major cause of concern since more than 50% of the population depend on agriculture for livelihood. Therefore, to save agriculture and improve the plight of farmers, one of the steps the government took was to alleviate the agrarian crisis is allowing FDI in agriculture.

Some of the proclaimed positive aspects FDI in agriculture would bring are :

- FDI in agriculture and retailing would enthuse flow of capital into the rural economy and promote the welfare of the rural population. Farmers' income would grow along with growth in agriculture.
- Infrastructure and storage facilities are two important things that rural areas lack in most parts of India. FDI flow into agriculture would promote these and consecutively farmers would be able to sell their produce at a higher rate.
- FDI would boost domestic manufacturing industry. Since foreign retail companies would have to source at least 30 percent of the commodities from the local small and micro industries.
- The minimum investment limit has been set at US$ 100 million for foreign companies, out of which at least 50 percent must be used to improve transportation, distribution, storage, and packaging facilities, and develop farm allied infrastructure.
- Due to the FDI inventiveness, the concept of the middleman, which has dominated farmers in India for decades, can be eradicated and farmers can now get the full benefit of their produce.
- FDI would facilitate employment opportunities in sectors such as transportation, packaging, agriculture processing.
- Initiate technology transfer, better working skills and higher productivity.
- It could be a catalyst for value addition and diversification of production to usher higher export and revenue generation and increase domestic investments.

5.2 Impacts of FDI in Agriculture

The benefits of FDI in agriculture have been criticised by economists, scholars and trade experts by citing experiences from other parts of the world where FDI has been active, have shown that there is no clear link between FDI and development in the long run and country's social protection, labour laws and provision of essential services could be severely affected.

Agricultural economy, the livelihood of half of the population of India, agriculture-related sectors like animal husbandry, retail and trading of food items could lead to consolidation of multinational corporations' hold on market. Large-scale land grab would occur and would push small and subsistence farmers and agricultural workers to the vulnerability of the corporate control. There could be more distress among farmers, increased number of farmer suicides and migration to urban areas.

Despite severe criticism from various quarters, India liberalized its FDI policies for almost all major sectors including agriculture and retail. Many of India's business sectors are now open to FDI and some sectors in agriculture and allied are allowed up to upto 100 percent FDI under the automatic route. The plantation sector namely tea, coffee, rubber, cardamom, palm oil tree and olive oil tree are in the category of permitted items.

The agricultural sector has been attracting FDI in India for several years. FDI inflow during the last 4 years from 2013-14 to 2016-17 (till September 2016)[16] in the agricultural and allied services sectors was around US $ 250.48 million.

The FDI policy also comes with its share of disadvantages:

- Small retailers, hawkers and vendors might suffer a huge loss as multinational brands like Wallmart, Teso, Amazon would wipe out a big chunk of small traders and petty shop owners.
- Most of the manufacturing units in many parts of the country are being automated to cut costs and would hardly create much employment opportunities.
- Most farmers and agricultural workers are illiterate/ semi-literate or just literate and may not be qualified to work in big multinational companies. Thus jobless growth would continue to hit the country.
- Although for foreign companies, the government has capped the sourcing of commodities from the domestic market at 30 percent, the rest of the 70 percent could be outsourced from international markets.
- Increasing competition from international companies would weaken local small retailers.
- As the foreign brands will be available at a larger rate, the consumer's inclination towards international brands might affect the country's in-house brands.
- FDI will drain out the country's share of revenue to foreign countries which may cause a negative impact on India's overall economy.
- Foreign companies could play monopolist and force farmers to sell at a lower price.

6. Contract Farming and Food Security Issues

The general presumption about contract farming is that it supports farmers with higher income, provide greater employment opportunities, enable farmers access to larger markets, empower them with new technologies and modern farming methods. In reality, the ground level practices are far from this utopian state of affairs. One of the most urgent issues that contract farmers, especially the small and marginal farmers always confront while engaging in contract farming is concerns about food security. The question that immediately arises is whether contract farming resolves concerns of food security.

Agricultural production in India is largely managed by a vast majority of small and marginal farmers on tiny plots of land. When these farmers enter into contract farming they move away from traditional farming practices that involve food crops for own consumption. The surplus production is disposed off to earn money for further investment in agriculture.

Contract farming involves cultivation of cash crops or exotic crops which are not primarily meant for farmers own consumption but to be sold off to agribusiness companies, meant for processing and export.

Large farmers who engage in contract farming are often financially fit to buy food from the market or would have enough land set aside for the cultivation of staple food crops. Therefore contract farming in most cases become a profitable activity for them. Whereas, small farmers who indulge in contract farming are not in a position to do so. Engaging in contract farming would mean setting aside their small plot or plots of land and other resources for the company. Thus they would have to depend on the market for their own food. In such a scenario, the food security of contract farmers would be a major concern.

Due to the high profits associated with value-additions, agribusinesses are majorly interested in the growth of cash crops and exotic crops other than subsistence crops. As a result, cultivation of basic staple food crops would be neglected and major food crop growing areas would shift to contract farming.

In the long run, the whole contract farming process would severely hamper food security of many small farmers. Critics of contract farming claim that diversion of large tracts of land meant for staple food production for contract farming would disrupt subsistence production, hence, it would lead to exploitation of farmers who would now have to depend upon the market for food crops.

Increased tie-ups with multinational companies to cultivate exotic and cash crops are becoming a trend in several States. For example, in States like Maharashtra, Karnataka and Andhra Pradesh several companies have tied up with firms in the Middle East and the US for the cultivation of bananas, pineapples, grapes, rice and sugarcane, gherkins etc. The produces from these farms are directly exported to the U.S and other Middle Eastern countries.

The small farmers in these contract farming ventures become bonded labourers in their own land, trying very hard to bring out the desired quantity and quality of produce that they will not consume. Thus, the food crops available for a majority of the population are likely to fall with widespread of contract farming.

The increasing popularity of contract farming is quickly displacing subsistence farming and thereby creating far-reaching implications not only on the cheap and easy availability of food but also the issues related to nutrition, especially for women and children who are more vulnerable to undernourishment. Research studies related to the food security issues of contract farming has shown that the insistence of agribusiness companies on mono-cropping has led to the replacement of staple food crops by cash crops.

India is quickly transforming its agricultural landscape from a surplus food producer to major food importer. Despite the claims of bumper harvests year after year, India has been importing food at a steadily high rate, especially the essential food items like wheat, maize, edible oil, pulses and non-Basmati rice.

Reports on the import of food items show that there has been a huge spike in essential food items in India. Total spending on cereals like wheat, maize and non-basmati rice, show a huge upward jump from a mere Rs 134 crore in 2014-15 to Rs 9,009 crore in 2016-17. Similarly, India had imported a total Rs 5,897 crore worth of fruits and vegetables during the year 2016-17.[17] This is despite the fact that we are one of the largest producers of fruits and vegetables in the world. Similarly, total import of edible oils also shows a spike from 9,981,000 tonnes in 2011-12 to 14,571,000 tonnes in 2015-16.[18]

Access to cheap and essential food items is an important aspect of everyone's life. When large tracts of fertile agricultural land are quickly becoming contract farms in the hinterlands of India, the food security of small and marginal farmers and agricultural workers are going to be challenged. Yet, agribusiness companies often lure farmers with incentives and encourage farmers to switch over to contract farming and abandon traditional food crops. Thus farmers risk the food security net of not only their families but also the landless peasants who depend on agriculture for livelihood.

Ensuring food security not only in the rural areas but also in the urban areas is going to be a major challenge unless the government bring it policy changes that would ensure proper food supply of

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[17] *Singh, Ajeet & Jitendra. (2017). "Rs 1,402,680,000,000 – India's Agrarian Import Bill for 2015-16." The Wire. Retrieved September 16, 2017, from https://thewire.in/157527/india-agrarian-import-bill-2015-2016-farmers/*

[18] *http://www.thehindubusinessline.com/multimedia/dynamic/03081/chart_3081355f.jpg*

food to everyone. If the contemporary situation of contract farming continues for a long time, the food security of the nation is going to be in great crisis and could soon turn the country into a total food importer.

Evidence from other countries in Africa and Latin America reveal that the contemporary contract farming schemes are not suitable development model to tackle poverty and hunger. Contract farming in the longer run would ruin small farmers, deplete soil nutrition and exhaust the food security net. Therefore, government policies should be aimed at investing more in agriculture and the food safety net of poor, marginal, subsistence farmers and landless agricultural workers and support sustainable farming methods to achieve food security in order to remove poverty from India.

7. Financial Institutions and Contract Farming

Financial Institutions play a major role in agricultural development by supporting farmers with necessary fund requirements to carry out the agricultural activities. Rural development banks, national banks, cooperative banks, have been lending to farmers for various agricultural activities. Lending institutions both public and private banks play a major role in contract farming.

Financial institutions role in agricultural commodity chain are as follows:

a) Direct Lending: The Bank lends to a farmer directly for carrying out agricultural production;

b) Indirect Lending: Lending is done through a buyer or aggregator;

c) Buyer guaranteed Lending: Banks lend to farmer against a guarantee by the buyer that loan will be repaid after deducting from the value of the agricultural produce sold to the company by the farmer. This form of lending is very common in sugar cane and dairy contract farming.

7.1 Banks and Contract Farming

Financial institutions have come forward in the arena of contract farming with an array of schemes and programmes. Many public and private sector banks help companies to meet their agricultural goods export and import requirements. Banks also act as a medium for delivering government-sponsored schemes and subsidies for agricultural activities both from Central and State governments.

7.1(i) Banking institutions providing credit / finance to farmers for contract farming projects

ICICI Bank, UTI Bank, IDBI Bank are among the banks that are providing finance for contract farming. The financial assistance given by private banks for contract farming is called "Corporate linked agri-finance".

The crop loans are given for a crop cycle with one or two months time for the farmer to harvest and sell his produce. Hence in most of the cases, the period is about 6 - 8 months except for sugarcane where the period could be up to 18 - 24 months based on the nature of the crop either eksali or adsali.

Repayment of the loan is usually fixed towards the end of the harvest season. When the contracting company stands as a guarantor to the farmer for availing bank loans, the repayment of the loan follows a set pattern. When the farmer supplies the produce to the company, the loan amount is deducted and the balance is paid to the farmer.

In case there is a crop loss due to inclement weather or natural calamities, the farmer usually ends up suffering the heavy loss.

The model has been very successful in the niche crops like sugarcane, tobacco, etc., where it is in a way bound to be sold to the respective corporate. It has not been that successful in grain crops because of the non-delivery risk. Many of the projects they have finance have been successful and shows productivity improvements ranging from 5 -15%.

A few of the companies that have linked with banks to facilitate (credits) loans to farmers for contract farming are Rallis, HLL, Cargill, Sugar companies, Gherkin companies, Cotton ginners like Appachi, Tobacco board, Pepsi, etc.

Indian Overseas Bank has been lending to contract farmers for jatropha oil extraction in the State of Odisha. The bank sees immense potential in the bio-fuel sector and has massive plans to extend it to other States like Andhra Pradesh, Tamil Nadu and Maharashtra.

State Bank of Mysore has been lending to farmers for contract farming in the State of Tamil Nadu. It has tied up with a Coimbatore based Suguna Poultry Farms to finance poultry contract farming initiatives.

ICICI Bank was one of the first private banks to pioneer contract farming in India. The bank had a joint venture with Hindustan Lever Limited and Rallis for its agricultural lending projects.[19]

ICICI Bank Ltd's Initiative in Financing Contract Farming in Agriculture is spread across Uttar Pradesh, Madhya Pradesh, Punjab, Tamil Nadu, Andhra Pradesh, Maharashtra and Karnataka and include financing several agricultural produce such as Basmati Rice, Wheat, Maize, Sugarcane, Cotton, Pulses and Fruits and Vegetables.

7.1 (ii) NABARD's initiatives in contract farming

National Bank for Agriculture and Rural Development (NABARD) an apex development financial institution in the country, has been operating in the field of credit for agriculture in rural areas. Nabard has made substantial contributions to contract farming such as:

- Financial Interventions,
- Special Refinance package for financing farmers for contract farming,
- Term facility for repayments (3 years),
- Fixation of higher scale of finance for crops under contract farming,
- Extension of refinancing scheme for financing farmers for contract farming,
- Financial coverage for contract farming medicinal and aromatic plants.

[18] *http://www.business-standard.com/article/finance/banks-bet-big-on-contract-farming-108043001055_1.html*

TABLE 3 : NABARD supported Contract Farming projects in various States[19]

State/ Institution	Nomenclature of the Scheme	Short Details of the Scheme	Benefit to Farmers/ Benefit to Private House	States/Districts where it is being implemented
1. Assam				
Hindustan Paper Mill	Area Development Scheme	The Scheme envisages cultivation of Bamboo on wastelands.	Farmers would be benefited in terms of production and income	8 Districts of Assam– Cachar, Hailakandi, Karimganj, Nagaon, Kamrup, Morigaon, Udalguri and Darrang
2. Bihar				
i). Sarvodaya Krishak Sewa Swablambi Sahkari Samiti ii). Doon Valley through Aditya Kumar, entrepreneur	Seed production Basmati rice	Minimum Rs. 100 per quintal Assured procurement	Rs. 100 per quintal to Samiti Crop grown through organic farming methods prescribed by it.	Ara District Munger district
3. Chhattisgarh				
MSSL Mahindra Krishi Vihars		Supply of quality inputs, technical guidance, buy back of produce at pre decided price.	Assured availability of quality produce in required quantities at pre decided rates	Chhattisgarh
4. Himachal Pradesh				
Himalayan International Limited	3 herbs being cultivated	Assured purchase of crop by the company at a prefixed price	Assured supply	Paona block of Solan district
5. Karnataka				
i). M/s Bharati Associates ii). M/s Sai Agro Tech	Gherkin Processing	Assured market, good price, 1000 farmers benefited.	Assured supply of quality produce	Hassan, Karnataka Kolar, Karnataka
6. Madhya Pradesh				
i). ITC Ltd.	e-Choupal for Soybean and Wheat	Information on best agricultural practices Supply	Availability of quality Soybean & Wheat at reasonable	Madhya Pradesh

[19] *http://agritech.tnau.ac.in/horticulture/contract%20farming.pdf*

		of farm inputs Supply of information on weather forecasting Price discovery of commodities	prices to ITC Ltd. for captive consumption	
ii). Hindustan Lever Ltd.	Wheat (Durum & Sharbati wheat)	Supply of Farm inputs	Availability of quality wheat at reasonable prices for captive consumption	Madhya Pradesh
iii). Cargill India Pvt. Ltd.	Wheat (Durum & Sharbati wheat)	Supply of Farm inputs	Availability of quality wheat at reasonable prices for captive consumption	Madhya Pradesh
iii). Rallies India Pvt. Ltd.	Wheat (Durum & Sharbati wheat)	Supply of Farm inputs	Availability of quality wheat at reasonable prices for captive consumption	Madhya Pradesh
iv). Reliance Bio-Sciences Ltd.	Aromatic Oils (Lemon Grass, Palmarosa, Citronella Tulsi)	Purchase is affected through traders. No direct benefit to farmers.	Availability of aromatic oils for export purposes	Madhya Pradesh
7. Punjab and Haryana				
i). Tata Chemicals	TATA Kisan Sansar (TKS) through TATA Krishi Vikas Kendra (TKVK)	Enhanced farm productivity & income	i) achievement of leadership by delivering value to agriculture ii) Social engineering through community service iii) Serving as a complete solution provider to farmers and building lasting relationship iv) establishment of new identity and brand image v) Increased sale of company's products (fertilizers, chemicals etc.) leading to enhanced revenue	TKVK set up in Sunam in Sangrur district of Punjab and proposed to cover 2700 villages in Punjab & Haryana

ii). Vardhaman led consortium of spinning mills of North India and State Bank of Patiala	Village cluster adoption programme	i) Productivity of cotton increased from 4.6 quintals in 2002-03 to 9.6 quintals per acre. ii) Expenditure reduced from Rs.7995 per acre in 2002- 03 to Rs. 7112 in 2003- 04.	Increased production & hence better capacity utilization of plants & machinery.	Bathinda & Muktsar districts of Punjab
8. West Bengal				
M/s Fritoley India	Cultivation of Processab le Grade potato (with low sugar contents)		Farmers get all critical inputs through the company at right time in right quantity. Further, they also get technical knowhow from the company. Company get assured supply of the raw material, as the key input supply is under their regulation, the quality of the raw materials are more or less as per their specification	Hooghly, Bardhaman and Medinipur (West) of West Bengal State.
9. Maharashtra				
i). Tata Chemicals Ltd.	Grapes - Nashik district	i) Assured quality of grapes for export and improving brand band name 'Tata Grapes"	i) Easy availability of crop loan (Rs.55000/- acre). ii Availability of technical knowhow and supply of required inputs iii. No marketing problem for farmers. Farmers are also resorting to direst sale whenever local processes are attractive.	i) Scheme implemented through SBI.
ii). S. H. Kelkar Group of companies	Patchouli (Aromatic oil plant)	i) Availability of tissue culture planting material ii) Marketing facility by the company	Availability of assured quality raw material	Ratnagiri & Sindhudurg districts

iii). Champagne India Limited	Production of grape wine - Pune district	i) Easy availability of planting material (@Rs.65-70/-)	Assured supply of quality raw material	2500 acres of Wine grapes under contract
iv). Venkate shwara Hatcheries Pvt. Ltd.	Contract Broiler Farming in Maval Block of Pune district	i) Technical inputs and market product is assured. ii. All recurring expenditures are borne by the company	Assured availability of marketable product. The Company is saving on the investment cost as well as management cost	i) Being implemented through Pune DCCB. ii) 120 units of 5000 birds each are envisaged

7.2 Problems of Finance in Contract Farming

To improve agricultural financing and to better the lives of small farmers, financial institutions need to take into account the real issues faced by small and marginal farmers. Otherwise, agricultural sector would continue to face a lot of problems both for producers and banks and the buyers.

Some of the most common woes faced by agricultural producers while dealing with financial institutions are:

- High collateral requirements – Banks demand security pledges for repayment of loans. Farmers find this as a big problem.
- Product unsuitability – Sometimes farmers take to contract farming due to extreme financial problems. Even when the produce is not suitable for staple food needs.
- Complex documentation – Banking documentation for lending is extremely complex.
- Small loans not interesting to banks – Banks often do not prefer extremely small loans due to cumbersome paperwork and the amount involved is too low. Banks often prefer large lending.
- High borrower transaction costs – Transactions in getting a loan from bank is often high and poor farmers find them difficult to manage
- Farmer collectives not readily acceptable to banks

Banks also face problems while lending to farmers such as:

- High transaction and risks costs in small agricultural loans
- Market risks high in agricultural value chains
- Seasonal and cyclical factors
- Farmer collectives under-capitalised, lack professional management
- Staff skills in value chain financing low
- Difficulty in marketing innovative products

8. Impacts of Contract Farming in India

The major argued benefits of contract farming are that it will lead to value-addition, improve the productivity of the agricultural sector in India by technology transfers, will fulfill the lack of institutions for access to credit to small and marginal farmers and will lead to a major reduction in risks for the farmers.

Although the advance of contract farming has been shown as highly beneficial to farmers in harnessing higher income, the reality of contract farming is far from these theoretical benefits. Contract farming has led to several practical problems and adverse impacts. Because of the fluid nature of the structure of contract farming practices in India, farmers often do not receive a major share of the value of the produce.

Delayed payments to farmers, untimely delivery of produce to factories are some of the major issues faced in contract farming. The practice of monopsony, lowering the quality of the produce, rejection of produce, last minute price fluctuations, crop failures, natural calamities etc., are some of the major hurdles that farmers often confront while farming.

Due to the lack of institutional intervention to ensure a fair play by all stakeholders, the full benefits of contract farming has not percolated to the farmers in many regions of the country. Contracting companies often prefer large farmers and their reluctance to deal with subsistence farmers and backward communities in the social strata often end up creating economic disparities in the rural areas. The contracting companies motivated to harness maximum profit are not interested in the holistic development of rural areas.

Some of the major issues due to the impacts of contract farming emerging in India are:

1. Labour issues: Women and Children
2. Chemical inputs and Impact on Environment
3. Contract disputes
4. Exploitation of labour and middlemen influence
5. Preference for Large farmers and Exclusion of small and medium farmers

8.1 Labour Issues : Women and Children

In modern agricultural practices, although women play a major role, their participation varies from crop to crop. For example, in tea plantations, women perform almost half of the tea production work, like weeding, watering, plucking fresh tea leaves, sorting, grading, labeling and packing. Similarly, in cotton cultivation also women are employed in plucking cotton bloom, cleaning, sorting, removing seeds etc. In oilseeds cultivation, vegetable production, floriculture etc, the participation of women and children are more than 50 percent. Thus, women are an essential part of agriculture and food production.

- ***Women and contract farming***

  Even though the agricultural scenario is rapidly changing in India, in the arena of contract farming, the participation of men and women are not equal. Women's participation in contract farming and they perform weeding, pollinating, trimming, sorting, packaging, freezing, canning etc, often considered as 'delicate tasks'. The contractors employ more women and children in contract farming also as a cost-cutting measure, and women are paid less than men with prohibitive conditions to organise and increase their bargaining power. Thus women have to confront extreme disadvantages in terms of wages, land rights, and representation in local farmers organisations which are mostly dominated by men.

- ***Signing of contract***

  Contract farming involves a contract agreement between the buyer and the farmer. As regards the selection of farmers for contract farming is concerned, companies prefer to have the contract signed by male farmers than female farmers. Land titles in India are usually held by men and thus companies select male farmers. In certain cases even when the land title is in the name of the woman, companies look for a male member of the family to sign up the contract. Women are not preferred for signing contracts since in most cases they do not have the land rights and easy access to lending institutions.

- ***Children and contract farming***

  As per the National Sample Survey Organisation (NSSO) survey 2009-10, the working children are estimated at 49.84 lakh as against 90.75 lakh in 2004-05. Children are rampantly used in contract farming since they are a source of cheap labour and have no bargaining power. Children employed in contract farming work in arduous conditions, work longer hours and are paid less than other workers.

  Cottonseed cultivation which is predominant in the State of Andhra Pradesh is mostly on contract. Thousands of women and children especially girl children as young as six, often work for 10-12 hours every day in these contracted farms. Girl children are employed for manual emasculation and cross-pollination work.

  During the year 2006-07, around 4,14,390 children, mostly girls were employed in cottonseed farms in India. More than 50% of these children were below 14 years. Apart from being employed by contractors, many children also work in the cottonseed farms as part of the family work.

  In the cotton seed farms, child workers are always paid less than the minimum wage. Despite clocking long hours of work, these children do not enjoy any benefits of being a worker. In case any health issues crop up at the workplace, the sick children are just removed from the farm without giving any medical assistance. A new set of children replaces the sick ones immediately to continue the work. The children working in the cottonseed farms are exposed to multiple dangers and health issues. They also miss out on schooling and other parental care. After working in the hot sun for several hours every day, children often reported of severe headaches, weakness, convulsions and respiratory depression.

8.2 Chemical Inputs and Impacts on Environment

Some of the chemical inputs that go into the commercial production of food crops are Nitrogen, Phosphate, and Potash besides pesticides and herbicides. In contract farming too, these chemical inputs are used rampantly. Farmers eager to get a higher output often apply them excessively. Excessive use of chemical fertilizers not only degrades the soil quality but the particles escape into the air through evaporation, leach into groundwater and surface water resources.

A whole range of agrochemicals used in contract farming can be broadly classified into five types:

- Insecticides: For protection of the crops from the insects and control pest population
- Fungicides: To protect the crops from the attack of fungi
- Herbicides/ Weedicides: To kill undesirable plants.
- Bio-pesticides: Crop protection products manufactured from plants, animals and minerals
- Others like Fumigants, Rodenticides, Plant growth regulators etc: To protect the crops from pest attacks during crop storage. Plant growth regulators help in controlling or modifying the plant growth process

Insecticides and herbicides are largest sub-segment of agrochemicals in India and have a fast growing market share in the agrochemicals production. Pesticides, herbicides, fungicides are also heavily used in contract farming to increase crop yield. But these chemicals and pesticides can also harm humans, animals, and beneficial organisms.

States of Andhra Pradesh, Telangana, Maharashtra and Punjab are at the top of pesticide users in India. These States also contribute to the largest contract farming in India.

Unrestrained and unethical use of pesticides and other agrochemicals have bred a lot of problems for agriculture, environment and human and animal health. Indiscriminate pesticide use over the last several decades has almost completely destroyed the natural predator base that otherwise protects agricultural crops naturally. Besides, pesticides generally kill not only the harmful pests but also friendly pests that come into contact as well as it also destroy thousands of microorganisms that are benevolent for the plants and the soil.

Another drawback to the increased pesticide use is the development of resistance in pest species.

The individual pests that survive pesticide applications continue to breed, gradually producing a population with greater tolerance to the chemicals applied.

- ***Impacts of agrochemicals on contract farmers :*** Farmers in their eagerness to earn more income often do not bother to check the impacts of pesticides on their health. Even when they notice some health issues either they ignore them or just don't do contract farming.

  The larger issues related to the impacts of chemicals and pesticides are not attended by the government or contractors. Thus in the longer run, contract farming could adversely impact farmers and the environment.

- ***Impacts on Environment :*** Some of the threats posed by the use of agrochemicals are:
  - Ecological damage
  - Genetic erosion and
  - Threat to human health
  - Destruction of natural predator base
  - Threat to animals, fishes and birds
  - Destruction of water bodies such as rivers, lakes and oceans

  In order to protect nature and its resources from chemical contamination, some appropriate measures need to taken to control the indiscriminate use of them.

- ***Soil Degradation :*** Heavy input intensive contract farming processes lead to changes in the traditional practices employed on farms and may affect the soil negatively. Soil erosion, which is the removal of the top and the most fertile layer of the soil, renders the land fallow and not suitable for further cultivation. If the cropping patterns are not rotated, soil could lose its fertility due to loss of essential nutrients.

8.3 Contract Disputes

Unlike other countries, there are no standard legal procedures in place to resolve contract disputes in India. Failure to honour contracts is a major problem associated with both firms and farmers. Successful farming contracts require a long-term commitment by both parties i.e. agribusinesses and farmers.

Not only the companies but farmers also tend to violate the contracts in various forms such as extra-contractual marketing: Farmers may use the credit arrangements to sell produce to other buyers (apart from the sponsors) or may divert the inputs to other uses. This creates a moral hazard and dissuades the companies from issuing advances to the farmers and keeping them to the bare minimum.

Some problems faced by the farmers from companies include early termination of contracts, manipulation of inputs, under-weighing, false representations of earning-potential of the contracting scheme, non-payment, delayed payment, bonded contracts and quality based rejections.

Problems faced by sugarcane contract farmers in Odisha : Farmers in Odisha have been engaged in contract farming of sugarcane cultivation due to assured income and access to better markets. Recently, a study conducted on the impacts of contract farming in Odisha has found out that the companies often do not commit to the agreements made in the contract. Extensions services agreed in the contract are often not obliged by the company. Farmers also faced difficulty in arranging credits on time for farm mechanization and irrigation. There were also loopholes in the measurement of sugarcane produce. Many farmers expressed their angst about delayed payment.

Delayed payment, the downgrading of produce and lowering the price are some of the most common problems faced by contract farmers in Punjab, Haryana, Tamil Nadu and Karnataka. Farmers also expressed concern regarding the high priced inputs such as patented seeds and costly pesticides.

8.4 Exploitation of Labour and Middlemen Influence

In contract farming there exists an unequal power relationship between the powerless growers and the powerful, “well-connected” company which is manifested in the several layers of production chain.

The procurement of agricultural produce under contract farming in India typically involves middlemen. The involvement of middlemen could be traced to the Model APMC Act 2003. Since agriculture is a State subject, all the States in India were asked to formulate their own model of APMC Act. The ACT stipulates that the State is divided into agricultural marketing zones or mandis, which is to be controlled by the appointed committee which had licensed traders with the right to procure the produce from farmers. These traders acted like middlemen.

The State-controlled APMC Mandis later evolved into middlemen controlled monopoly who tend to undervalue the crops. This, in turn, led to lower price for the farmers produce and thus, exploitation of labour.

One of the reasons for the distress among farmers is due to the low price they get for their produce. Agricultural markets in India are both inefficient and imperfect. Because of this farmers only get a very low share of the price a consumer pays to buy it. Since the agricultural commodity chain involves several layers of middlemen who make huge profits, farmers end up receiving only a fragment of the final price. Several crops like Potato, cotton, sugarcane, pulses, onion etc., farmers end up making a net loss in some regions. This is despite the fact that traders of these commodities make significant profits.

Contract farming involves exploitation of labour since farmer in his land becomes a mere producer for the company and just treated as a hired worker on his own land.

Contracting companies do not absorb the risks associated with external factors. In the event of natural calamities or high pest attack, crop loss etc., farmers are left to fend for themselves. Even in the case of inputs such as seeds provided the company turn out to be inferior quality farmers are bound to bear the loss. Thus contract farming involves very high risks for farmers.

8.5 Preference for Large Farmers; Exclusion of Small and Medium Farmers

Contractors prefer large farmers to avoid high transaction cost involved in handling too many small and marginal farmers. This would also mean increased administrative costs, more paperwork and would also involve more administrative staff and extension officers to deal with hundreds of small and marginal farmers.

Nevertheless, the companies do have an incentive to use small and medium farmers in the cultivation of certain crops which are highly labour intensive. For example, Gherkin production in Karnataka and Andhra Pradesh involves both small and large farmers. Marginal farmers can also successfully produce high quality produce if given proper education and technical advice.

Small and marginal farmers have lower bargaining power and are more spread out and thus, cannot form an effective lobby to the government. Companies also earn huge profits by selling high priced inputs such as seeds, chemicals and other technical advice.

Studies conducted on the impacts of contract farming in countries across the world have shown that contract farming successfully happens in those areas where commercial agriculture is already happening and have sufficient infrastructure built in place. The study also revealed that contractors often only tie up with middle and upper-class peasants who already have substantial incomes.

A study conducted on the impacts of contract farming among small landholders in Africa reveals that companies usually invited small farmers who are from higher social strata or have higher wealth in rural areas. Another alarming fact that surfaced in the study is the transformation of small-scale farmers into wage-earning farm workers on their own land. This could later lead to loss of control over land and the right over farming, but also change farmers into agricultural workers without the real benefits associated with a worker in a company.

8.6 Limitations of Contract Farming

Theoretically, farmers stand to gain from contractual agreements that provide lower transaction costs, assured markets, and better allocation of risks. On the other hand, contracting firms have the advantage of more assured supplies, and reasonable control over quality and other specifications. However, in practice, there are practical problems that emerge in agricultural contracting that can result in losses to both farmers and firms. 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 other countries. Lack of enforceability of contractual provisions can result in breach of contracts by either party. In India, there have been instances of farmers refusing to sell to contracting firms when market prices exceed the contract price, and of firms refusing to purchase contracted quantities or pay contracted prices due to market conditions. Neither the contracting firm nor the farmers are keen to contest these issues in a court. Most often, it is mutual understanding and faith that drives contractual relationships and it takes a long time to win mutual trust and confidence.

9. Spread of Contract Farming Practices in India

Today we are witnessing an ever increasing corporate presence in the Indian agricultural scene in India. Agri-business companies have penetrated almost every aspect of agricultural production and have massively transformed the agricultural landscape. From rural farm to the urban malls and the international markets, the wide variety of foods and value added products that we consume today are being produced by thousands of contract farmers across the country. Contract Farming is fast catching as an alternative marketing in the country. States like Karnataka, Punjab, Karnataka, Maharashtra, Madhya Pradesh, and Tamil Nadu are at the forefront of this new agricultural revolution. Below is an illustrative list[20] of contract farmed products and the companies involved in different parts of India.

State	Crops	Company/Corporate
Karnataka	Ashwagandha Dhavana Marigold and Caprica chilies Coleus Gherkins Medicinal Plants	Himalaya Health Care Ltd. Mysore S.N.C. Oil Company AVT Natural Products Ltd. Natural Remedies Private Ltd. 20 Pvt. Companies Sami Labs Limited, Bangalore
Maharashtra	Soybean Fruits, vegetables, cereals, spices and pulses Potato Sugarcane, Orange Onions	Tinna Oils and Chemicals Ion Exchange Enviro Farms Ltd. (IEEFL) M/s Mahindra Sulabh Cooperative Societies Jain Irrigation Systems Ltd.
Madhya Pradesh	Wheat, Maize and Soybean Fruits, vegetables, cereals, spices and pulses Soyabean Soyabean Garlic and White onion	Cargil India Ltd. Ion Exchange Enviro Farms Ltd. (IEEFL) ITC-IBD M/s Mahindra Sulabh M/s Garlico Industries Ltd.
Punjab	Tomato and Chilly Barley Basmati, Maize Basmati Basmati, Groundnut, Potato and Tomato	Nijjer Agro Foods Ltd. United Breweries Ltd. Satnam Overseas Sukhjit Starch (Mahindra Shubhlabh Services Ltd.) Satnam Overseas, DD Intl. Incorp., Amira Food India Ltd. (Escorts Ltd. and Grain tech) PepsiCo India Ltd.

[20] *http://www.ncap.res.in/contract_%20farming/resources/16.1%20rcajain.pdf*

	Green vegetables and exotic vegetables	Punjab Agro Foods Park Limited, a joint venture of Punjab Agro Export Corporation and IDMA, a corporate body
Tamil Nadu	Cotton Maize Paddy Cotton Marundu Koorkan (Tamil) (Medicinal Plant) (Coleus Forskholii) - Maize, Gherkins	Super Spinning Mills Bhuvi Care Pvt. Ltd. Bhuvi Care Pvt. Ltd. Appache Cotton Company - M/s Mahindra Sulabh
Chhattisgarh	Safed Musli Tomato	Ms Larsen and Toubro BEC Co.
Uttarakhand	Guar Gum	M/s Mahindra Sulabh
Haryana	Turmeric, Mentha, Sunflower, White Musli	HAFED
Andhra Pradesh	White Viagra Fruit, Vegetables and flowers Gherkins Cocoa Oil palm	Nandan Farms (P) Ltd., Hyderabad Joint venture Spearhead National Products SARI of Switzerland Horticulture Department 1. Aduri Natural products 2. ACE Agrotech 3. Copricorn Natural products and 4. Mahendra and Mahendra Cadbury India Ltd. M/s Godrej, Palm Tech., SICAL, Simapuri Industry and Radhika Vegetables Oil Industries.
Gujarat	Processing of Medicinal Plants and Alovera	Reliance Group
Orissa	Seeds (Paddy, Raggi, Green Gram, Arhar, Groundnut, Seamum, Niger and vegetables seeds	Orissa Seeds Production Corporation
Sikkim	Spices Orange	M/s High Altitude Spices Rabongla M/s Bulk Consumer, Government Fruit Preservation factory, Singtom.
Kerala	Pineapple Safed Musli, Steevia	M/s Agreenco, Paliikunnu, Kanur M/s Herbs India, Calicut
West Bengal	Potato Pineapple	M/s Fritto India Ltd. M/s Dabur India Ltd.

10. Experiences from the Field

10.1 Punjab

Fazilka is one of the 22 districts of Punjab where wheat, paddy, cotton and oilseeds are cultivated in a major way. Punjab is one of the first States in India to experiment with contract farming and the practice has spread to most parts of the State. Fazilka has more than 2000 contract farmers engaged in the cultivation of paddy, cotton seeds, vegetables, Basmati Rice and so on for various companies.

Abohar a small town in Fazilka district where Focus on the Global South had its interaction with farmers doing both contract farming and conventional agriculture. During the interaction, several issues related to agriculture surfaced.

Contract Farming Agreement

Abohar town is at the tail end of Bhakra canal and faces severe water shortage. People mainly depend on monsoon and the scarce canal water. To supplement the water requirements farmers depend on tube wells. Farmers reported that they venture into contract farming to get some immediate cash soon after harvest. But doing contract farming has not been that easy and farmers expressed their unending struggles while producing a crop for a company.

- Most contract farming agreements are not written and there are no records of any signed agreement. Since there are no written agreements, they are not registered either. Agreement to cultivate is verbal and based on a face-to-face discussion with the company officials.
- Contract farmers spend higher on inputs and additional labour charges. Labour hire charges could cost a farmer around Rs.4000 per acre during a cultivating season. Labour shortage during cultivating and harvesting season is a major concern for farmers.
- Seeds which the company supplies are exorbitantly priced, at times more than 10 times the cost of traditional seeds. Contract farming seeds are hybrids and seeds cannot be regenerated in the farm. Every cultivating season farmers have to depend on the company seeds. Seeds cost vary from Rs 1500 to Rs. 7000 per acre depending on the crop
- Contract farming requires excellent land preparation which costs farmers Rs.1500 – 1800 per acre and the fertilizers and pesticides could cost farmers between Rs.4000 to 6000 per acre for one cultivation season.
- Another issue that worries farmers is the expensive pesticides and herbicides. Farmers reported that there are so many duplicate pesticides being sold in the market and that

they are unable to distinguish the original and the duplicate brands. Farmers also felt that faulty labeling and pricing is quite common and farmers have no other choice but to go for the pesticide to protect the crop from total loss.

- The contract companies resort to the downgrading of the quality of produce and a lower rate for the crop. A minimum of 10 to 20 percent of rejection takes place during grading. Rejected produce is bought by the company at a very low rate. When companies don't want to pay the agreed price, they often practice downgrading and rejection of crop. Rejected crops are difficult to sell on the open market and farmers in distress sell the produce at much below the market price or the minimum support price (MSP) fixed by government for that crop.

- Farmers who have been practising contract farming for few years expressed the problem of delayed or late payment. Many felt that when a new company comes into the area for contract farming, the payments are regular for the first two years. Then the payments are delayed and sometimes farmers receive the final payment in several installments that too after a delay of several months. Because of these reasons, many farmers have left contract farming and gone back to conventional agriculture.

- When payments are delayed, farmers face huge problems in repaying their loan to the bank and to the local money lender. Most farmers take both bank loans and from the moneylenders. Most farmers reported that their land title documents and other property papers are pledged in the bank almost all the time.

- In most cases, farmers were not calculating the cost of the use of own tractor and other farming implements, own labour and the labour cost of family members who work on the farm throughout the year. Some farmers expressed the fear that if they do so they would in all probability be in loss.

- Selling produce below MSP: Although the Central Government declares Minimum Support Price (MSP) twice a year for Rabi and Kharif crops that include wheat, paddy, oilseeds, cotton, pulses etc., most farmers are not able to sell at that price due to low procurement. More than a simple loan waiver, what farmers really want is the right price for their produce, so that they can sustain themselves and continue to do farming. The overall situation is that farmers are in great distress.

10.2 Rajasthan

Pilibanga is a small town situated in the district of Hanumangarh in Rajasthan. A majority of the 40,000 population of Pilibanga lives in rural areas and agriculture is the pillar of the economy of the district. Crops like pearl millet, wheat, cotton, paddy and vegetables are widely cultivated. Wheat, barley, cotton and vegetables are also cultivated over large areas in two crop seasons under contract farming. The water for irrigation comes from wells and tanks. The Indira Gandhi Canal irrigates northwestern Rajasthan.

Contract Farming in Pilibanga

Several hundred farmers are engaged in contract farming in Pilibanga and most contract agreements are for seeds – mostly for wheat and paddy seeds, cottonseeds, various oil seeds and different types of vegetables. Most farmers had medium to large land holdings (5 acres to 15 acres). Several farmers had also leased large holdings to do contract farming.

Problems Reported by Farmers in Pilibanga

a) Out of the hundreds of farmers doing contract farming, very few farmers reported that they had some sort of a written contract agreement. Otherwise, most farmers engage in contract farming on a verbal agreement with the company. The farmers told that the company issues a token number based on which the crop is procured by the company.

b) Regarding the labour costs, all farmers gave the opinion that the labour charges are very high and end up paying Rs. 7000 per acre during a particular crop season. Farmers also reported that contract farming involves extra doses of chemical pesticides and fertilizers which makes contract farming expensive.

c) In Pilibanga some farmers had leased land to do contract farming. The rent was around Rs.22000 per bigha per year (in Punjab 4 Bhigas are equal to one acre). Farmers reported that since Rajasthan is a dryland area and water is scarce, crop failures are quite common. In case of crop loss, farmers still need to pay the lease rent and often bear the huge loss entirely by themselves.

d) Many farmers reported that they were not aware of many government schemes that promoted contract farming. Most farmers had outstanding bank loans and loans taken from local moneylenders.

e) Several farmers reported that the seeds sold by the company are exorbitantly priced and the company makes a lot of profit. As regards the quality of the seeds provided by the company, farmers are of the opinion that most seeds gave less crop than promised by the company. Some farmers also reported that they were given inferior quality seeds at a very high price and ended up losing the whole crop. Many farmers also left contract farming due to the inferior quality of seeds given to them by the company.

f) When asked about the continuity of doing contract farming, many farmers reported that they did it for two to three years and abandoned it. Only a few large farmers were willing to continue to do contract farming. Delayed payment and late payment were also a problem faced by contract farmers in Rajasthan.

g) Regarding a comparison between the cost of contract farming and conventional farming, farmers felt that contract farming was more expensive due to the stringent requirements of the company. Costly seeds, the extra amount of fertilizers and pesticides and other chemicals cost farmers a lot more.

h) Extension services provided by the company are limited to the supply of seeds and one or two field visit by a company official. Most farmers had not availed any other extension services from the company. Only one farmer doing vegetable contract farming reported having extensive field visits and guidance from the field officers.

From the above inputs given by farmers, it becomes clear that contract farming is a risky and expensive affair and farmers can suffer a lot in the case of low yield, crop failure and low price for the produce.

10.3 Tamil Nadu, The Nilgiris


Meeting with farmers doing contract farming in Tamilnadu

O'Valley with a population of around 30,000 is a town panchayat in Gudallur, and it has all the favourable conditions for growing tea. This hilly area in the State of Tamil Nadu is a Municipality and Taluk in the Nilgiris district of Tamil Nadu. People from Tamil Nadu, Karnataka, migrant farmers from Kerala and rehabilitated Sri Lankan Tamils all live in peace and harmony here. Agriculture is the backbone of the Gudallur community. Tea growing is common among small farmers as the climate and the landscape is ideal. Most small and medium farmers survive on agriculture alone. Around 88,000 acres of land occupied by thousands of farmers in the O'Vally have no land titles.

Farmers here are a stressed lot, due to continuous fall in the price of green leaves as well as other agricultural produce. Although tea plantations dot the hills in O'Valley, many tea plantations and small factories have been shut down due to lack of profit. An interaction with farmers brought out some of the real problems faced by farmers in O'Valley.

- Almost all the small and medium farmers reported doing mixed cropping in the midst of tea gardens to survive. There were also few farmers who removed the tea plants and started growing other cash crops just to survive. ·
- The fresh tea leaves (in the local language is called Chappu) are plucked every 15 days

and sold to the company in the local area. The company fixes the price of the leaves once in a month. Price of fresh leaves have been falling for the last several years and the current rate is between Rs. 7 to 9 per kg.

Meeting with farmers doing contract farming in the Nilgiris

- At the current rate given by the company, growing tea has become unsustainable
- Labour charges are high and the quantity of fresh tea leaves plucked is not sufficient to cover the labour charges.
- Transporting the leaves to the factory costs the farmers extra money
- In many cases farmers just allow the labourers to pluck the leaves on their own and sell them to the company because farmers are not able to afford labour charges which range from 250 to 300 per day.
- Pest attacks are common in the tea gardens and farmers spend a lot to maintain the garden to keep the plants in shape.
- During peak season the company refuses to take the leaves from farmers beyond certain quantity. In such cases, farmers end up losing a lot of money.

Tea garden in the Nilgiris

- Farmers in O'Valley do not benefit from any government schemes as they are treated illegal occupants and have no land titles (patta).
- Banks refuse to give an agricultural loan to farmers in the O'Valley since they do not have patta to show proof.
- These days some banks are giving bank loans if the farmers form a group or association and submit

several documents. But the process is cumbersome and takes a long time for the loan to come through.

- Thus from the responses of several farmers, it becomes clear that the overall situation of both the agriculture and the farming communities in Tamil Nadu are in great crisis and the government should step in to take some positive measures to alleviate the pains of farmers and improve agriculture in the State.

10.4 Karnataka, Malenadu Region

People living in Malenadu region of Karnataka are a worried lot these days. The picturesque, green landscape that covers the western and eastern slopes of the Western Ghats or Sahyadri mountain range, covering an area of around 100 widths has become an environmental hazard. Its all due to contract farming of ginger.

Hundreds of farmers from Kerala are migrating to Malenadu area to do contract farming of ginger. Thousands of acres of pristine green areas in the western ghat is being converted to ginger farms.

Serious environmental concerns are being raised due to such large-scale ginger contract cultivation. The land is leased for a few years and ginger is cultivated using heavy doses of pesticides, chemicals to control bacterial and fungal infections.

Wilt is a common fungus that affects lot many cash crops including ginger. Ginger is also prone to rhizome rot another common viral disease which can affect the crop very badly.

Contract farmers who want to earn huge profits do not want to risk crop failure. To avoid this they tend to overdose pesticides and fungicides.

Excessive use of chemical fertilizer and pesticides and fungicides turn the soil into barren and useless for any other crop. There are several adverse impacts due to the excessive use of chemicals on crops and can impact human life, cattle, wildlife and can destroy water bodies, organisms in the soil, destroy rivers and impact the environment badly. Remains of the chemicals and pesticides seep into the soil and enter into food chains of animals and birds. They can also impact fish and other water organisms.

Unless serious steps are taken into consideration and prevent farmers from using excessive use of chemicals and pesticides, Malenadu region would be a site of destruction in the years to come.

Annexure 1

MODEL AGREEMENT

(Prepared by Government of Gujarat)

*** Party of the first part : (Farmer)**

Name : .... Age : ....

Address : ....

Which hereinafter shall be in this agreement addressed as First Party (which expression unless repugnant to the context or meaning thereof mean and include successor, relatives, assignees)

*** Party of the Second Part :** *(Purchaser) (Individual / partnership firm/ Limited Company/ Trust/ Cooperative Societies/ HUF).*

Name : .... Designation : ....

Address : ....

Which hereinafter shall be in this agreement addressed as Second Party (which expression shall unless repugnant to the context or meaning thereof mean and include its successors, promoters, executors, administrators and assignees)

*** Party of the Third Part** : *(APMC - Facilitator)*

Name of the APMC .... Falling under.....................................Market area established on dated......................................under Gujarat Agricultural Produce Market Act 1963 which hereinafter shall be in the agreement addressed as the Third party (which expression shall unless repugnant to the context or meaning thereof mean and include Chairman/ Secretary/ Administrator of the said APMC.

First Party is the proprietor of...........................Hectors of Land bearing Survey No........................., at village.............................., Taluka..............................and District................................ He/ they are interested in producing...................................commodity for the Second party. Wherein ....APMC as the Third party will be the facilitator the Second party is interested in the commodities to be produced as per Schedule 1.

With the request of the second party the first party has agreed to produce the agricultural commodities as per Annexure 1 and therefore, the third party agrees to provide the facilities required by the first party and the second party.

We, all three undersigned agree for the cultivation of .... commodities on the land having area................................hectares, bearing survey number.................................located in village ....falling under................................Market area. We shall abide by the rules/ bye-laws of this agreement.

NOW THIS PRESENCE WITNESSETH AND IT IS HEREBY AGREED BY AND BETWEEN THE PARTIES AS FOLLOWS :

1. First Party agrees to adopt instructions/ practices in respect of land preparation, nursery, fertilization, pest management, irrigation, harvesting and any other suggestion made by the SECOND PARTY from time to time and cultivate and produce the items as per specifications mentioned in the Schedule 1 hereto.
2. The SECOND PARTY shall pay the relevant market cess as mentioned in Schedule 1 to the THIRD PARTY when the FIRST PARTY delivers the produce to the SECOND PARTY. The THIRD PARTY shall collect the market fee as per schedule 1.
3. The FIRST PARTY agrees to cultivate, produce and deliver the agricultural produce to the SECOND PARTY and the SECOND PARTY agrees to buy the agricultural produce from the FIRST PARTY as per the quality, quantity and the price of the items as mentioned in the Schedule 1 hereto annexed.
4. The agricultural produce, particulars of which are mentioned in the Schedule 1 hereto, will be supplied by the FIRST PARTY to the SECOND PARTY within the period of ....months/ year from the date................................
5. It is expressly agreed between the parties hereto that this agreement is for agricultural produce particulars of which are described in Schedule 1, hereto and for a period of ....months/ years and after the expiration of the said period, this agreement will automatically come to an end.
6. In the event of the Agriculture, produce is not as per the quality mentioned in the schedule 1 hereto, the SECOND PARTY will be entitled to refuse to take the delivery of the agricultural produce. In that case –
   a) The FIRST PARTY may renegotiate with the SECOND PARTY and decide the price of agricultural produce or
   b) The FIRST PARTY can sell the agricultural produce on the open market and out of sale the FIRST PARTY shall pay to the SECOND PARTY as per terms of the agreement.
7. In the event the SECOND PARTY refuses/ fails to take the delivery of the contracted produce for his own reasons then the party of the first part will be free to sell the produce on the open market and if the price received is lower than the contracted prices then the SECOD PARTY shall pay the said difference to the FIRST PARTY within stipulated period from the date of claim of

the said difference.

8. It is expressly agreed by and between the parties hereto that delivery of the commodity will be made as per the following terms and buying slips will be issued by the SECOND PARTY at the time of taking the delivery.

Date	Delivery Point	Cost of Delivery

9. It is further agreed that it will be the responsibility of the SECOND PARTY to take possession of the contracted produce at the delivery point agreed upon, after it is offered for delivery and if he fails to take delivery within....................................period then the party of the first part will be free to sell the agriculture produce contracted as under:

   (a) In the open market (To bulk buyer viz. exporter/processor/ manufacturer etc) and if he gets a price contracted, he shall pay to the SECOND PARTY for his investment proportionately less.

10. It is further agreed that to maintain the quality of the produce in transit will be the responsibility of the SECOND PARTY and the FIRST PARTY shall not be responsible or liable for the same.

11. The SECOND PARTY shall pay to the FIRST PARTY, the price/ rate mentioned in the Schedule 1 when his crop will be harvested and delivered to the SECOND PARTY after deducting all the outstanding advances given to the FIRST PARTY by the SECOND PARTY.

12. The following Schedule shall be followed for the payment.

    Date / Mode of payment / Place of Payment

13. When the crop is harvested and delivered to the SECOND PARTY then the relevant market Cess shall be paid by the SECOND PARTY to the THIRD PARTY as per Act and rules/ bye-laws.

14. The SECOND PARTY or its representatives agree to have regular interactions with the farmers' forum set up/ named by the FIRST PARTY during the period of the contract. The SECOND PARTY or its representatives at their costs shall have the right to enter the premises/ fields of the FIRST PARTY to monitor farming practices adopted and the quality of the produce from time to time.

15. The parties hereto shall insure the contracted produce mentioned in Schedule 1 hereto for the period of...................................against the risk of losses due to acts of Gods, destruction of specified assets, loan default and production and income loss and all other acts or events beyond the control of the parties, such as very low production caused by the serious outbreak of a disease, epidemic or by abnormal weather condition, floods, drought, hailstorm, cyclones, earthquakes, fire or other catastrophes, war acts of Government action existing on or after the effective date of this agreement which prevent totally or partially the fulfillment of the obligation of the farmer.

The FIRST PARTY shall produce such relevant documentary evidence obtained from relevant Government Department to the Board. If such a statement or certificate reasonably cannot be obtained by the parties that the FIRST PARTY may justify before the Board, claiming such acts by presenting substitute evidence and reasons why such a certificate or statement confirming the existence of such facts cannot be produced.

Alternately subject to the mutual agreement between the FIRST PARTY and the SECOND PARTY, the FIRST PARTY may fill his quota of the produce through other sources and the loss suffered by him thereby due to price difference shall be shared equally between the FIRST PARTY and SECOND PARTY. And, after taking into account the amount recovered from the insurance company both the parties shall share the insurance premium and the claim amount proportionately.

15. The SECOND PARTY hereby agrees to provide following services to the FIRST PARTY during the period of cultivation and post-harvest management particulars of which services are as follows:

    1.

    2.

    3.

    4.

16. The SECOND PARTY will have no rights whatsoever as to the Title, Ownership, Possession of the land/ property of the FIRST PARTY nor will it in any way alienate the FIRST PARTY from the land property particularly nor mortgage, lease, sublease or transfer the land property of the FIRST PARTY in any way to any other person/ institution during the continuation of this agreement.

17. The SECOND PARTY can construct its own storage yard for storage and distribution facility, whose ownership/ title will be with the SECOND PARTY. However, the said facility will be under the control of and considered as sub yard of the concerned APMC (i.e the third party).

18. Modification, Dissolution, Termination, Cancellation of the Contract will be with the consent of all the parties. Such modification, dissolution, termination or cancellation of the agreement will be communicated to the registering authority within 15 days of such modification, dissolution, and termination/ cancellation.

19. The SECOND PARTY hereby agrees that he shall present the original copy of this agreement as per Government Resolution No. ....dated...of this agreement signed by these parties with the........................... State Agricultural Marketing Board,..............................

20. In the event of any dispute or difference arising between the parties hereto or as to the rights

and obligations under this agreement or as to any claim, monetary or otherwise of one party against the other or as to the interpretation and effect of any terms and conditions of this agreement such disputes or difference shall be referred to arbitration authority constituted for the purpose of Authority declared by State Government in this regard as per Government Resolution No. .... dated..

21. In case of change of address of any party to this agreement, it should be intimated to the other party and also to the Registering Authority within 7 days.

22. Each party hereto will act in good faith diligently and honestly with the other in the performance of their responsibilities under this agreement and nothing will be done to jeopardize the interest of the other.

In witness whereof the parties have signed this agreement on the.............................day month and .... year first above mentioned.

SIGNED, SEALED AND DELIVERED by the) within named OF THE FIRST PARTY) in the presence of...)

1. ....) 2. ....)

SIGNED,SEALED AND DELIVERED by the) Within named OF THE SECOND PARTY) in the presence of...)

1. ....) 2. ....)

SIGNED,SEALED AND DELIVERED by the) Within named OF THIRD PARTY) in the presence of...)

1. ....) 2. ....)

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Focus on the Global South

Focus on the Global South is a policy research organisation based in Asia (Thailand, Philippines and India). Focus provides support to social movements and communities in India and the Global South by providing research and analysis on the political economy of globalisation and on the key institutions underlying this process. Focus' goals are the dismantling of oppressive economic and political structures and institutions, the creation of liberating structures and institutions, demilitarization, and the promotion of peace.

Rosa Luxemburg Stiftung (RLS)

The Rosa Luxemburg Stiftung (RLS) is a Germany-based foundation working in South Asia as in other parts of the world on the subjects of critical social analysis and civic education. It promotes a sovereign, socialist, secular and democratic social order, and aims to present alternative approaches to society and decision-makers. Research organisations, groups for self-emancipation and social activists are supported in their initiatives to develop models which have the potential to deliver greater social and economic justice.