The Pharma Innovation Journal 2022; 11(12): 6249-6253

www.ThePharmaJournal.com

The Pharma Innovation

ISSN (E): 2277-7695
ISSN (P): 2349-8242
NAAS Rating: 5.23
TPI 2022; 11(12): 6249-6253

www.thepharmajournal.com
Received: 08-10-2022
Accepted: 11-11-2022

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Contract farming in India: Issues and concerns under changing policy environment

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Abstract
There is a widespread practice of contract farming across crops, states, and agencies in India and there have been a lot of studies on its performance and experience. Default by both sides (companies and farmers) has been an issue of concern and contract farmers in sundry components of India have faced many problems like an undue quality cut on produce or no procurement of produce, delayed distributions at the factory, delayed payments, low price, no emolument for crop failure, etc. besides contract agreements being in favour of the contracting agencies. Withal, the omission of minuscule holders remains a sizably voluminous problem. Indian farmers are primarily marginal or small; they cannot deal with immensely colossal buyers on their own. Despite the inhibited prosperity of the earlier model Act 2003 on contract farming, the government had given another contract farming Act 2020 which feared the farmers more as a land leasing clause had been integrated into it. The present article primarily endeavours to systematically analyse the two models of contract farming and additionally endeavours to decipher the reasons abaft the unprecedented interest shown by the farmers with special reference to the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020.

Keywords: Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act 2020, Contract farming, Model Act 2003

Introduction
The Concept of Contract Farming (CF) can be defined as a transaction wherein agribusiness and farms are vertically integrated. Baumann[3] expressed contract farming as a system where a central processing or exporting unit purchases the harvests of independent farmers and the terms of purchase are arranged in advance through contracts. In other words, contract farming can be defined as a system for the production and supply of agricultural, horticultural, or allied produce by primary producers under advance contracts. Essentially, such arrangements include a commitment to provide a commodity of a type/quality, at a specified time, place, and price, and in a specified quantity to a known buyer. In fact, CF can be described as a halfway house between independent farm production and corporate/captive farming [18]. At present, different contract models are available to farmers and agri-business firms according to the number of parties involved, sharing of the risks, specification of contractual terms, etc [20]. Due to the diverse nature of contract farming, there is the possibility of diverse outcomes even when crops under contract are the same and similar contracting conditions. Key and Runsten [9] argue that firms can choose to contract for different reasons and their motivations will reflect in the type of contract adoption. But, there is a systematic link between product and factor markets under the contract arrangement as contracts require definite quality of produce and, therefore, specific inputs [11 & 16].
In India, two different contract farming systems are in practice. One of them is the private industrial capital directly entering into the farm sector with large resources (corporate farming) which is still not legalized. The other is the industrial capital aligning with the farming interests to bring about improvement in productivity and value addition (Contract farming). The latter is evolving in most parts of the country, especially in agriculturally more developed regions [21]. Since the time India adopted economic liberalization, government policies have shifted from domestic-oriented to export/market-oriented strategies, focusing on the promotion of private sector participation (and investment) in the agriculture sector and the withdrawal of public investment. This commercialization and globalization of agriculture have established opportunities for better incomes for rural households in developing countries through new possibilities to supply higher-value products in markets of the growing

urban centres in the developing countries themselves. Accompanying this phenomenon is the increasing demand for particular product characteristics, such as quality, and food safety, as well as concern over production processes, for which product and process standards and certification mechanisms are increasingly coming into play. To gain access to these high-end markets, rural small land holders need to gain the capacity to produce at such standards, as well as the necessary market institutions to guarantee the acceptability of their products. The inability to do so due to market failures or/and failures in the provision of public goods, suboptimal configuration of supply chains and the accompanying developments in product and process standards, impose barriers on rural small holders, and constrain their access to the very markets in which the demand for their products are rapidly expanding. Within this context of improving smallholders' access to the market, both locally and internationally, contract farming has, in recent years, been presented as a potentially effective market-oriented institution to bridge the gap between the rural smallholder producer's resources, assets, and capacities on the one hand, and the increasingly strict demands of the consumers on the other. So, the government of India continuously regulates its policies or the welfare of people and moving on the same lines, three ordinances were passed in both houses of the Parliament in September 2020 in the midst of the COVID-19-lockdown. The bills had received the presidential assent and were notified in the gazette, dated 27 September 2020. Among these three bills, the most predictable was ‘‘the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Bill, 2020’’. In layman terms it was supposed to provide a legal basis to the existing practice of contract farming in India's agriculture and allied sectors. In 2018, the Union Ministry of Agriculture circulated a model law on contract farming which was called ‘The State /UT Agricultural Produce Contract Farming (Promotion and Facilitation) Act, 2018’ and the new bill had its origin from this model Act.

Further, contract farming in India is diverging towards the corporate contract model as reflected by the entry of many Multinationals such as, Cadbury, Pepsi, Unilever, ITC Ltd., Cargill and Frito Lay. Similarly domestic corporations like Ballarpur Industries Limited (BILT), JK Paper, and Wimco, Green Agro Pack (GAP) Ltd., VST Natural Products, Global Green, Interrgarden India, Kemps City Agro Exports and Sterling Agro, United Breweries (UB), Nijjer Agro, Tarai Foods, A I M Todd, McCain[8] have come up which have their own difficulties which will be discussed later in this paper. Given the current background, the present article primarily attempts to systematically analyze the two models of contract farming in India and also tries to figure out the challenges and opportunities behind the unprecedented interest shown by the farmers with special reference to the (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020.

Historical perspective

Contract farming is not a new phenomenon as it has originated far back in the British-era. The colonial period saw the introduction of cash crops such as tea, coffee, rubber, poppy, and indigo in various parts of the country, mostly through a central, expatriate-owned estate surrounded by small out growers model. Most such arrangements exploited small peasantry and resulted in Indenture and alienation in some instance [5]. During the British period there was Indigo plantation through contract farming, However it was of exploitative nature as the produce of the farmers was bought by the East India Company at very low prices and was exported to Britain and other European countries; moreover the crop to be planted was also decided by the British government. Among the other Asian Countries, for the first time it was introduced in Taiwan in 1895 by Japanese government. In India it was introduced by Pepsi company for the cultivation of vegetables particularly tomato and potato in Hosiarpur taluk of Rajasthan in 1927 [14]. ITC's contracts with the farmers of Andhra Pradesh for growing Virginia tobacco during the 1920s, emergence of seed companies during the 1960s, the green revolution during the 1970s and finally the tomato farming contracts by Pepsico in Punjab during the 1990s can be quoted as some of the milestones in the emergence of contract farming in India [22]. Involvement of Punjab in contractual arrangements began in 1980s with seed and timber production and in perishables like mustard leaves, procured by Markfed from the farmers to process it for export market[19]. However, this practice went unnoticed from the attention of the policies and research. But, most widely accepted belief about origin of contract farming in Punjab is associated with Pepsi Foods Ltd [18]. The Johl committee report on diversification in 1986 recommended that at least 20 per cent of the area under wheat and paddy should be brought under new crops specially F&Vs. In order to achieve the said objective, contract farming was adopted by the government of Punjab as a tool to promote diversification in the state. In 1988, Pepsi introduced tomato cultivation in Punjab under contract farming to obtain inputs for its paste-manufacturing facility established as a pre-condition to its entry in India. The entry of Pepsi was followed by another local entrepreneur (Nijjer) who also set up tomato-processing plant with half the capacity of Pepsi's plant. Pepsi sold its Zahura processing plant to Brook Bond India Ltd. and that was purchased by Hindustan Lever Limited (HLL, a Unilever subsidiary) in 1995. In 2002, another committee headed by Dr. S.S. Johl was constituted after a gap of 16 years. The committee recommended that an area of 10 lakh hectares under paddy and wheat should be shifted to other crops those have a lower water requirement and are ecological and soil friendly. Given the above recommendations, the Punjab government introduced the contract farming programme as a solution for the prolonged malaise in agriculture sector. Punjab started the process of enacting a model APMC Act on the lines of the Model Act of 2003 initiated by the Union Government and became the first state to launch contract farming officially [10].

Status of contract farming in pre-reform period

An effort has been made to present the review of studies done on CF in order to have an insight into the current scenario of contract farming system (CF) in India. It was observed in a study on contract farming of tomato in Haryana that the processing firms were biased towards large farmers while selecting farmers for the contract [7]. It was suggested that the contracting system should be made legally obligatory on the part of the contract farmers and the processing firms should strictly adhere to the contract by bringing suitable legislative measures by the government. Asokan and Singh[2] highlighted that the basmati growers were not satisfied as the yield and income were lower as compared to normal paddy. Dev and

Rao[6] observed in a study on contract farming of oil and gherkin in Andhra Pradesh that the contracting firms preferred large farmers and, in some case, neglected the smaller ones. The authors therefore suggested for some form of government intervention to ensure proper enforcement of contracts especially in case of small and marginal farmers. A few observations made by other studies [15-18] and 2005) are that the results of contracting are very promising in the early years. Farmers benefit from improved technology and higher productivity, quality and production. However, once farmers deploy themselves into the new technology, problems start cropping up. If the market price is more advantageous than the contract price, farmers renege the contract. Generally the contracts are not written and the legal enforcement system is too tedious for both growers and firms. Other criticisms leveled against contract farming in these cases are that it generally prefers labour saving practices: the level of commitment of rural development is lower than that of corporate development: lack of transparency and too few institutions and NGOs for proper dissemination of information for the success of contract farming. Kumar[10] highlighted in a study in Punjab where PepsiCo was the contracting firm for sugar-free potatoes which provided seeds and taught better agricultural practices to the farmers. But if the yield did not pass the quality check, the company would not buy it. It was also revealed by the farmers from Fatehpur (Punjab) and Machhiwara (Punjab) that the big farmers bribe the contracting officials who check the quality of the crop and any farmer who wants to sell just a few kilos of produce are not even spoken to cordially there. It was also highlighted that the small farmers who do not have any facility to stock the produce when the prices are low, this system harbours losses for them. According to a report on Gaon Connection, contract farming has benefitted big farmers as every company wants to buy produce in bulk and of consistent quality. Patel[13] concluded in an article the experience of farmers who have adopted contract farming system by personally visiting them in different districts of Punjab that these farmers wanted that the law should not be thrusted on them rather it should help them choose a better deal. It was also noticed that there were issues of seed, quality cut without any liability on the part of contracting agency. Contract farming as per the Act is an agreement between farmers and processing or marketing companies for the production and supply of farming produces under a forward agreement, generally at predetermined prices. But the opposition to this stems from past experiences of contract farming. According to a paper, contract farming in parts of Maharashtra rendered participating households vulnerable to indebtedness and loss of autonomy over land and livelihood decisions. It only led to the reinforcement of existing patterns of inequality as the contracting firm had relatively more power than the farmer[1]. Another study highlighted that contract farming in Punjab was initiated by the entry of Punjab Agro Food grains Corporation (PAFC) but it failed due to several reasons including lack of interest from the new state government, lack of financial support, supply of good quality seeds, motivation of farmers and market support on the part of both the state and the centre. With the change in government the area under contract farming reduced from 2.39 lakh hectares in 2007-08 to mere 11 thousand hectares in 2011-12. So, the farmer leaders were of the opinion that if the government which works on no profit no loss formula could not continue it, then how can farmers trust the private players whose main motive is to earn profit at the cost of farmers. The farmers also feared that the private players would force them to sell their lands in case any losses occur in the contract farming, which was mostly based on buyback formula and the rates of crop were pre-determined with several hidden conditions which were mostly against the farmers [4].

So, it was the history of odds being stacked against farmers in contract farming that made the farmers fearful. They also feared that contract farming could enable large corporations to take over their lands as the law lacks adequate redressal mechanism for farmers in addition to land leasing clause.

Contract farming system under the new policy regime

It is pellucid from the above discussion that there is a widespread practice of contract farming across crops, states and agencies in India and there have been dozens of studies on its performance and experience which confirm that CF system has not shown any promising results so far.

Default by both sides (companies and farmers) has been an issue and contract farmers in various parts of India have faced many problems like undue quality cut on produce or no procurement of produce, delayed deliveries at the factory, delayed payments, low price, no emolument for crop failure etc besides contract agreements being in favour of the contracting agencies. Also, the exclusion of small holders remains a big problem. So, there were two major problems that could further obstruct the adoption path of CF system. Firstly, the impotent dispute resolution mechanism and secondly land being the component of contract farming which hardly leaves any incentive for the farmers to adopt it. The model APMC Act 2003 had protected farmer and the land clearly. Even if farmer committed default, the contracting agency could not lay claims to farmer land or other assets. But in the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020, land leasing has been made part of the contract farming definition which was clearly mentioned in the Section 14 of the Act. This act protects farmers' land when it states in Section 14: No farming agreement shall be entered into for the purpose of (a) any transfer including sale, lease or mortgage of the land or premises of the farmer. But, it states in the dispute resolution section clause Section 14 (7): the amount payable under any order passed by the Sub-Divisional Authority or the Appellant Authority, as the case may be, may be recovered as arrears of land revenue which meant that it could be recovered from other assets and properties of the farmer. Rather, it should have clearly been written in the Act that no recoveries other than from farm produce could be made from farmers even if they default. Also, the dispute resolution mechanism in the new Act banked on the receipt of transaction as a proof received by the farmer and on sub-district magistrate (SDM) rather than civil courts. It was unclear how this would resolve the interstate disputes and disputes over complex issues (such as quality, weighment, etc.) on the basis of receipt, or of more complex issues relating to electronic platforms[12]. Further, the Act 2020 had left the very basic aspects of contract farming like acreage, quantity and quality besides price for the contracting parties to decide for inclusion into the agreement but these should have been mandatory aspects of the contract agreement. If the earlier Act which did not involve land in CF and where the farmers were able to knock the doors of court in case of any dispute, the CF system could not blossom, how could one expect it to make a big difference in making farming community prosperous through the new clauses which clearly are pushing the farmers into a new vicious circle where they might lose their land. So, the policymakers should have paid heed to these issues before the obliteration of the earlier Act so that the farmers and farming could be saved.

Conclusion and a way forward

Contract farming usually involves basic elements like pre-agreed price, quality, quantity or acreage (minimum/maximum), and time. Since Indian farmers are primarily marginal or small, they cannot deal with large buyers on their own even if they are brought under contract farming snare by some companies. Therefore, policy incentives to promote contract farming resourcefully should encourage group contracts to make the mechanism inclusive and efficacious for farmers. This could be with the preferment of farmer producer companies or organizations. The government can also facilitate such contracts through credit and extension support to such small farmer groups. So, some amendments in the existing law should include firstly, a minimum price that the farmer can ask for the crop. Secondly, land should stay away from any transactions. Thirdly a strong notable dispute resolution mechanism should be there where a civil court should interject in it if the sub-district magistrate passes a judgment then a farmer can approach the court for a reprieve. Contract farming can broadly be used as a dominant food production strategy with stable and foreknown prices, quantity, and quality. Thus, contract farming may help “the global food producer” to supply the right foods in essential quantities, at profitable prices for farmers, and within the means (prices) for consumers. As a result, contract farming may augment global food security. The study concludes that contract farming as a tool if used optimally with farmers’ and consumer interests in hindsight can assure the food security of the country.

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