



New Agriculture Act and Contract Farming

Dr. Bhushan S. Mangate

Assistant Professor & Head

Faculty of Commerce & Management

Phulsing Naik Mahavidyalaya, Pusad Dist – Yavatmal

Corresponding Author – Dr. Bhushan S. Mangate

DOI - 10.5281/zenodo.14784834

Abstract:

The way forward for contract farming in India is kind of promising because of increasing consciousness about food safety and quality among the rising middle-class population and thus the standard demands of the export market within the developed countries. The most problems include farmers selling to a buyer apart from the one with whom they hold a contract, or using inputs supplied by the corporate for purposes, on another side, an organization sometimes fails to buy for products at the agreed prices or within the agreed quantities or arbitrarily downgrades produce quality. Therefore, before introducing new cropping practices, sponsors should also consider social attitudes and wish to gauge how a replacement crop could even be introduced. Currently, contract farming requires registration with the agricultural produce marketing committee (APMC) during a couple of states. It is also performing on the promotion of FPOs to mobilize small and marginal farmers to settle on the regulatory measure of the act. The Ministry of Food Processing Industries of state of India has launched a scheme entitled 'Grant under Backward Linkages' to plug contract farming. Under this scheme, a grant of 10 per cent of the price of staple purchased from the contract farmers (subject to a maximum of Rs.10 lakhs per annum) is provided to food processing units up to three years. Contract farming is involved mostly in cash crops which may cause a shift within the world from food crops which, beyond a limit may endanger food security, biodiversity and crop cycle of the country could also be a serious weakness of contract farming. The govt is increasingly looking towards the corporate sector to strengthen rural incomes and employment through agro processing. During this context, policy makers see the contract farming/marketing as an important avenue to form sure greater private sector participation in agriculture.

Introduction:

Contract Farming was introduced in Taiwan for the primary time in 1895 by the govt. Of Japan. In India, Contract Farming has its historical roots from the time when the Europeans first introduced opium and indigo cultivation within the Bengal Region, beneath the Malay Archipelago company regulation. In 1927, PepsiCo did contract farming for the cultivation of vegetables particularly potatoes and tomatoes in Hoshiarpur Taluk of Rajasthan. Emergence of seed companies during the 1960s, the revolution during the 1970s and eventually

the tomato farming contracts during the 1990s by PepsiCo in Punjab are often rehearsed as sort of the milestones within the emergence of contract farming in India. Several cash crops like rubber, tea, coffee, etc. are introduced in various parts of India, mostly through a central expatriate owned estate surrounded by a little out grower's model. Since the revolution, the Central Government started the foremost essential Contract Farming system, through which it fertilizer and pesticide subsidized, provided new hybrid high yielding seeds, provided skill training and also guaranteed the

procurement by government agencies with a minimum support price (MSP). The Model Agricultural Produce Marketing Committee (APMC) development & Regulation Act disseminated by the central control to the States in 2003 for implementing marketing rebuild up, has provisions for the registration of contract farming sponsors and write down of farming agreements with the Agricultural Produce Marketing Committee (APMC) or a prescribed power under this Act, To help States within the formulation of rules during this regard, the Ministry of Agriculture has also spread a gaggle of Model APMC Rules to them for implementation. By now, related provisions are made by numerous state governments in their particular APMC Acts for providing a legal structure to farming. In India, by the corporate sector Contract Farming has been thus far more of a case of buyback and input supply, apart from some exceptions in states like Punjab, where the state is actively involved during a number of the contracts.

What's Contract Farming?

Contract farming or marketing essentially is an appointment between the farmer producers and thus the agribusiness firms to provide certain pre-agreed quantity and quality of the produce at a selected price and time. It can only be a pure procurement transaction or can reach the supply of inputs or even beyond. It's emerging as a crucial mode of procurement of raw materials by agri-business firms in India because of the event within the sector of agricultural marketing, changes in food habits and agricultural technology within the new economic environment. This is often an important initiative for reducing transaction costs by establishing farmer-processor linkages additionally to the already existing methods of linking the farmers to the consumers.

Existing Regulatory Structure:

- Currently, contract farming requires registration with the agricultural produce marketing committee (APMC) during a few states.
- Market fees and levies are paid to the APMC to undertake contract farming
- Model APMC Act 2003 motivated 14 states to notify rules on Contract farming

Model Contract farming Act 2018:

- The act lays special emphasis on protecting the interests of the farmers, considering
- Also, services contracts right along the worth chain including pre-production, production and postproduction are included.
- No right title of interest of the land shall vest within the sponsor.
- Promotion of FPOs to mobilize small and marginal farmers has been provided.
- FPO/FPC is typically a contracting party it so authorized by farmers.
- No rights, title ownership or possession to be transferred of 1 or more of agricultural produce, livestock or its product of contract farming producer as per contract.
- Contract Farming Facilitation Group (CFFG) for promoting contract farming and services at the village/panchayat level provided.
- The accessible and straightforward mechanism at the basis

Model of Contract Farming:

Centralized Model: The farmers, then packages and market the merchandise by tightly controlling its quality, this type of farming is kind of famous in developing countries for top value crops like tobacco, cotton, banana, coffee, tea, cocoa, or rubber etc.

Nucleus Estate Model: Company owns and manages as estate plantation to form sure the

limited guarantee of required output. This model of contract farming is extremely used for tree crops like oil etc. and infrequently utilized just in case of send abroad of fresh vegetables. Multipartite model: it's a standard venture approach in between statutory bodies or state agencies and personal companies; those are jointly participating with farmers.

Environmental Impact of Contract Farming:

- Contract farming leads to monocultures which cause depletion of quality of soil and fertilizers and pesticides effect on natural recourse, environment, humans & animals.
- It results in exploitation of groundwater is over, soils salination. The decline in soil fertility, and pollution
- The firms don't attend because the cost of such effects are externalized so for because the firm cares
- it's additionally argued that contract farming a neighborhood of the globalization process might cause increasing investment in developing countries that have low environmental standards and thus the resource base might find yourself irreversibly depleted or broken.

The main advantage of a contract for farmers is that the sponsor can ordinarily in agreement to get all produce grown, within the actual quantity and quality parameters. Contracts also provides a chance for farmers to access a good range of managerial, technical and extension services, etc.

(i) Provision of higher inputs and production services: It is also to the availability of basic inputs like seeds and fertilizers. Sponsors can also provide facilities like land preparation, field cultivation and harvesting also as free training and extension services to the farmers.

(ii) Quick access to Credit: Contract farming sometimes allows farmers access to

some sort of credit to finance production inputs. Arrangements also can be made with commercial banks or government agencies through crop loans that are guaranteed by the sponsor, i.e. where the contract is collateral.

(iii) Application of higher technology: Private agribusiness will usually offer technology more conscientiously than government agricultural extension services because it's an immediate economic interest in improving farmer's production.

(iv) Development in services of the agriculturalists: Farmers will gain experience in completing field activities following a strict timetable imposed by the extension.

Farmers ordinarily apply techniques introduced by management (seed and fertilization, transplantation, pest and disease control, etc.) to other cash and subsistence crops.

(v) Guaranteed Pricing System: Farmers receive return an open market depends upon the predominant market prices further as on their ability to discount with consumers for his or her crops.

(vi) Quick access to reliable market: Contract farming offers a possible solution to this situation by providing market guarantees to the farmers and insuring supply to the traders. Even wherever there are existing shops for similar crops, contract farming offers considerable advantages to farmers.

Advantages for Sponsors:

(i) Political Acceptability: Contract farming, particularly when the farmer isn't a leaseholder of the sponsor, is less likely to be subject to political criticism. It are often more politically expedient for a sponsor to involve smallholder farmers in production rather than to regulate plantations.

(ii) Overcoming barriers ashore restrictions: In present days most of the massive tracts of suitable land are either traditionally owned, costly to get or

unavailable for commercial development. Contract farming, therefore, offers access to crop production farmland which will not rather be available to an organization, with the additional advantage that it doesn't get to get it.

(iii) Production consistency and shared risk: Working with contracted farmers facilitates sponsors to share the risk of production failure due to the poor weather, disease, etc. Both estate and contract farming strategies of getting raw materials are significantly more reliable than making purchases on the open market.

(iv) Quality assurance: Steady markets for fresh and processed agricultural produce need reliable quality standards. Contracted crop production and estate both require close management to manage and maintain of quality of products, mainly when farmers are adopting new harvesting and grading methods.

Problems of Contract Farming:

The potential issues as confronted by the farmers because of Contract Farming are given.

- i. **Possibility of greater risk:** Farmers who were entering into a replacement contract farming venture need to prepare themselves to assess the prospect of upper returns against the likelihood of larger risk. There might be production risks, particularly where prior field tests are inadequate, resulting in lower-than-expected yields for the farmers. Market risks might occur once when the company's forecasts of market size or price levels aren't accurate
- ii. **Outdated technology and crop incongruity:** The introduction of a replacement crop to be adult under conditions particularly controlled by the sponsor will disrupt this farming system. On the opposite hand, the introduction of advanced machines (e.g. for transplanting, harvesting) might cause a loss of local employment and

overcapitalization of the contracted farmer.

- iii. **Manoeuvring in quotas and quality specifications:** Incompetent management will lead towards production exceeding original targets eg. Failures of field employees to see fields following transplanting may end in gross over planting. Sponsors also can have unrealistic expectations of the marketplace for their products.
- iv. **Corruption:** Problems occurs when employees responsible for issuing contracts and buying crops taking undue advantages of their position. During a large contract, the sponsors will themselves be dishonest or corrupt.

The possible problems as confronted by the Contract Farming Developers are as below:

- (i) **Limitation ashore Availability:** Difficulties could also be arising when sponsors lease land to farmers. Several contract farming ventures are dominated by customary land practice arrangements negotiated by landless farmers with traditional landowners. Before signing a contract, the sponsor should confirm that access to land is secured, for a minimum term of the agreement.
- (ii) **Social and Cultural Constraints:** In communities where custom and tradition play a crucial role, difficulties might arise when innovative farming is introduced. Hence, before introducing new cropping practices, sponsors should consider the social attitudes and the traditional farming procedures of the community and judge how a replacement crop could also be introduced.
- (iii) **Below-quality Agro-inputs:** the bulk of farmers adapt to the agreement once they need the info that contract has the advantages of technical inputs, cash advances and a secure market. However, until a project is very poorly managed,

input diversion is usually an infuriation instead of a significant problem.

(iv) Sale of crops by the farmers beyond contractual agreement: This happens when non-contracted farmers take advantage of higher prices paid by a well-known sponsor. Non-contracted crops are filtered into the purchasing system by external farmers through friends and family who have crop contracts. Such sorts of practices make it difficult for the sponsor to manage production targets, chemical residues and lots of other quality aspects.

Prospects of Contract Farming:

Thus, to beat from this problem, contract farming is that the best solution because it provides high yielding variety (HYV) seeds, labour, and machinery and also introduces new technology that enables the farmer to find out new skills of farming which is responsible for the assembly of quality and quantity product.

The Ministry of Food Processing Industries has launched 'Grant under Backward Linkages' a scheme for promotion of contract farming. Under this scheme, a grant of 10 per cent of the worth of staple purchased from the contract farmers (subject to a maximum of Rs.10 lakhs per annum) is provided to food processing units up to three years. Therefore, to beat declining productivity and falling farm incomes, contract farming is the best alternative.

Conclusions:

It also facilitates backward and forwards market linkages that are the inspiration of economic agriculture specially to solve many of the market access problems for little farmers. The contracting firms must consider physical infrastructure, telecommunications infrastructure, land availability and tenure, input availability, and social considerations however, within the present context; for both the companies

and therefore the farmer's contract farming may be a win situation. The prospects of contract farming in India is fairly encouraging thanks to increasing consciousness about food safety and quality among the rising middleclass population and therefore the quality demands of the export market within the developed countries. Contract farming offers a possible solution to this situation by providing market guarantees to the farmers and insuring supply to the traders. Even wherever there are existing shops for similar crops, contract farming offers considerable advantages to farmers. It's also an important initiative for reducing transaction costs by establishing farmer-processor linkages additionally to the already existing methods of linking the farmers to the consumers. Therefore, the govt should establish a monitoring mechanism and a dispute settlement body to ensure that both parties adhere to the terms of the contract.

References:

1. Chakrabarti, M. 2015. An Empirical Study on Contract Farming in India. *International Journal of Informative & Futuristic Research*, 2 (5), 1464-1475.
2. Kumar, J and Prakash, K. 2008. Contract Farming: Problems, Prospects and its Effect on Income and Employment. *Agricultural Economics Research Review* 21, 243-250
3. Manjunatha A.V, ramappa K.B, lavanya B.T, and mamatha N.C, (2016), Present Status and Prospects of Contract Farming In India. *International Journal of Agriculture Sciences*, 8(7), 1072-1075.
4. Satish, H.S. (2012) Nature and Scope of Contract Farming in India. www.slideshare.net/.../natureandscope-of-contract-farming-in-India
5. Kadrolkar, V.M. (2016). An Empirical Study on Contract Farming in India. *Indian Journal of Research*, 5(7), 41-44.