
Opinion

Contract farming: A win-win for both farmers and buyers

Jagdish Shettigar/Pooja Misra | Updated on October 30, 2020



It brings in efficiencies of scale for marginal farmers, increasing their income and assuring corporations of quality, quantity and on-time delivery of produce

With the three agricultural Farm Bills promising to be a game changer by the Modi Government, it is important to take cognisance of the fact that these Bills would mean empowering the farmer community by enabling them to come out of the shackles of traders, middlemen and predatory moneylenders.

Providing the required legal framework to facilitate contract farming in agriculture and allied activities is the main objective of The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm

Services Bill 2020. Contract farming is a well-known concept worldwide and has been prevalent in India for decades now.

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The Bill aims at liberalising agricultural trade and to accord considerable benefit to both parties – that is, farmers will have a guaranteed purchaser and uncertainty regarding prices will be minimised. In some cases, the buyer would also be willing to give loans in kind to the farmer – that is, seeds, fertilisers, supply of farm inputs, land preparation, technical inputs, etc., thereby moving them away from the clutches of traders who would also act as moneylenders.

The reform will help improve market linkages, provide access to new technology, lead to improved quality of produce which in turn will lead to a risk free higher income and better living standards for the farmer community.

The company entering into a direct contract with farmers will ensure better control on the quality of the end-product with both stakeholders having an equal interest in its success. Directly contracting with buyers will increase competition leading to higher prices of farm produce for farmers and higher income.

The Bill provides a national framework and attempts to bring in uniformity in the provisions of contract farming. It has brought in its wake a lucrative solution for both the farmers and buyers – that is, a farmer can finalise the buyer and the price of his agricultural produce even prior to the harvest whilst the buyer can be assured of the produce and price at the time of harvest itself.

Until now, a farmer was prohibited from selling his produce to food-processing companies or retailers directly, they were forced to go through a licensed trader for the same. Such a set-up left the farmers at the mercy of the intermediary or middlemen whose objective was to increase their own revenue, thereby not letting the farmer get the rightful price for his crop. This Bill will facilitate 'my crop, my right', improve the bargaining position of farmers and will help get the farmers benefits of higher prices for their produce.

Successful models

Whilst the concept of contract farming is still not mainstream in India, there have been successful models that have evolved over the years. Seed production has primarily done through contract farming between seed corporations and producer farmers. Another widely touted example is that of PepsiCo. In 1989 when PepsiCo entered India, the pre-condition set by the Indian Government was that to help farmers improve crop yield by adoption of latest technologies.

This model of contract farming was tested by the company by identifying tomato processing as a potential activity. The company witnessed wide-scale success resulting in large yield improvement of tomatoes which, in turn, helped farmers increase their income despite lower prices for the product.

Contract farming in Punjab has helped increase farmers' income, reduce indebtedness, reduce their exposure to crop failure, encouraged them to adopt the latest technologies and use modern farm implements. Rather, PepsiCo has launched a special programme '*Awaaz Mitti Ki*' where over the years they have partnered and supported over 24,000 farmers spread across 13 States of India.

Farmer producer organisations

One constraining factor in case of contract farming is that large corporations, food-processing companies, processors, modern retailers are hesitant to engage with hundreds of small and marginal farmers and thus prefer to opt for hiring a middleman called an organiser. On the other hand, farmers too are nervous about being exploited by large organisations. This drawback can be overcome with the help of promoting Farmer Producer Organisations (FPOs) / Farmer Producing Corporation (FPCs) to mobilise and coordinate small and marginal farmers to benefit and avail of scales of economy in production and post-production activities.

The government has released guidelines for setting up and enabling 10,000 FPOs in the country. FPOs can group together small landowners into a co-operative and give a shareholding to the farmers in proportion to their land-holdings (giving them a sense of ownership), thereby making them into an integral stakeholder in the company which can subsequently enter into a contract with modern retailers.

Thus, the farmers' interest will also not be compromised as being part of an FPO their bargaining capacity will improve and entering into a legal contract will justify investments made by companies on agri-technologies and farms.

Interestingly, companies such as ITC Ltd has also set its eyes on contract farming, thereby grabbing the opportunities created by the agricultural reforms announced in June 2020. ITC has strong and enduring partnerships with farmers and has led to farmer empowerment through *e-choupals* and web-enabled the Indian farmer. Now, it plans to involve FPOs.

It is a win-win solution for both farmers and large corporations such as food-processing companies, modern retailers coming together and working as one leading to implementation of best practices on usage of farm implements and high yielding variety seeds, etc., bringing in

efficiencies of scale for marginal farmers, increasing their income and assuring corporations of quality, quantity and on-time delivery of the produce.

It is a much needed and overdue step giving freedom to farmers to sell their produce directly to corporations, exporters, processors, wholesalers, restaurants, modern day retailers, etc., thereby promoting competition on part of the buyers to prematurely secure the produce and enabling farmers to get the best price for their produce.

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