

# Debates on Contract Farming Policy in India

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India witnessed prolonged protests by farmers (Lerche 2021; Baviskar and Levien 2021) against the three centralised farm laws of 2020<sup>1</sup> aimed at liberalising agricultural markets. It has created fears among farmers about the potential loss of the minimum support price (MSP) provision and the loss of control to large corporations. After more than a year of protests, the union government repealed all three farm laws in November 2021. Despite being repealed, the debate surrounding contract farming has rejuvenated, drawing mixed views from different stakeholders. The subject of scrutiny in this book, authored by Sukhpal Singh, a recognised authority on contract farming and agricultural market reforms, is a timely contribution that examines the shortcomings of the first two laws. *Regulating Agricultural Markets in India: A Smallholder Perspective* comprises articles by Singh previously published in reputable publications. This concise collection consists of six chapters, with two specifically addressing contract farming and its regulatory framework.

The introductory chapter expresses concern about the farm laws' objective of creating a "One Nation, One Market," seen as biased against the federal structure. The laws aimed to enhance price discovery for farmers and attract private investment to agricultural markets. Designed to streamline corporate sector operations, the acts simplified processes from procurement to retailing in the agricultural value chain. The author highlights the historical context of the Agricultural Produce Market Committee (APMC) acts, initially introduced to protect farmers but now facing challenges from global players like multinational processors and supermarkets engaged in contract farming. The chapter emphasises

## BOOK REVIEWS

**Regulating Agricultural Markets in India: A Smallholder Perspective** by Sukhpal Singh, *New Delhi: Orient BlackSwan, 2023; pp 208, ₹580.*

the significance of regulating markets to protect small farmers against power imbalances, considering their vital role in poverty reduction and highlighting some surveys that show the trend of decline of farmers' income share from crop cultivation.

### APMC Act: History and Progress

The following chapter discusses the history of agriculture marketing reforms in detail. In 2003, the union government initiated agricultural market reforms through the Model APMC Act, advocating for amendments to state APMC acts to incorporate new market channels. By early 2016, only a few states fully adopted the provisions, with others making partial amendments. The amended APMC Act included provisions for contract farming but lacked protection against delayed payments and other risks. States like Punjab introduced a separate contract farming act but did not operationalise it. Therefore, to address conflicts of interest, the Model Agricultural Produce and Livestock Marketing (Promotion and Facilitation) Act, 2017 (APLMA), was introduced by the union government to remove contract farming from the APMC domain. The author critiques the APLMA for conceptual inaccuracies, such as defining commission agents incorrectly and classifying APMCs as government agencies. The absence of farmer representation in the Market of National Importance (MNI) Executive Committee and limited space for farmer producer organisations (FPOs) in the APLMA are also noted. Despite criticisms, the author

appreciates the provision for same-day payment to farmers, considering it a positive development.

Chapter 3 provides a critical review of the Model Contract Farming Act, 2018. The author critiques the act's rationale for promoting contract farming based on small farms' operational inefficiency, emphasising the absence of the essential group contract, while acknowledging the need for insurance to mitigate production risks, especially for high-value crops. The author notes that the act, like the APLMA, 2017, focuses on promotion and facilitation rather than regulation and lacks mention of responsible contract agreements. Concerns are raised about corporate access to farmland, as the act's committee mandate overlaps with the proposed Model Land Leasing Act and existing state-level laws on land leases. The shift from regulation to facilitation is questioned, despite its potential benefits in helping farmers understand agreements.

The author's criticism of the board's role in understanding contracts and relevant laws is a little unnecessary, since even responsible contract farming also has a provision to help and allow farmers enough time to understand the agreement (FAO 2012).<sup>2</sup> However, one will be agreeing with the author over his critique emphasising the hurried preparation of the act, with identified shortcomings, hindering its effectiveness in making contract farming efficient and inclusive, particularly for small producers in value chains.

The author critically reviews the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020, commonly referred to as the "Mandi Bypass Act." The legislation aims to promote efficient, transparent, and barrier-free inter- and intra-state trade of farm produce outside traditional market premises. The 2020 reforms assume that most mandis are inefficient in determining prices, hindering alternative channels, though only 17%–25% of produce goes through APMC mandis. The author critiques the lack of provisions for counter-party risk coverage in the

new market area, unlike the APMC system. Some provisions, like same-day payment to farmers, are deemed worse than existing practices in certain states. The chapter highlights arguments supporting liberalised markets, local market access for smallholders, integration of fragmented markets, raw material availability for food processing, interstate movement of agricultural commodities, private sector investment, and reducing the fiscal burden of MSP-based procurement. The author envisions farmer producers becoming price dictators with the right reforms and believes the act could compress the value chain and eliminate excessive intermediation. However, criticisms include comparisons with high-value crops, the perceived linkage between the new act and MSP-based procurement, and concerns about the withdrawal of the state from agricultural markets. The Food Corporation of India's (FCI) directive to pay farmers directly signals a potential shift away from intermediaries, raising fears of inadequate protection for farmers in the absence of state support.

### Contract Farming

In Chapter 5, the author highlights the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, commonly known as Contract Farming Act, 2020 and provides the weakness and possible suggestions from his long-time expertise in this subject. Contract farming has been in practice in many states legally after the APMC, 2003, the only option for buyers to purchase outside the APMCs or private wholesale markets as corporate farming is not available due to land access restrictions. The author raises concern about the small and marginal farmers' participation as it has progressed mostly in agriculturally developed states like Punjab and Haryana with less domination of smallholders. But this is not always the case as the author mostly cited studies which focused on Punjab and Haryana, but often it has been observed that smallholders prefer to join contract farming due to their deprivation in access to input and output markets to avail this support from companies

(Barik and Bedamatta 2023). Even in Punjab, big farmers are reluctant to adopt contract farming as they can avail economics of production and bear open market risks (Dhillon et al 2006).

With the contract farming act 2020, the author criticised the term "farming agreement" as it was being confused with other arrangements like sharecropping or leasing. Further, the production agreement sounds like land leasing rather than a contract agreement, and the author asks:

Why would a sponsor pay a farmer for services? How can a buyer bear output risks? The contracting agency only bears and reduces farmer's market risks.

The provision of "farm services," which the author criticised, in addition, possibly makes the farmer both a producer as well as a consumer as the contracting company promotes mandatory procurement of specific inputs like pesticides or medicines (Shrimali 2021). Further, the provision of third parties like seed certification agencies and assayers would lead to higher costs for farmers as suppliers. This act did not specify the very basic things like acreage, quantity and time of delivery which is a must for any law or regulation as these are mandatory aspects.

The only other suggestion it had on this act was about notifying a registering authority for contract arrangements and provisions for witnesses on both sides of the parties to the agreement. The author was surprised as the SC Committee described the cases of direct purchase of fruits and vegetables practised by Mother Dairy and procurement operations of a farmer producer company as cases of contract farming. The above cases are of direct purchase, not contract farming. Like the contract farming act, they were pushing other arrangements, including land leasing, under the garb of contract farming for corporate entry into agriculture. The claim of the government that farmers could withdraw from the contract at any time without any penalties is against sustainability. Although it sounds good as farmers have no restriction to back out from this practice, however, one must understand that the smallholder,

who is socially deprived to access to inputs, relies on the intermediaries/companies under contract farming and finds it not easy to step out due to societal pressures. Having started by asserting that these APMCs were inefficient in price discovery and yet going back to the same mandi not only speaks ill of the act but could also raise apprehensions over the real intent that propelled these laws.

### The MSP Question

The protesting farmers expressed apprehension over the potential loss of MSP procurement facilitated by mandis and losing control to large corporate entities. In Chapter 6, the author delved into the imperative of MSP and explained the reasons behind farmers' anxieties concerning it. MSP faces several issues, including procurement limitations for a few crops, marketing challenges, quantity restrictions, and delayed payments. Farmer apprehensions about the state moving away from the MSP-based procurement system stem from various sources, including the recently repealed acts and official documents like the Shanta Kumar Committee report advocating a shift away from open-ended procurement. Concerns were raised about making MSP mandatory for all buyers, as private buyers might avoid purchases if MSP is unaffordable, leaving the government as the buyer of last resort. Farmer unions argued for the principle of "One Nation-One Price" and likened it to rights such as the right to food or minimum wages in various occupations. The author suggests that a legal right to MSP should mandate the government, which declares MSP, to be responsible for its implementation, excluding the private sector. The government can ensure a legal guarantee to MSP using existing mechanisms like public procurement, deficiency price payment (DPP) and the Market Intervention Scheme (MIS).

In the concluding part, the author poses the question of whether a uniform approach can be effective in a diverse country like India, with variations in market structures and institutions across states. Some states have functional APMC infrastructure, while others lack it or have

dismantled it entirely, as seen in Bihar in 2006. The new acts have prompted a shift from deregulation to re-regulation in states like Bihar and Kerala, which never had an APMC Act. Acknowledging India's agricultural diversity and the constitutional designation of agriculture as a state subject, the author critiques proposals such as linking contract prices to MSP. This approach raises concerns about crops without MSP and questions the efficiency of APMC prices in determining other channel prices. While acknowledging the inefficiencies and corruption in some APMCs, the author argues that completely moving away from them might not be the solution without addressing the unequal power dynamics in these markets. The author advocates for the reform of public markets and the establishment of private markets, particularly for the vast majority of small and marginal farmers. Reforms should include free licensing for better competition, e-payment of market fees, open auctions, improved facilities, and the representation of producers or

commission agents, as demonstrated by Madhya Pradesh in 1985. The author suggests that mechanisms like group contracts, producer companies/associations, non-governmental organisations, and contract regulation, if effectively implemented, can benefit all parties involved, particularly small and marginal farmers.

The book highlights the shortcomings inherent in these amendments, offering elucidations and evidence drawn from prior publications centred on market reforms, policy considerations, and the practice of contract farming. While the government or policymakers may perceive these critiques and suggestions as disparate matters, the author deserves commendation for the systematic exploration of the repealed acts.

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#### NOTES

- 1 The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act; the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act; and the Essential Commodities (Amendment) Act.
- 2 For details of Responsible Contract Farming guidelines by Food and Agriculture Organization (FAO), follow the link: <https://www.fao.org/3/i2858e/i2858e.pdf>.

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