

Contract Farming: Major Challenges in Scaling up in India

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Contract farming in India has immense potential to enhance agricultural productivity and improve farmers' incomes. Not only is it beneficial to the farmers, but all the stakeholders including the end customer. However, scaling it remains challenging due to various issues including political factors, infrastructural limitations etc. Some of these challenges and measures to address them are mentioned below.

Lack of Robust Legal Framework The lack of a robust legal framework is one of the major challenges for scaling contract farming in India. Although some states have enacted specific contract farming laws, the absence of comprehensive national legislature leaves key aspects, such as contract enforcement, pricing mechanism, and dispute resolution, ambiguous. This ambiguity is often exploited by corporate buyers to take advantage of the farmers. This deters small and medium farmers from entering into contracts. Policy interventions, including the enactment of a national law, strengthening enforcement and dispute resolution mechanisms, and promoting fair contract terms, are essential to build trust among farmers.

Information Asymmetry and Power Imbalances

Corporations have access to market data, legal expertise and financial resources. In contrast, small and medium farmers often lack these, thereby leaving them with a serious handicap during negotiations. Strengthening Farmer Producer Organizations (FPOs) is vital for enhancing farmers' collective bargaining power. Providing market intelligence through mobile apps and helplines can create a more equitable system. Also, educating farmers about contracts and the use of digital platforms can empower them.

Quality Control and Standardization

Small farmers often face the challenge related to variability in quality and standards as required in contract farming. Variations in farming practices, inadequate awareness of good agricultural practices (GAPs), and limited access to quality testing facilities limit farmer's ability to meet buyer's requirements. As a result, farmers experience reduced prices and produce rejections, leading to financial losses. Solutions include providing training on GAPs, investing in quality testing infrastructure, and promoting FPOs.

Access to finance

Access to finance remains a critical challenge to small and marginal farmers. Many farmers lack the collateral required by lending institutions. Agriculture is often perceived as a high-risk area for lending due to unpredictable weather, crop failures, as well as market volatility. This often leads to high interest rates and strict lending criteria. Further, farmer's lack of awareness about financial products like crop insurance and government financing schemes, and complex documentation processes also act as significant deterrents. Even when farmers avail the subsidized loans for agriculture purposes, they use

this amount for their expenses instead of investing in improving the quality of agricultural produce. Thus, financial products tailored for specific purposes should be provided, the loan application process should be simplified and streamlined, and improving financial literacy among farmers are some ways to overcome this challenge.

Market Volatility and Price Risks

Agricultural markets face high volatility due to factors such as fluctuations in supply and demand, seasonal variations, global market trends, changing consumer preferences, natural calamities, etc. These factors lead to contract breaches and complicate the contract farming planning process. Measures such as price stabilization, crop insurance, alternative pricing models and diversification of crops and markets are essential to tackle these challenges.

Infrastructure Deficiencies

Inadequate infrastructure including lack of proper storage (especially cold storage) leads to substantial post-harvest losses of perishable goods. Poor transportation networks lead to an increase in transportation costs and cause delivery delays and quality deterioration. Inadequate irrigation facilities leave the farmers vulnerable to weather fluctuations. Limited access to high-quality inputs such as seeds and fertilizers affects the yield and quality. These infrastructure deficiencies lead to an increase in costs and hinder quality maintenance thereby making contractual obligations difficult. Adequate investment in rural infrastructure including storage warehouses, transportation infrastructure and leveraging technology is a must to tackle these challenges.

The role of public private partner-ships and community-

based approaches is crucial for addressing these challenges.

Conclusion

Scaling contract farming in India requires a multifaceted approach that includes developing a robust legal framework, encouraging farmer-producer organizations (FPOs), improving access to finance, better terms of lending, and developing quality control mechanisms and measures to stabilize agricultural markets. These interventions can help in developing a more transparent and robust system that will build trust in the mind of farmers and encourage them, especially small and marginal farmers, to adopt contract farming.