

Contract Farming

The Government of India's National Agricultural Policy envisages that private participation will be promoted through contract farming and land leasing arrangements to allow accelerated technology transfer, capital inflow and assured market for crop production, especially of oil seeds, cotton and horticultural crops. National Agricultural Policy of GoI has also recognised contract farming as an important aspect of agri-business and its significance for small farmers. The Inter -Ministerial Task Force on Agricultural Marketing reforms observed that contract farming was becoming increasingly important.

NABARD's Initiatives in contact farming

Recognising the potential and benefits of contract farming arrangements in the agriculture sector, NABARD took the important initiative of supporting such arrangements by the banking sector and developed a special refinance package for contract farming arrangements (within and outside AEZs) aimed at promoting increased production of commercial crops and creation of marketing avenues for the farmers.

Policy initiatives by NABARD

In order to augment the reach of bank credit and increase the production of commercial crops as also for creation of marketing avenues for the farmers, all contract farming arrangements (within and outside AEZs) are made eligible for availing special refinance package from NABARD. The various initiatives undertaken by NABARD in this direction are:

- Financial Interventions
- Special Refinance package for financing farmers for contract farming in AEZs
- 100% refinance to disbursements made by CBs, SCBs, RRBs and select SCARDBs (having net NPA less than 5%)
- Term facility for repayments (3 years)
- Fixation of higher scale of finance for crops under contract farming.
- Extension of refinance scheme for financing farmers for contract farming in AEZs to contract farming outside AEZs besides coverage of medicinal and aromatic plants.
- Extension of Refinance scheme for contract farming under Automatic Refinance Facility.
- Preparation of banking plan for financing Diesel Gensets to Gherkin farmers in Karnataka with TFO – 1.71 crore
- Area Development Project for grapes in Nashik District, Maharashtra with TFO – 402 crore.

- Refinance support extended for contract farming within AEZs and outside to various financing agencies during 2004-05 and 2005-06 was to the tune of Rs.774 crore and Rs.268 crore respectively.

Developmental interventions

- Conducting workshops and exposure visits for better interface among farmers and entrepreneurs and popularization of contract farming concept.
- Conducting crop specific studies in (Ex. Gherkins in Karnataka, Grapes in Maharashtra and Mango in AP) to understand the gamut of contractual arrangements.
- Sensitisation of stake holders through State and District level meets and consultations.
- Sensitisation of Bankers through tailor-made training programme at Bankers Institute for Rural Development (BIRD) Lucknow.
- Follow-up with National Agricultural Insurance Corporation for insurance of crops grown under contractual arrangements in AEZs.
- Initiatives for expansion of scope of contract farming for medicinal plants through corporate initiatives.

MEDC study supported by NABARD

NABARD extended financial support for conducting a comprehensive study on contract farming by Maharashtra Economic Development Council (MEDC), Mumbai and suitable follow-up action on the findings of the study is being initiated. Contract farming arrangements for different types of crops, viz., sugarcane, cotton, vegetables, coffee, tea and food grains are already in vogue.

NABARD Study on the contract farming arrangements in various states

The study on contract farming arrangements in various states were taken up in 2004 covering 8 states. The salient features are as follows.

- Contract farming as an arrangement has been operational across the states and 15 companies – small and large have this arrangement in place.
- The arrangement encompasses a wide range of crops – Basmati rice, aromatic oils, seed production, potato to name a few.
- The arrangement is beneficial to both the farmer and the company.
- The major benefits accruing to the farmer are – quality inputs, technical guidance, assured market and price. There is an enhanced farm productivity & income.

- In many of the contract farming arrangements, the company enjoys twin advantages viz., assured availability of quality produce at pre-decided rates and assured market for company's products reaching even the remote areas. This also facilitates building the image of the company and meets the social responsibility quotient.
- The inference is that contract farming, as practiced by different companies, is serving the interest of both the parties, though in certain cases it is tilted more towards the company.

Looking Ahead

NABARD would continue to focus on supporting banks towards financing contract farming arrangements and also provide necessary support for sensitization initiatives and to study the details of functioning and performance of contract farming arrangements.

ANNEXURE

State and Contract Farming matrix

State/ Institution	Nomenclature of the Scheme	Short Details of the Scheme	Benefit to Farmers/Benefit to Private House	States/Districts where it is being implemented
1. Assam				
Hindustan Paper Mill	Area Development Scheme	The Scheme envisages cultivation of Bamboo on wastelands.	Farmers would be benefited in terms of production and income	8 Districts of Assam – Cachar, Hailakandi, Karimganj, Nagaon, Kamrup, Morigaon, Udalguri and Darrang
2. Bihar				
1. Sarvodaya Krishak Sewa Swablambi Sahkari	Seed production	Minimum Rs. 100 per quintal	Rs. 100 per quintal to Samiti	Ara district

Samiti				
2. Doon Valley through Aditya Kumar, entrepreneur	Basmati rice	Assured procurement	Crop grown through organic farming methods prescribed by it.	Munger district
3. Chhatisgarh				
MSSL Mahindra Krishi Vihars		Supply of quality inputs, technical guidance, buy back of produce at pre decided price.	Assured availability of quality produce in required quantities at pre decided rates	Chhatisgarh
4. Himachal Pradesh				
Himalayan International Limited	3 herbs being cultivated	Assured purchase of crop by the company at a prefixed price	Assured supply	Paona block of Solan district
5. Karnataka				
1. M/s Bharati Associates	Gherkin Processing	Assured market, good price, 1000 farmers benefited.	Assured supply of quality produce	Hassan, Karnataka
2. M/s Sai Agro Tech				Kolar, Karnataka
6. Madhya Pradesh				
1. ITC Ltd.	e-Choupal for Soybean & Wheat	Information on best agricultural practices Supply of farm inputs Supply of information on weather	Availability of quality Soybean & Wheat at reasonable prices to ITC Ltd. for captive consumption	MP

		forecasting Price discovery of commodities		
2. Hindustan Lever Ltd.	Wheat (Durum & Sharbati wheat)	Supply of farm inputs	Availability of quality wheat at reasonable prices for captive consumption	MP
3. Cargil India Pvt. Ltd.	Wheat (Durum & Sharbati wheat)	Supply of farm inputs	Availability of quality wheat at reasonable prices for captive consumption	MP
4. Rallies India Pvt. Ltd.	Wheat (Durum & Sharbati wheat)	Supply of farm inputs	Availability of quality wheat at reasonable prices for captive consumption	MP
5. Reliance Bio-Sciences Ltd.	Aromatic oils (Lemon grass, Palmarosa, Citronella, Tulsi)	Purchase is affected through traders. No direct benefit to farmers.	Availability of aromatic oils for export purposes	MP
7. Punjab and Haryana				
1. TATA Chemicals	TATA Kisan Sansar (TKS) through TATA Krishi Vikas Kendra (TKVK)	Enhanced farm productivity & income	<ul style="list-style-type: none"> i) achievement of leadership by delivering value to agriculture ii) Social engineering through community service iii) Serving as a complete solution provider to farmers and building lasting 	TKVK set up in Sunam in Sangrur district of Punjab and proposed to cover 2700 villages in Punjab & Haryana

			<p>relationship</p> <p>iv) establishment of new identity and enhanced brand image</p> <p>v) Increased sale of company's products (fertilizers, chemicals etc.) leading to enhanced revenue</p>	
2. Vardhaman led consortium of spinning mills of North India & State Bank of Patiala	Village cluster adoption programme	<p>i) Productivity of cotton increased from 4.6 quintals in 2002-03 to 9.6 quintals per acre.</p> <p>ii) Expenditure reduced from Rs.7995 per acre in 2002-03 to Rs. 7112 in 2003-04.</p>	Increased production & hence better capacity utilization of plants & machinery.	Bathinda & Muktsar districts of Punjab
8. West Bengal				
M/s Fritoley India	Cultivation of Processable Grade potato (with low sugar contents)		<p>Farmers get all critical inputs through the company at right time in right quantity. Further, they also get technical know-how from the company.</p> <p>Company get assured supply of</p>	Hooghly, Bardhaman and Medinipur (West) of West Bengal State.

			the raw material, as the key input supply is under their regulation, the quality of the raw materials are more or less as per their specification	
8. Maharashtra				
Tata Chemicals Ltd.	Grapes - Nashik district	i Assured quality of grapes for export and improving brand name "Tata Grapes"	i Easy availability of crop loan (Rs.55000 /acre). ii Availability of technical know-how and supply of required inputs iii. No marketing problem for farmers. Farmers are also resorting to direct sale whenever local processes are attractive.	i. Scheme implemented through SBI.
2. S. H. Kelkar Group of companies	Patchouli (Aromatic oil plant)	i) Availability of tissue culture planting material ii) Marketing facility by the company	Availability of assured quality raw material	Ratnagiri & Sindhudurg districts
3. Champagne India Limited	Production of grape wine - Pune district	i Easy availability of planting material (@Rs.65-70 /	Assured supply of quality raw material	2500 acres of Wine grapes under contract
4. Venkateshwar Hatcheries	Contract Broiler Farming in	i. Technical inputs and marketing of	Assured availability of marketable	i) Being implemented through Pune

Private Ltd.	Maval Block of Pune district	product is assured. ii. All recurring expenditures are borne by the company	product. The Company is saving on the investment cost as well as management cost	DCCB. ii) 120 units of 5000 birds each are envisaged
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