

Contract Farming and Tenancy Reforms: Entangled Without Tether

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India's agricultural sector is presently at crossroads with the advent of the forces of new economic policy. The sensitivity of aggregate growth of the economy to the fluctuations in growth trends of agricultural sector is undisputable. Thus, the onus of maintaining a reasonable rate of growth, provision of food security to the millions below poverty line, contributing to the overall development scenario and participating in the global trade are among the major expectations from the sector. The performance of agricultural sector during nineties has not totally failed totally, but at the same time it has also not been encouraging. Some of the important policy interventions seem to have bypassed the farmer and increased the gap between the incomes from other sectors and farm sector, making the later economically unattractive (Bhalla, 2006). No wonder that as many as 40 percent of the farmers showed strong inclination to leave agricultural sector with any available alternative. The distress is clearly visible both in terms of trends in net income as well as the spate of farmers' suicides in a few states (Mishra, 2006).

Distress among the farmers in the country is a fact and such situation is quite depressing in a few States including Karnataka, Maharashtra, Andhra Pradesh, Punjab, and Orissa. Though one cannot draw any one to one correspondence between distress in the farm sector and the present spate of suicides in some of the States, the production relations and the market imperfections are the major problems. The loss of welfare to the farmer as a group is real, consistent and perpetual and that may affect the economy severely, if not arrested soon. In a broader economic perspective the farmers who are entrepreneurs and tried to adopt new ventures are likely to be discouraged and those on the margins may leave the sector swelling the urban poor. Factor and product market imperfections need to be attended urgently with a conducive institutional framework.

In this context specifically the small, marginal and resource poor farmers are caught in the vicious circle of low investment, low productivity, and low income. The situation calls for a Schultzian intervention to induce a break away from the low level equilibrium. The challenge is to empower them with appropriate changes in policy front,

technology front and institutional front to enable them to get these constraints released unless some of these addressed through group action by small and marginal farmers with the support of appropriate policy-technology-institution matrix, their survival in the wake of liberalization will be in danger.

Distress in the farm sector originates due to various factors and despite the development in irrigation climatic factors still haunt more than 60 percent of the cultivated area. The technological interventions of mid-sixties benefited a few regions significantly and slowly the other parts of the country also participated in the process of change. However, the adoption of new technology introduced new elements of risk in the farm sector and specifically the application of the technology with inadequate knowledge and expertise has played havoc. This is compounded by sudden attack of pests and diseases and associated economic cost for meeting these exigencies. Yield or productivity loss due to these as well as other reasons contributed towards distress. On one side the cost of cultivation has increased due to the new technology along with stagnated productivity, whereas on the other side prices crash suddenly due to bulk arrivals in the market or other extraneous factors. Non-availability of proper marketing infrastructure and imperfections in the existing markets aggravate the situation. The maladies of the agricultural sector could be dealt with by accommodating five factors namely: i. Proper application of technology and full information about that, ii. Safety nets to insure the loss during the production process, iii. Supply of quality inputs, iv. Technical / Extension advice at times of crisis, and v. Guarantee about the purchase of the product at the pre-decided prices. All these problems could be dealt with one solution and that lies in contract farming. However, Contract Farming has achieved a negative connotation in Indian context due to some well known failures. The seminar focused on Contract farming as one of the major interventions in agricultural sector. There were papers submitted and presented in the seminar. These could be grouped into

In the strict sense of the definition it may be noted that the Government of India runs and continues to govern the largest Contract Farming model. During the "Green Revolution" Government of India provided to the farmers improved varieties of seeds of selected crops and hybrids along with technical know-how. The choice of the crops and regions was decided according to the set priorities by the Government during those years. Along with this the GoI also provided subsidised fertilizers and other inputs along with extension services provided by ICAR and State Agricultural Universities. A few safety net programmes were operating but the State also promised guaranteed procurement by State agencies at pre-decided minimum support prices. As a result there was a boom in production and India could come out of the infamous remarks made by Paddock and Paddock (1968)

Types of Contracts

- ç **Purchase contracts under which certain product is purchased from a specific supplier irrespective of the fact that he grows it or not**
- ç **Procurement contracts involve purchase of a particular commodity from the producers with a full know-how of the produce.**
- ç **Partial production and purchase contracts are the contracts under which partial responsibility of the production cost is taken by the contractor who purchases the entire produce**
- ç **Full contracts wherein, the contractor has the total responsibility of the supply of inputs and dictates the basic nature of production by purchasing the total produce**

Contract Farming: Looking Positively

- **Advance Price Fixation or assured Prices**
- **Technical Know-how. Technology Transfer**
- **Investment**
- **Vertical Integration**
- **Credit and Other Input Facilities**
- **Economics of Scale**
- **Enhancement in Human capital**
- **Withstanding the Competition due to Scale and Technology**

Contract Farming: Bottlenecks

- **Exploitation of Family labour**
- **Tendency towards Monoculture**

- **Food Dependency on market Increases**
- **Asymmetry in Information between Contractor and Contractee**
- **Monopoly in Input market and Monopsony in Output market**
- **Possible litigation between the parties**

Contract Farming

- Planting Material Supplies
- Technology Transfer
- Assured Price
- Assured Quantity
- Free Equipment
- Partnership Approach
- Builds Commitment
- Long Term

Price Support

- Usually None
- None
- Minimum Guaranteed
- No Assured Quantity
- No Free Equipment
- Usually Adversarial
- Builds Mistrust
- Short Term

Problems for Growers

- **Problems arise due to difficulties of coordinating the production and deliveries.**
 - **Manipulation of inspection standards to control deliveries (stringent quality norms in case of excess production)**
- **Poor technical Assistance**
- **Tying one contract to another**
- **Cheating or insufficient specification in growers account.**
- **Late Payments**

CONTRACT FARMING, VERTICAL INTEGRATION AND MARKETS

Input supply - seeds, agro-chemicals, machinery

Production - farm labour, land

Processing - grading, storage, packaging

Marketing - transport, market search, distribution

MARKET IMPERFECTIONS AND TRANSACTION COSTS

- **Missing or imperfect market for credit (Credit transaction cost and financial intermediaries)**
- **Imperfect market for factors or products**
- **Missing or imperfect market for information**
 - **The production process - technology , timing and quality**
 - **Work effort and labour supervision**
- **Technology Associated Transaction cost**
- **Risk Bearing capacity**

CONTRACT DESIGN PROBLEM

- **Marketing : How much of the product will be purchased, when, and at what price for what quality?**
- **Inputs and technical assistance: How will inputs and technical assistance be delivered, how much, and at what price and quantity?**
- **Credit: Will the grower receive credit in cash or kind? How much will he receive, at what interest rate? What will be the collateral?**
- **Production management: What technological procedures must the grower follow. How will the grower be monitored.**
- **Delivery and grading: Who will transport the harvest to the processor and how will quality be graded?**

Issues for the Policy Makers

- **The apparent conflict is between two development objectives: providing income and employment for farmers.**
- **Export agriculture has been criticized for diverting resources from local food production.**
- **Enabling the small farmers to adopt to the crops undergoing rapid changes in production technology**
- **Availability of alternative to avoid monopsonistic situation**

A LOT CAN BE DONE DESPITE THE ABSENCE OF A LEGAL FRAMEWORK

- **Maintain a proper database on farmers.**
- **Incentives, rewards & public recognition.**
- **Publicising the names of defaulters in the locality of default.**

- Farmer encouraged to set own targets, assist with draft of QC standards etc.
- Clearly allocate quantities for the fresh market.
- Repeat defaulters are not considered again
- Maintains a high motivation level.
- The social stigma usually suffices as a disincentive to default.
- Promotes “ownership” of the business, builds loyalty over the long term.
- The difference becomes apparent very quickly

Policy Support

Single tier regulatory authority for contract farming at the district level - A quasi judicial system for contract enforcement

Make purchase interference by a third party in a contract farming program, a cognizable offence

For a Registered Contract Farming Programme

Abolish all fees, taxes cess, duties, levies on procurement effected

Exempt taxes and duties on import of agri equipments

Eliminate red tape in import of varieties / hybrids

- **Introduce insurance policies to provide comprehensive coverage of the crops including loss of profit to the farmers**
- **Make it obligatory for Agricultural Students to work on contract farming programmes as a part of their curriculum**
- **Focus Agriculture Universities towards developing crop and region specific agendas**

Land legislation to enable them to lease in and lease out land and to prevent further subdivision beyond the threshold limit could form a part of policy change. Organization of group action in rebuilding depleted and degraded natural resource base, in input and output marketing, in putting pressure on agricultural research institutions to develop low cost and risk-free technologies, in approaching the credit institutions for loans, in dealing with agri-business firms, and in availing the benefits public extension system could provide a stage for developing a strong development constituency of small and marginal farmers.

TENANCY

Immediately after the independence four important components of land reforms were thought of as major policy interventions in building the land policy. These included i. Abolition of intermediaries; ii. Tenancy reforms; iii. Fixing of ceiling on land holding; iv. Consolidation of holding. These were taken in phases as the ground preparation and the political will was to be built for their wider acceptance. The discrepancy between the ownership and operational holding was a major malady of Indian agriculture. At the time of independence it was felt that conferment of ownership on the tenant would be an important intervention to avoid tenants' exploitation. It was felt necessary at that time as this would increase employment, consumption standards and enhance the market participation of the poor tenants.

- The major aspects of tenancy reforms included security of tenure, termination of tenancy, resumption for personal cultivation by the landlord, regulation of rent, and confirmation of ownership rights. Various state laws were enacted between 1960 and 1972. These differed across the states and territories. Owing to the diverse and complicated nature of social and agrarian structure in the countryside, no uniform guidelines could be formulated for the country. The security of tenure was to confer ownership rights on the tenants from a specified date. Some states declared the tenants as deemed to be owners on the payment of the reasonable price fixed as compensation to the owner as fixed earlier. As in Maharashtra the tillers' day was declared on 1st April 1957 when the ownership rights were conferred on the tenants.

Among various exemptions given under the tenancy act the resumption for personal cultivation assumed greater importance as the dominant landlords took advantage of this clause. The clause was entered with a view to induce the landlord to undertake personal cultivation and also to control the absentee landlordism this clause was introduced. Tenancy acts in almost all the states allowed the landlord to resume lands for personal cultivation but the definitions were different. The National policy recommended that residence of the owner/ member of his family must be one of the essential conditions

for personal cultivation. Some of the States like Maharashtra and Karnataka have provided that besides staying in the village the principal source of income should be from the produce of the land. In some of the States right to resumption also relates to the economic status of the landlord. Like those paying Income Tax are not eligible to resume cultivation. Family Holding, economic holding and basic holding differ from State to State. How much land should be left with the tenant after resumption of cultivation also differs from State to State. The time limit for resuming cultivation and the consequences of not cultivating also differ across States (See table 2). But all these could be utilised by the landlord to their advantage. Similar misuse by the landlords was feared about the surrender clause. A tenant can surrender the land to the landlord at his/her will. In most of the States the surrender of land falls in the jurisdiction of the revenue authorities. The authorities allowed such surrender after verification of the voluntary element in the process. The surrender clause also made a strong nexus between the landlords and the revenue officials.

The tenancy legislations also provide for the termination of tenancy under various circumstances. The common feature of the laws provide termination of tenancy on five grounds viz. : i. Tenant has failed to pay rent for the year within the time stipulated in the law, ii. The land is used for the purpose other than agriculture; iii. The land is made unfit for cultivation; iv. Failed to cultivate personally; v. The term of lease period is over or the landlord has resumed the land for personal cultivation.

These find a clear reflection in the enactment of Land Reform legislations across States. We have given the differences in the tenancy act in table 2. There are variations and interesting exceptions across States. Tenancy is completely prohibited in some States whereas it is completely free in a few others. The most controversial and debated provision of the tenancy reforms has been the complete ban on land lease market. The National Commission on Agriculture stated that under the present man land ratio tenancy as such could not be totally banned. Experience and field studies have shown that wherever this ban. Gujarat State is a step ahead and it has not only banned tenancy but leasing out land is an offence and punishable by a fine of Rs. 1000. In Karnataka soldiers and seamen are exempted, as is the case in most of the States. It is interesting that all these restrictions have given rise to a refractory tenancy market. Concealed tenancy and reverse tenancy have proliferated as new forms of tenancy (Nadkarni, 1976).

Table 2: Variations in Tenancy laws across Major Indian States

Sl No.	State	Specific Features
1	Andhra Pradesh	In Andhra Pradesh leasing is permitted but regulated. In Telangana region leasing out land by large holders is prohibited. Smallholdings below three family holdings are allowed to lease out land for a period of five years. Exemptions are provided.
2	Assam	There are no restrictions on leasing out of land.
3	Bihar	Leasing out is prohibited except for persons with disability. Public servants with a salary not exceeding Rs. 250 are included under exempt category.
4	Gujarat	Leasing is prohibited and unauthorised leasing is punishable offence with a fine up to Rs. 1000.
5	Karnataka	Leasing is prohibited. Certain exemptions are allowed to lease out. Recent amendments allow leasing in with certain exemptions.
6	Maharashtra	No ban on tenancy, but the tenant acquires the right to purchase the land within one year of the commencement of tenancy.
7	Madhya Pradesh	Abolished the past leases but not the future leases. Past leases are divided in to two categories called Bhumiswami tenant without payment and other tenant with payment. They cultivate on terms and conditions agreed between parties. Other land owners can lease out their lands for one year during consecutive period of three years.
8	Orissa	Prohibited all future leases. Past leases continue after surrendering half of the leased land to the landlord or rayat.
9	Punjab and Haryana	There is no ban on leasing and the tenants do not acquire any rights on land.
10	Rajasthan	The landowners (<i>Khatedar</i>) can lease out for a non-renewable period of five years. <i>Ghair Khatedar</i> tenants can sub-lease for a period of one year.
11	Tamil Nadu	Leasing is permitted but the law stipulates that every contract should be in written form and in triplicate. A copy of the document shall be deposited with the revenue officials
12	Uttar Pradesh	Lease for any period is prohibited. Exemptions allowed.
13	West Bengal	There is no restriction on leasing. A tenant lawfully cultivating others' land is called <i>Bargadar</i> . The leased right is heritable. On resumption the <i>Bargadar</i> has to be left with 1 hectare of land. Nor the landowner can have land held for personal cultivation more than 3 hectares.

Source: Deshpande (2004)

The question of concealed tenancy has been debated and it is recorded that anywhere between 15 to 25 percent tenancies in the country is illegal and concealed. NSS data shows that informally leasing of land is dominated by smaller marginal farmers will make the majority of the lessors. More than 80 percent of the leased in land is held by this group of farmers. Since the tenancy is oral and share croppers are weak both economically and politically they rarely get their due. They only have a tenuous hold on the land that they cultivate and invariably they have the hand over the land to the owner at any time he demands as well as a share of the produce or money rent.

In the present context, tenancy in India should be seen as a mechanism of resource adjustment, access to credit institutions and credit system, sharing of risk and

entrepreneurship, avoiding transaction costs, leasing out by the poor in favour of others if it becomes difficult to invest capital, and leading out the distant plots which are difficult to cultivate. It can be seen from the 1990-91 agricultural Census of the country that highest share of tenancy contracts are on the basis of fixed money rent and share of produce.