



Contract Farming And Farm Laws During COVID-19 Pandemic

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Abstract: Contract farming has been prevalent in agriculture, especially in countries like India. The outbreak of COVID-19 in 2020 significantly disrupted the functioning of contract farmers, posing various challenges to their livelihoods. At the same time, the pandemic crisis was seen as an opportunity for corporate penetration into agriculture by the three farm laws. This article analyzes the impact of COVID-19 on contract farming, how contract farmers coped with the pandemic, and the challenges faced by small farmers during the pandemic.

Keywords: Contract farming, COVID-19, Farm laws, Small farmers.

Introduction:

Contract farming is production carried out under an agreement between a producer and a buyer. The contract usually sets out the terms and conditions for the production and sale of the goods, determining in advance a specified price, quantity, quality, and delivery date, and sometimes detailed specifications for production methods and inputs (IISD & Food and Agriculture Organization of the United Nations [FAO], 2018). The contract eliminates some of the risks around agricultural commodity production, creating opportunities for investment and expansion that might not arise in a less regulated transaction. Contract farming has existed for decades in most countries, but its use and prominence have recently grown, in part in reaction to the so-called “land grabs” (a wave of large-scale, land-based investments) that affected many developing countries after the 2008 food price crisis. As an alternative business model to large-scale, land-based investments, one of the key benefits of contract farming is that it allows farmers to retain control over their most valuable asset: their land. It can also provide farmers with a more predictable income and help them access higher-quality inputs such as seeds, fertilizer, and technical assistance (IISD & FAO, 2018).

Contract Farmers during COVID-19 pandemic

Contract farming has been prevalent in agriculture, especially in countries like India. The outbreak of COVID-19 in 2020 significantly disrupted the functioning of contract farmers, posing various challenges to their livelihoods. This article analyzes the impact of COVID-19 on contract farming, how contract farmers coped with the pandemic, and the challenges faced by small farmers during the pandemic. The COVID-19 pandemic brought about disruptions across various sectors, and agriculture was no exception. Contract farmers, who rely on agreements with agribusiness firms to produce and supply agricultural products, faced significant challenges. The lockdowns and restrictions imposed to curb the spread of the virus led to labour shortages, disrupted supply chains, and market uncertainties, impacting contract farmers' production and distribution schedules.

To navigate the challenges posed by COVID-19, contract farmers adopted various strategies. Many farmers embraced digital technologies to access information, connect with buyers, and facilitate transactions online. Additionally, some contract farmers diversified their crops to adapt to changing market demands and mitigate risks associated with supply chain disruptions. Collaborative efforts within the farming community and support from government initiatives also played a crucial role in helping contract farmers cope with the challenges brought about by the pandemic. Small farmers, including those engaged in contract farming, faced unique challenges during the COVID-19 crisis. Limited access to markets, financial constraints, and disruptions in the availability of inputs such as seeds and fertilizers posed significant hurdles for small farmers. Moreover, the closure of agricultural markets and restrictions on mobility affected their ability to sell their produce at fair prices, exacerbating their financial woes. In conclusion, the COVID-19 pandemic has profoundly impacted contract farmers, especially small farmers in countries like India. While the challenges posed by the pandemic were substantial, contract farmers showcased resilience and adaptability in the face of adversity. Moving forward, it is essential to strengthen support mechanisms for contract farmers, enhance market linkages, and promote sustainable agricultural practices to build resilience in the agriculture sector against future crises.

Contract farming as saviour during the COVID-19 pandemic

It provided certain benefits that supported farmers in navigating the challenges posed by the pandemic, such as disruptions in the supply chain, limited access to markets, and economic uncertainty. During these tough times, contract farming provided guaranteed market access: Contract farming often involves an agreement between farmers and buyers (such as agribusinesses or food processing companies) that ensures the farmers have a guaranteed buyer for their produce. This stability helped farmers avoid the uncertainty of open markets during the pandemic, where market closures and supply chain disruptions could have made selling their produce difficult. Price Stability: Contract farming typically includes an agreed-upon price for the produce. This provided farmers with price stability during the pandemic, protecting them from market price fluctuations and potential financial losses. Supply Chain Management: Contract farming arrangements often involve direct supply chain connections between farmers and buyers. This direct link helped mitigate the impact of supply chain disruptions caused by lockdowns and restrictions on transportation

and logistics. **Access to Inputs and Technology:** Contract farming arrangements often include the provision of quality inputs such as seeds, fertilizers, and pesticides from the buyer, as well as access to modern farming techniques and technology. This helped farmers maintain productivity even during challenging times. **Financial and Technical Support:** Farmers engaged in contract farming might receive support such as credit, training, and advice from their contracting parties. This support helped them manage financial challenges and improve their farming practices. **Risk Management:** Contract farming can help reduce farmers' risks, such as unpredictable weather patterns or market volatility. By working with a partner in a contract farming arrangement, farmers could share some of these risks. **Continuity and Sustenance:** Many small-scale farmers faced uncertainty about their livelihoods during the pandemic. Contract farming provided a safety net and a steady source of income, which was essential for their economic survival. While contract farming was not without its challenges, its advantages in providing market access, stability, and support were particularly beneficial for farmers during the COVID-19 pandemic in India.

Overview of India's Three Farm Laws

The three farm laws introduced in India have generated significant controversy and profoundly impacted the country's agricultural sector. These laws aim to bring about structural reforms and improve the livelihoods of farmers. However, their implementation has been met with widespread protests and concerns regarding their implications. The three farm laws, namely 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, were enacted in September 2020. They seek to address several longstanding issues in the agricultural sector, such as the lack of competitive markets and limited opportunities for farmers to engage in contract farming.

India has a long history of agricultural reforms to improve productivity and increase farmers' income. In the past, various policies have been implemented to address the challenges faced by farmers, including the Green Revolution in the 1960s and the liberalization of the agricultural sector in the 1990s. These reforms have had a mixed impact, with some farmers benefiting while others continue to face hardships. The implementation of the farm laws has been met with widespread protests by farmers across the country. The main concerns raised by farmers are related to the potential impact on their income and livelihoods. They worry that the laws could lead to dismantling the existing support systems, such as minimum support prices, leaving them vulnerable to exploitation by big agribusinesses.

Pandemic crisis as an opportunity for corporate penetration into agriculture

Many agricultural mandis shut down when the lockdown was announced. There was a sharp drop in the number of mandis that were reporting market arrivals when the lockdown was first announced. Lack of proper infrastructure and facilities also turned mandis into sites where Coronavirus infections have spread among traders, workers, and retailers. This finally led to the closure of govt. mandis.

Rather than fortifying the facilities, the government chose to take advantage of the lockdown to enact changes that would have been politically challenging to implement through the regular legislative process,

when farmers were finding it difficult to sell their crops at fair prices and the agricultural marketing system could not operate without compromising on pandemic-related safety precautions. The state-level APMC Acts, which regulate agricultural markets, should be promptly reformed through ordinances, the central government was instructed. As a result, laws were enacted in a number of states, including Madhya Pradesh, Karnataka, Gujarat, and Uttar Pradesh, to remove the need for all agricultural transactions to take place in regulated marketplaces and to permit private businesses to negotiate pricing with farmers freely.

On 3 June, the Union Cabinet approved three ordinances that have rendered the entire system of regulation of agricultural marketing and food supply in the states ineffective. All three Acts were promulgated by the President and notified on 5 June. The Three Farm Laws were the Essential Commodities (Amendment) Act, 2020, the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020, The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020.

The Essential Commodities Act (ECA) was amended by the first ordinance. According to this law, only "extraordinary circumstances," which are extremely carefully defined and do not even include an epidemic, may result in any restrictions on the supply of grains, pulses, oilseeds, edible oil, onions, and potatoes. Furthermore, as long as the price increase is less than 100% for perishables and less than 50% for non-perishables in comparison to levels during the preceding year (or the average of the previous five years), no stock limits can be placed on these commodities, permitting any degree of hoarding. Moreover, the Act exempts from supply regulation and stock limit imposition anyone engaged in any activity between farm and end consumption. By permitting barrier-free commerce between states and within them outside the boundaries of the markets notified under the APMC Acts, the **Farming Produce Commerce and Commerce (Promotion and Facilitation) Ordinance, 2020** has rendered all state-level APMC Acts moot. The ordinance not only gives large traders the ability to negotiate bilaterally with farmers, which will undoubtedly hurt small producers, but it also denies states the ability to impose taxes on these traders or to mediate disputes. The federal government is the only entity with the authority to act on behalf of farmers; the states are not permitted to do so. It is useful to remember that the system of regulated mandis was introduced in most states since the 1960s as a mechanism to prevent traders from using their monopoly control and power within the village to coerce farmers to sell the produce at low prices. Most states have state-level Acts through which these agricultural markets are established and regulated. While implementation of the Acts as a deterrent against malpractices in the markets or hoarding has not been without problems, bypassing these Acts altogether and formalising the bilateral negotiations outside the provisions of the APMC Acts will only strengthen the monopoly power of corporate buyers, traders and commission agents. In order to facilitate and regulate contract farming, the third ordinance—the **Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Ordinance, 2020**—has been introduced. Additionally, this Act eliminates state governments' authority to control contract farming within their borders. Instead, state governments will only function as an extension of the federal government, which will issue "directions, as it (the federal government) may consider necessary... for effective implementation of the provisions of this Act and the State governments shall comply with such directions." Furthermore, under any state-level Act, all

such contracts are free from regulation. The government's portrayal of these changes as "reforms" being implemented in the best interests of farmers is a farce. In fact, the objective of the reforms proposed by the Finance Minister is not to provide choice to farmers but to provide a choice to big corporate buyers to buy the produce without having to go through auctions. This option is being offered in order to support corporate penetration of agriculture through contract farming and related systems. The government is trying to take advantage of the limited opportunities for farmer protests during the lockdown to ram through changes that are probably going to be unpopular, as evidenced by the haste with which these reforms are being adopted through ordinances that avoid the state legislatures. Small, medium, and semi-medium farms would have suffered if the Three Farm Laws had been put into effect. These farmers have led the charge in the opposition to the Farm Laws, which is not surprising.

Impact of the Farm Laws on Contract Farming

The farm laws have brought significant changes to the concept of contract farming in India. Contract farming refers to the practice of farmers entering into agreements with agribusinesses for the production and supply of agricultural commodities (Singh, 2000). Contract farming have facilitated direct contracts between farmers and agribusinesses. One of the key provisions of the farm laws is to promote direct contracts between farmers and agribusinesses. This aims to eliminate intermediaries and create a more streamlined process for agricultural trade. By enabling farmers to negotiate contracts directly with buyers, it is expected that they will have more control over the pricing of their produce and reduce post-harvest losses. Contract farming has potentially benefitted small-scale farmers by providing them access to technology, credit, and markets. Farmers can receive inputs such as seeds, fertilizers, and machinery through contracts with agribusinesses. This can help improve agricultural practices and increase productivity. Additionally, contract farming can provide small-scale farmers with a stable market for their produce, reducing the vulnerability of fluctuating prices.

However, there is concerns regarding the imbalance of power in contract negotiations. While contract farming can offer benefits to farmers, there are concerns about the power dynamics in contract negotiations. Agribusinesses often have greater bargaining power, leading to imbalanced agreements that may not be favourable to farmers. There is a need for safeguards to ensure that farmers are not exploited and that their rights and interests are protected throughout the contract farming process. The implementation of farm laws has had wide-ranging effects on farmers and agricultural labourers. The changes brought about by these laws have impacted traditional agricultural practices, created risks and vulnerabilities for small-scale farmers, and affected the livelihoods of agricultural labourers. The farm laws have the potential to bring about significant changes in traditional agricultural practices. With increased market orientation, farmers may shift their focus towards cash crops or high-value commodities, which could lead to changes in land use patterns. This transition may require farmers to acquire new skills and knowledge to adapt to the demands of the market. At the same time, it is also enables them to learn the skills and knowledge that are required for contract farming which will ultimately help them in the long run. It can be said that this is a mixed phenomenon for farmers.

Risks and vulnerabilities faced by small-scale farmers

While contract farming can benefit small-scale farmers, it also exposes them to certain risks and vulnerabilities. The lack of a fair and transparent pricing mechanism and the potential for imbalanced contracts could leave small-scale farmers financially vulnerable. There is a need for adequate safeguards and support mechanisms to ensure that small-scale farmers can fully reap the benefits of contract farming. It has also impacted agricultural labourers and their livelihoods significantly. Agricultural labourers play a crucial role in the agricultural sector, and the farm laws also have implications for their livelihoods. The increased mechanization and shift towards contract farming may result in a reduced demand for labour, leading to job losses for agricultural labourers. This could further exacerbate the already existing issues of rural unemployment and poverty.

The farm laws have also created new opportunities for agribusinesses in India. These laws aim to bring market-oriented reforms that facilitate private-sector investment in the agricultural sector. The farm laws promote market-oriented reforms by creating a more open and competitive agricultural market. Agribusinesses can benefit from direct access to farmers, eliminating the need for intermediaries and reducing transaction costs. This can lead to increased efficiency in the supply chain and enable agribusinesses to explore new market opportunities. There is an increase in private-sector investment in agriculture. The farm laws aim to attract private sector investment in agriculture by providing a conducive environment for agribusinesses to operate. The involvement of private players can bring new technologies, expertise, and capital into the sector. This has the potential to modernize agricultural practices, improve productivity, and enhance the overall competitiveness of Indian agriculture. While the farm laws promote contract farming, there are challenges related to contract enforcement and dispute resolution. Agribusinesses and farmers need a reliable mechanism to ensure the fulfilment of contractual obligations and resolve any disputes that may arise. The implementation of appropriate legal frameworks and dispute-resolution mechanisms is crucial to mitigate these challenges and safeguard the interests of both parties.

Conclusion

Even though farm laws had the potential to benefit small-scale farmers by providing them with access to technology, credit, and markets through contract farming, it has also many limitations because of which it was repealed by the government. The farm laws create opportunities for corporate agriculture business entities by promoting market-oriented reforms, facilitating direct contracts with farmers, and attracting private sector investment in agriculture. The farm laws aim to address the challenges in the agricultural sector related to contract farming by promoting market-oriented reforms, facilitating direct contracts, and providing a legal framework for contract farming agreements. Contract farming is proved to be the benevolent saviour for the small farmers.

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