INDIA – Model Act on Agricultural Marketing

Full text accessible at : http://agmarknet.nic.in/amrscheme/modelact.htm)

In India the absence of a proper legal framework for contract farming was seen as a major impediment in popularizing contract farming system in the country. Under the former system, the Contract Act was the only law for contract farming, but the provisions of the Contract Act did not cater to the specific requirements of contract farming in a suitable manner. Besides the costs, procedure and the delay the distance from the Courts worked as a disincentive to the farmer to invoke the Civil Courts jurisdiction when the need arose.

The State Agricultural Produce Marketing Model Act (Development & Regulation Act, 2003) was adopted on 9th September 2003. It aims at easing the situation of control over agricultural markets by the State to facilitate greater participation of the private sector, particularly to engender massive investments required for the development of marketing infrastructure and supporting services. In view of liberalization of trade and emergence of global markets, it was deemed necessary to promote development of a competitive marketing infrastructure in the country and to bring about professionalism in the management of existing market yards and market fee structure. While promoting the alternative marketing structure, however, Government needs to put in place adequate safeguards to avoid any exploitation of farmers by the private trade and industries. For this, there was a need to formulate model legislation on agricultural marketing. [cf. Preface of the Model Act]

The draft model legislation titled the State Agricultural Produce Marketing (Development and Regulation) Act, 2003, provides for establishment of Private Markets/ yards, Direct Purchase Centres, Consumer/Farmers Markets for direct sale and promotion of Public Private Partnership in the management and development of agricultural markets in the country. It also provides for separate constitution for Special Markets for commodities like Onions, Fruits, Vegetables, Flowers etc. A separate chapter has been included in the legislation to regulate and promote contract-farming arrangements in the country. It provides for prohibition of commission agency in any transaction of agricultural commodities with the producers. It redefines the role of present Agricultural Produce Market Committee to promote alternative marketing system, contract farming, direct marketing and farmers/consumers markets. It also redefines the role of State Agricultural Marketing Boards to promote standardization, grading, quality certification, market led extension and training of farmers and market functionaries in marketing related areas. Provision has also been made in the Act for constitution of State Agricultural Produce Marketing Standards Bureau for promotion of Grading, Standardization and Quality Certification of Agricultural Produce. This would facilitate pledge financing, E-trading, direct purchasing, export, forward/future trading and introduction of negotiable warehousing receipt system in respect of agricultural commodities.

Contract Farming is dealt with under Chapter VII which lays down essential provisions regarding contract farming agreements (in particular : that the sponsor and the agreement should be registered with prescribed authorities; that contract farming agreement should be in a prescribed form and contain prescribed terms; that no title or rights [over land] may be transferred to the sponsor as a result of the contract farming agreement; that disputes are subject to prescribed settlement procedure)

The law contains an Addendum on Contract Farming Agreement and Its Model Specifications which provides a detailed presentation based on literature on contract farming (largely Eaton and Shepherd, FAO 2001) going through the economic functions of the agreement, its advantages, its risks, manners to reduce default in contract.

The relevant extracts are reproduced hereafter

(introduction by UNIDROIT Secretariat)

CHAPTER - VII

Contract Farming

38. Contract Farming agreements shall be governed in the manner laid down hereinafter.

(1) Contract farming Sponsor shall register himself with the Market Committee or with a prescribed officer in such a manner as may be prescribed.

(2) The Contract Farming Sponsor shall get the contract farming agreement recorded with the officer prescribed in this behalf. The contract farming agreement shall be in such form containing such particulars and terms and conditions as may be prescribed.

Notwithstanding anything contained in contract farming agreement, no title, rights, ownership or possession shall be transferred or alienated or vest in the contract farming sponsor or his successor or his agent as a consequence arising out of the contract farming agreement.

Disputes arising out of contract farming agreement may be referred to an authority prescribed in this behalf for settlement. The prescribed authority shall resolve the dispute in a summary manner within thirty days after giving the parties a reasonable opportunity of being heard, in the manner prescribed.

The party aggrieved by the decision of the prescribed authority under sub-section (3) may prefer an appeal to an Appellant Authority within thirty days from the date of decision. The Appellant Authority shall dispose off the appeal within thirty days after giving the parties a reasonable opportunity of being heard and the decision of the Appellant Authority shall be final.

The decision by the authority under sub section (3) and decision in appeal under sub section (4) shall have force of the decree of the civil court and shall be enforceable as such and decretal amount shall be recovered as arrears of land revenue.

Disputes relating to and arising out of contract farming agreement shall not be called in question in any court of law than otherwise provided herein above.

The agricultural produce covered under the Contract Farming agreement may be sold to the Contract Farming Sponsor out side the market yard and in such a case, no market fees will be leviable.

Addendum on

Contract Farming Agreement And Its Model Specifications

9th Sept 2003

Contract Farming Agreement and Model Specifications

1. Introduction: Contract farming is an agreement between processing and/ or marketing firms, market intermediaries and the farmers for the production and support of agricultural products under forward agreement, frequently at predetermined prices. The arrangement invariably involves the purchaser in providing a degree of production support to farmers through, for example, the supply of inputs and the provision of technical advise. The basis of such arrangements is a commitment on the part of farmer to provide a specific commodity in quantities and quality standards determined by the purchaser and commitment on the part of the registered market intermediaries to support the farmer's production and to purchase the commodity. Contract farming is thus a means of allocating the distribution risk between processor and grower. The latter assumes risk associated with production while the former assumes the risks of marketing the final produce. For some critics, "contract farming" is just another of the ills associated with economic globalization. On one side, there are a mass of unorganized small-scale farmers, with little bargaining power and few of the resources needed to raise productivity and compete commercially. On the other side are powerful agribusiness entrepreneurs, offering production and supply contracts, which – in exchange for inputs and technical advice – enable it to exploit cheap labour and transfer most risks to the primary producers. Contract farming, the critics say, is essentially an agreement between unequal parties, and more likely to generate debt than development for the small farmer. But this is rarely the case. An FAO guide "*Contract farming: Partnerships for growth"* argues that well- managed contract farming has proven effective in linking small farm sector to sources of extension advice , mechanization, seeds, fertilizer and credit, and to guaranteed and profitable markets for produce. "It is an approach that can contribute to both increased income for farmers and higher profitability for sponsors." When efficiently organized and managed, contract farming reduces risk and uncertainty for both parties and provides the producer the opportunity to add value to his production.

2. Merits of contract farming: The prime advantage for farmers is that the sponsor will normally undertake to purchase all produce grown, within specified quality and quantity parameters, often at pre-determined prices. Contracts can provide farmers with access to a wide range of managerial, technical and extension services that otherwise may be unobtainable. Small-scale farmers are frequently reluctant to adopt new technologies because of the possible risks and costs involved. In contract farming, private agribusiness will usually offer improved methods and technologies because it has a direct economic interest in improving farmers' production to meet its needs. In many instances, the larger companies provide their own extension support to contracting farmers to ensure production is according to specification. Skills the farmer learns through contract farming may include record keeping, improved methods of applying chemicals and fertilizers and knowledge of the importance of quality and of the demands of export markets. The returns that farmers receive for their crops on the open market depend on prevailing prices and their ability to negotiate with buyers but contract farming can, to a certain extent, overcome this price uncertainty. Frequently, sponsors indicate in advance the prices to be paid and these are specified in the agreement.

Contract farming arrangements can contribute to adding value by a) facilitating the emergence of agro-processing plants which would otherwise not exist if supplies were not forthcoming in an organized manner b) enabling the export of produce from small farmers which otherwise would not be able to access these demanding markets c) encouraging higher quality production and better handling and sorting thus increasing the value of small holder production and d) by enabling producers and processors to achieve economies of scale, thereby lower costs and making them more competitive.

3. Risk Factors in Contract Farming: For farmers, there is the uncertainty involved in growing new, unfamiliar crops and producing for markets that might not always live up to their expectations - or their sponsors' forecasts. Inefficient management can lead to overproduction, and in some cases sponsors "may be tempted to manipulate quality standards in order to reduce purchases". One of the biggest risks for farmers is debt which can be caused by production problems, poor technical advice, significant changes in market conditions, or a company's failure to honour contracts. On the sponsor's side, risks can arise when dealing with farmers who, in turn, may have negotiated use of the land with traditional owners. Before entering into contracts, the sponsor needs to ensure that access to land is secured, at least for the term of the agreement. But a more serious problem is when farmers break the contract and sell their produce in alternative markets, sometimes encouraged by rival sponsors or ruling higher prices in open market.

4. Managing Arrangements: The contract farming system has to be seen as a partnership between agribusiness and farmers. Good service delivery by the sponsor is a precondition for successful contract farming. Sponsors must therefore take responsibility for coordinating production and marketing activities well. Managers must ensure the transparency of all interactions with the farmers and they must ensure that farmers understand both their own obligations and those of the sponsor. Farmers default in contract farming arrangements can be reduced by following interventions:

a)Organizing Farmers' Associations: Peer pressure within the group screens out potential defaulters and can reduce the risk of default. In addition, economies of scale can be realized in the delivery of services, thereby reducing costs. Farmers will also benefit by having a stronger hand in negotiations with companies.

b)#9; Good communication and close monitoring of farmers: Good communications help to foster good company-farmer relations and a sense of trust, which has a positive effect by reducing strategic default. Group members can monitor each other where there is a need to ensure quality and traceability of produce, and to prove due diligence throughout the chain.

c)Range and quality of services offered: The better and broader the range of services offered, the closer the relationship between farmer and the business, and more the farmer stands to lose by breaking the relationship.

5. Types of Contract farming: Contract farming agreements can be classified into three, not mutually exclusive categories: i) market-specification, ii) resource providing, and iii) production management. Market specifications contracts are pre-harvest agreements that bind the firm and grower to a particular set of conditions governing the sale of the crop. These conditions often specify price, quality and timing. Resource providing contracts oblige the processor to supply crop inputs, extension, or credit, in exchange for a marketing agreement. Production management contracts bind the farmer to follow a particular production method or input regime, usually in exchange for a marketing agreement or resource provision. In various combinations, these contract forms permit firms to influence the production technology and respond to missing markets without having to operate their own plantations. Eaton and Shepherd in their book titled 'Contract Farming – Partnership for Growth" (FAO-2001) have presented five organizational models for contract farming.

a)Centralised Model: The sponsor purchases crops from farmers for processing, and markets the product. Quotas are distributed at the beginning of each growing season and quality is tightly controlled. This model is generally associated with tobacco, cotton, sugar cane, bananas, coffee, tea, cocoa and rubber crops.

b)Nucleus estate Model: The sponsor owns and manages a plantation, usually close to a processing plant, and introduces technology and management techniques to farmers (sometimes called "satellite" growers). Mainly used for tree crops, but has also been applied to dairy production.

c)Multipartite Model: Usually involves statutory bodies and private companies jointly participating with farmers. Common in China, where government departments, township committees and foreign companies have entered into contracts with villages and individual farmers.

d)Informal, or individual developed Model: Individual entrepreneurs or small companies make simple, informal production contracts with farmers on a seasonal basis, particularly for fresh vegetables and tropical fruits. Supermarkets frequently purchase fresh produce through individual developers.

e)Intermediary Model: Formal subcontracting of crop production to intermediaries is common in Southeast Asia. In Thailand, large food processing companies purchase crops from individual "collectors" or farmer committees, who make their own informal arrangements with farmers.

6. Specifications of Contract Farming agreements: Contents of a contract farming agreement depends on a number of factors such as the nature of the product, the primary processing required, if any, and the demands of the market in terms of supply reliability. Quality incentives, payment arrangements, the level of control the sponsor wants to have over the production process also influence the nature of the agreement, and the extent to which the parties have capital tied up in the contract. A contract covering, for example, oil palm, tea or sugar, where significant long-term investment is required from all parties, will be different from a contract covering annual crops such as fruits and vegetables for local supermarkets may not be the same as one covering such produce destined for overseas markets, which may have more rigid controls on pesticide use and product quality as well as higher presentation and packaging standards. Although corporate bodies, government agencies and individual developers are of necessity the catalysts of the contract, farmers and their representatives must be given the opportunity to contribute to the drafting of the agreement and assist in the wording of specification in terms farmers can understand. Management must ensure that agreements are fully understood by all farmers. The terms and conditions entered into must be written down for independent examination and copies given to the farmers' representatives. Copies should also be available to relevant government agencies.

The legal framework of the Agreement should comply with the minimum legal requirements of the Indian Contract Act, local practice must be taken into account and arrangements for arbitration must be addressed. Agreements, in the form of a written contract, usually cover the responsibilities and obligations of each party, the manner in which the agreement can be enforced and the remedies to be taken if the contract breaks down. In most cases, agreements are made between the sponsor and the farmer, although in the case of multipartite arrangements, the contracts can be between the sponsor and farmer associations or cooperatives.

The Specifications: Within the broad categories of market-specification, resource-providing, and produce-management contracts, firms must specify terms that include:

a)Marketing: How much of the product will be purchased, when, and at what price for what quality? Must the grower deliver all of his product, a share, or set amount.

b)Inputs and technical assistance: How will inputs and technical assistance be delivered, how much, and at what price and quantity?

c)Credit: Will the grower receive credit in cash or kind? How much will he receive, at what interest rate? What will be the collateral?

d)Production management: What technological procedures must the grower follow. How will the grower be ?

e)Delivery and grading: Who will transport the harvest to the processor and how will quality be graded?

f)The duration of the contract;

g)The way in which the price is to be calculated using

i) Prices fixed at the beginning of each season

ii) Flexible prices based on world or local market prices

iii) Spot-market prices

iv) Consignment prices, when payment to the farmer is not known until the raw or processed product has been sold, or

v) Split pricing, when the farmer receives an agreed base price together with a final price when the sponsor has sold the product

h)Procedures for paying farmers and reclaiming credit advances;

i)Arrangements covering insurance;

j)Registration of Contract Farming Agreement with the notified Govt. Agency and Dispute resolution mechanism.

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CONTENTS OF A MODEL CONTRACT FARMING AGREEMENT

MANDATORY PROVISIONS -

I. Parties To The Agreement

a)Contract Farming Sponsor – It may be a sole proprietor, a company registered under the Companies Act, 1956, a partnership firm registered under the Partnership firm 1932, a Government Agency, A Cooperative Societies registered under the State Cooperative Societies Act and shall include its administrators, successors, representative and assignee.

b)Contract Farming Producer/s includes an agriculturist, farmers' associations, self-help groups, authorized tenants and farmers cooperatives societies registered under the State Cooperative Act. The expression shall include the successor, heirs, executors and representatives of the party contracting the agreement.

II. Description of Farm Land Covered by Contract Farming Agreement

a)Acreage, Location – This would provide land particulars as recorded with the revenue authority of the concerned area.

b)Facilities available – This would stipulate availability of irrigation, its kind and other specific features reflecting on production.

c)Nature, tenure, rights etc. of the Contract Farming Producer/s on the land

III. Duration of Agreement

a)Seasonal

b)Annual

c)Long Term (3-5 years)

Explanatory note: The duration of agreements depends on the nature of the crop. Contracts for short-term crops such as table vegetables are normally issued and renegotiated on a seasonal basis, whereas crops such as tea, coffee, sugar cane, and cocoa require long-term contracts that can be amended periodically.

IV. Description of Farm Produce

This would clearly indicate name of the agricultural produce with specific variety or any other characteristic, which the buyer wants the producer to grow on the contracted land identified under clause 2.

V. Quantity Specification of the Farm Produce

This would indicate the quantity of produce in respect of which the agreement is entered into. This could be determined on the following basis:

a)On volume basis

b)On Area Basis

c)Entire Crop

d)Fixed Quantity

Explanatory note: Quotas are employed in the majority of contracts in order to utilize processing, storage and marketing capacities efficiently; guarantee markets for all farmers; ensure quality control; and monitor farmer's performance. The allocation and distribution of production quotas will vary according to crop and circumstances. Where there is no alternative market for the crop and farmers have made significant long-term investments in production (tree crops) or processing facilities (e.g. tobacco curing barns), the sponsor must be committed to purchase the entire crop covered by the quota. This obligation, of course, is subject to the crop meeting the agreed quality specifications. The most common and practical method is to allocate quotas on an area basis, with sponsor calculating the total area to be cultivated in relation to the project's processing capacity and their knowledge of each farmer's expected yield. Where there are alternative markets for crops under contract, quite often farmers are tempted to sell outside the contract. Quotas deliberately set at levels lower than the farmers' actual production capacity may enable them to take advantage of high open market prices when they occur. Such an arrangement is likely to apply particularly when the pricing arrangement is for a fixed price rather than a market-based price.

VI. Quality Specifications of Commodity Contracted

a)Quality specifications in terms of size, weight, degree of maturity, packaging, intrinsic quality like juice content, safety requirements, if any

b)Agency to decide quality in case of dispute

c)Consequences of non conformity with quality specifications

I.Rejection

II.Reduction in price

III.Any other

Explanatory note: Contracts should contain quality specifications of produce covered by the agreement and indicate as to whether the produce that does not conform to the agreed criteria can be rejected. It is important that farmers fully understand the reasons for standards. Contract sponsor should demonstrate the grades to farmers at the beginning of each season and explain the rationale for the specifications. Wherever possible, the number of grades should be kept to a minimum and each grade's specifications should be presented in clear terms. Often, however, there may be a need for only one standard, with all produce delivered being required to fall within a particular specification range.

VII. Crop delivery arrangements

a)At Farm gate

b)At Processing Unit

c)At specified Collection centers

d)Transportation arrangements

Explanatory note: Arrangements for collection of products or delivery by the farmers vary widely. Some ventures stipulate that farmers should deliver their harvest to processing plants at given dates; others may include the use of the sponsor's transport to collect harvested crops at centrally located buying points. For contracted fresh vegetables a normal practice is farm gate collection. When the sponsor's transport is used there is normally no cost to the farmer. In the sugar industry, farmers deliver their harvested cane to a central loading point from which it is then transported to the crushing mill, weighed and purchased. Many formal contracts have clauses that outline the obligations of both the farmer and the sponsor regarding delivery and collection respectively. As a routine practice, sponsors and their extension staff should confirm delivery or collection arrangements at the beginning of each season and reconfirm these prior to harvest.

VIII. Pricing arrangements

a)Fixation of Price

b)Payment and Loan/Credit Recovery Procedure

c)Advance Payment

d)Credit in Cash/ Kind (input)

e)Recovery of Bank Loan

f)Payment on Delivery

g)Final Payment

h)Arrangement with Banks

Explanatory note: Pricing and payment arrangements are the most discussed and challenging components of all farming contracts. The choice of which crop pricing structure to use is influenced by whether the crop is for the local or export market, the seasonal nature of production and the degree of competition in the marketing system. The application of transparent pricing formulas is crucial and the drafting of a clear pricing structure and the organization of a practical method of payment encourage confidence and goodwill. There are several ways prices offered to farmers can be calculated. Fixed prices are the most common method. The practice is usually to offer farmers set prices at the beginning of each season. In almost all cases, fixed prices are related to grade specifications. Flexible prices structure applies to prices calculated on a formula related to changing global and local markets. This form of pricing is common in, for example, the sugar industry where the final price to the farmer is known only after the processed sugar has been sold. Under Split pricing system an agreed base price is paid out at the time of purchase or at the end of the harvesting season. The final price is calculated once the sponsor has on-sold the commodity, and depends on the prevailing market price. If the crop is sold in the fresh form the second price can usually be calculated within a month. When the product is processed it may take much longer.

IX. Registration and Dispute Resolution Mechanism

In the majority of cases, it is highly unlikely that a sponsor will take legal action against a small holder for a breach of contract. The costs involved are inclined to be far in excess of the amount claimed, and legal action threatens the relationship between the sponsor and all farmers, not just those against whom action is being taken. Action by a farmer against a sponsor is similarly improbable. As neither side is likely to seek a legal remedy through the courts, it is important that quick and easy ways of resolving disputes are identified in the agreement. A body representing the sponsor, farmers and other interested like Market Committee might be the most appropriate forum, which can act as an arbitrator. For the purpose, appropriate legal provision will have to be made in the law governing the marketing of agricultural produce (APMC Act) to inter-alia provide for compulsory registration of all contract farming agreements and the procedure for settlement of disputes arising there from.

X. Indemnity in favour of producer

In order to protect producers land and properties it is essential that an indemnity is provided to him. The sponsor in any case shall not have any right whatsoever over the title or possession of the producers land.

OPTIONAL PROVISIONS -

XI. Cultivation /Input Specifications to be followed by the Producer

a)Land preparation

b)Nursery

c)Fertilization

d)Pest management

e)Irrigation

f)Harvesting

Explanatory note: When sponsor provide seeds, fertilizers and agrochemicals, they have the right to expect that those inputs will be used in the correct quantities. They also have the right to expect that farmers follow the recommended cultivation practices. Of particular concern is the possibility that farmers may apply unauthorized or illegal agrochemicals, which can result in toxic residues, with dramatic repercussions for market sales. It is therefore essential to spell out these clearly so that all contracted farmers adhere strictly to the project's input policies. Sponsors and their extension staff must make every effort to explain to farmers why the specifications and input recommendations must be followed.

XII. Insurance arrangements

a)Price Fluctuations

b)Pest Epidemic

c)Natural Calamities

d)Acts of God

e)Destruction of Assets

f)Loan Default

g)Production Loss

h)Buyer's Insolvency

Explanatory note: Agricultural investments always involve risk. The five most likely reasons for investment failure are poor crop management, climatic calamities, pest epidemics, market collapse and price fluctuations. The standard agribusiness approach to indemnify against quantity shortfalls is crop insurance. As the farming involved in a contract arrangement becomes technologically more advanced, the range of risks to which it is subject generally becomes more limited. In many cases some of the remaining risks can be managed with the assistance of insurance. Where there are fixed price contracts there is no apparent risk to farmers with regard to payment for their crops. If a market collapses, the sponsor should automatically shoulder the loss. However, if the sponsor becomes bankrupt, farmers could be permanently affected. Where contracts are on a flexible on spot-price basis the stability of farmers' incomes is always at risk. In theory, the proposal of crop and property insurance for farmers in contract farming ventures is appealing. However, a qualified risk analysis has to be made to determinate the economic advantages of insurance against the specific risks applicable to the particular crop. Some authorities classify the four main categories of crop insurance in order of "their comprehensiveness in terms of coverage of risks" as follows:

(i) Acts of Gods": This category encompasses natural disasters such as drought, floods, hail, storms, cyclones, lightning, insect plagues and disease epidemics that are beyond management control.

(ii) Destruction of specified assets. Tractors and farm implements can be insured against damage and theft. Insuring of curing kilns by farmers when growing tobacco under contract is essential. If a contract-farming venture is well established, management can sometimes organize the insurance of non-contractual farm buildings and housing as part of the sponsor's total indemnity policies, reducing the cost of premiums to the grower.

(iii) Loan default: In almost all ventures, sponsors assume the liability of credits advanced by management to the farmer for the contracted crop. It is therefore important that advances do not accumulate into debts that the farmer cannot repay. Sponsors normally allow farmers who cannot repay advances because of climatic or other mitigating factors to extend their loans to the following seasons. Sponsors, of course, do have the option to indemnify their farmer loans against default through their own insurance brokers.

(iv) Production and income loss: Insurance against both production and income loss is expensive and complex. Production loss may be caused by a combination of factors that are difficult to insure against. To determine who is culpable when a crop is destroyed by insects is one example. Was it an "Act of God" or the failure of the farmer to take measures for pest control at the appropriate time, or was it the fault of management for not training and instructing the farmers in pesticide techniques? There are also social risks that could cause crop loss such as theft and animal damage.

XIII. Support Services To Be Provided By Sponsor :

The sponsor of large volume of produce may as part of the agreement provide one or more of the following services:

a)Coordination of production which includes identifying suitable production areas and forming farmers' groups;

b)Provision of extension advice on new cultivation/harvesting practices, appropriate use of chemicals, and efficient farm management;

c)Transfer of Technology leading to higher yield and/or improved quality;

d)Cropping schedules; and

e)Training and awareness programmes

XIV. Farmer- Management Forum

a)Organisation of Farmers' Association

b)Interaction with Associations

Explanatory note: Intermediary bodies that link management/sponsor and farmers for purposes of negotiation and interaction are necessary for all contracts. By creating farmer-management forums, sponsors can negotiate contracts with farmers either directly or through their representatives. The representatives should meet with management/sponsor periodically, but atleast three times in a season. The first meeting should be at the beginning of season in order to ratify the pricing structure and the season's crop schedules. A second meeting is advisable immediately before harvesting to discuss the crop progress and to confirm buying procedures. A final meeting to review performance at the end of harvest, which may coincide with the final payment to farmers. The farmers management forums include Farmers Associations, Farmers Co-operatives, Farmers Groups or any other organisation of the farmer by whatever name called (to be named in the agreement).

XV. Monitoring Quality and Yields

Each contract farming agreement must incorporate quality control and monitoring system suitable for its particular operation. Sponsor must prioritize monitoring procedures and decide how often they should be carried out, in what locations and who should be inspected and at what locations. Checking product quality can take place before, during and immediately after harvesting as well as at the time farmers grade their own production and when the produce reaches the company's processing or packaging facility.

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Model Agreement for Contract Farming

(All clauses of the agreement are subject to the respective explanatory notes given under "contents of a model contract farming agreement")

THIS AGREEMENT is made and entered into at ____________________ on the ______ day of ____________, 2003 between ________________ age ________ residing at ____, herein after called the party of the First part (which expression shall unless repugnant to the context or meaning thereof mean and include his heirs, executors, administrators and assigns) of the one part, and M/s.________________________ a Pvt./Public Limited Co. incorporated under the provisions of Companies Act-1956 and having its registered office at ___________________ herein after called the party of the Second part (which expression shall unless repugnant to the context or meaning thereof mean and include its successors and assigns) of the other part.

WHEREAS the party of the First part is the owner/ cultivator of the agricultural land bearing the following particulars.

Village	Gut No.	Area in Hectare	Tehsil & Dist.	State

AND WHEREAS, the party of the Second part is trading in agricultural produce and also providing technical know-how in respect of land preparation, nursery, fertilization, pest management, irrigation, harvesting and alike things.

AND WHEREAS the party of the Second part is interested in the items of the agricultural produce more particularly mentioned in Schedule-I hereto annexed and at the request of the party of the Second part, party of the First part has agreed to cultivate and produce the items of agricultural produce mentioned in the schedule-I hereto annexed.

AND WHEREAS the parties hereto have agreed to reduce in writing the terms and conditions in the manner hereinafter appearing.

NOW, THESE PRESENCE WITNESSTH AND IT IS HEREBY AGREED BY AND BETWEEN THE PARTIES AS FOLLOWS :

Clause 1 :

The party of the First part agrees to cultivate and produce and deliver to the party of the Second part and the party of the Second part agrees to buy from the party of the first part the items of the agricultural produces particulars of the items, quality, quantity and price of the items are more particularly mentioned in the schedule I hereto annexed.

Clause 2 :

The agricultural produce particulars of which are mentioned in the schedule-I hereto will be supplied by the party of the First part to the party of the Second part within the period of _________ months/years from the date hereof.

OR

It is expressly agreed between the parties hereto that this agreement is for agricultural produce particulars of which are described in schedule-I hereto and for a period of _____ months/years and after the expiration of said period, this agreement will automatically come to an end.

Clause 3 :

The party of the First part agrees to cultivate, produce and supply quantity mentioned in the schedule-I hereto annexed to the party of the Second part.

Clause 4 :

The party of the First part agrees to supply the quantity contracted according to the quality specifications stipulated in Schedule I. If the agricultural produce is not as per the agreed quality standards, the party of the Second part will be entitled to refuse to take the delivery of the agricultural produce only on this count. Then

a) The party of the First part shall be free to sell the produce to the party of the Second part at a mutually renegotiated price

OR

b) In open market (to bulk Buyer viz. exporter/processor/ manufacturer etc.) and if he gets a price less than the pricecontracted, he will pay to the party of the Second part, for his investment proportionately less

OR

c)In the market yard and if the price obtained by him is less than contracted price, then he will return proportionately less for theparty of the Second investment.

In the event the party of the Second part refuses/fails to take the delivery of the contracted produce for his own reasons then the party of the First part will be free to sell the produce in the open market and if the price received is lower than the contracted price the difference will be on account of the party of the Second part and the party of the second part shall pay the said difference to the party of the First part within a period of _____ days from asserting the said difference.

Clause 5 :

The party of the First part agrees to adopt instructions / practices in respect of Land preparation, nursery, fertilization, pest management, irrigation, harvesting and any other, as suggested by the party of the Second part from time to time and cultivate and produce the items as per specifications mentioned in the schedule-I hereto.

Clause 6 :

It is expressly agreed by and between the parties hereto that buying will be as per the following terms and buying slips will be issued immediately after the purchase

Date	**Delivery Point**	**Cost of Delivery**

It is further agreed that it will be the responsibility of the party of the Second part to take into possession of the contracted produce at the delivery point agreed after it is offered for delivery and if he fails to take delivery within _____________ period then the party of the First part will be free to sell the agriculture produce contracted as under :

a. In the open market (bulk buyer viz. exporter/ processor/ manufacturer etc.), and if he gets a price less than the price contracted, he will pay to the party of the Second part for his investment proportionately less

b. In the market yard, and if the price obtained is less than the contracted price then he will return proportionately less to the party of the Second part for his investment.

It is further agreed that the quality maintenance in transit will be the responsibility of the party of the Second part and the party of the First part shall not be responsible or liable for the same.

Clause 7 :

The party of the Second part shall pay to the party of the First part the price/rate mentioned in Scheduled I when his crop has been harvested and delivered to the party of the Second part after deducting all outstanding advances given to the party of the First part by the party of the Second part. The following schedule shall be followed for the payment.

Date	**Mode of Payment**	**Place of Payment**

Clause 8 :

The parties hereto shall insure the contracted produce mentioned in Schedule-I hereto, for the period of ______________________ against the risk of losses due to acts of Gods destruction of specified assets, loan default and production and income loss and all other acts or events beyond the control of the parties, such as very low production caused by the serious outbreak of a disease, epidemic or by abnormal weather condition, floods, drought, hailstorm, cyclones, earthquakes, fire or other catastrophes, war, acts of Government, action existing on or after the effective date of this agreement which prevent totally or partially the fulfillment of the obligation of the farmer. Upon request, the party of the First part invoking such acts shall provide to the other party confirmation of the existence of facts. Such evidence shall consist of a statement of certificate of the appropriate Governmental Department. If such a statement or certificate cannot reasonably be obtained, the party of the First part claiming such acts may as substitute, thereof, make a notarial statement describing in details the facts claimed and the reasons why such a certificate or statement confirming the existence of such facts. Alternatively, subject to the mutual agreement between the two parties, the party of the First part may fill his quota of the produce through other sources and the loss suffered by him thereby due to price difference, shall be shared equally between the parties, after taking into account the amount recovered from the insurance company, The insurance premium shall be shared equally by both the parties.

Clause 9 :

The party of the Second part hereby agrees to provide following services to the party of the First part during the period of cultivation and post harvest management, particulars of which services are as follows :

1.

2.

3.

4.

Clause 10 :

The party of the Second part or it's representatives agrees to have regular interactions with the farmers forum set up/named by the party of the First part during the period of contract.

Clause 11 :

The party of the Second part or it's representatives at their costs shall have the right to enter the premises/fields of the party of the First part to monitor farming practices adopted and the quality of the produce from time to time.

Clause 12 :

The party of the Second part confirms that he has registered himself with the Registering Authority ________________ on ______________ and shall pay the fees in accordance with the law prevailing in this regard to the Registered Authority which has jurisdiction to regulate the marketing of agriculture produce which is cultivated on the land described ____________

OR The party of the Second part has registered himself on _______ with a single point registration Authority namely ____________________ prescribed by the State in this regard. The fees levied by the respective Registering Authority shall be borne by the party of the Second part exclusively and will not be deducted in any manner, whatsoever, from the amounts paid to the party of the First part.

Clause 13 :

The party of the Second part will have no rights whatsoever as to the Title, Ownership, Possession of the land/property of the party of the First part nor will it in any way alienate the party of the First part from the land property particularly nor mortgage, lease, sublease or transfer the land property of the First party in any way to any other person/ institution during the continues of this agreement.

Clause 14 :

The party of the Second part shall submit true copy of this agreement signed by both the parties within a period of 15 days from the date of execution thereof with the ________ market committee/ registering authority as required by the APMR Act / any other registering authority prescribed for the purpose.

Clause 15 :

Dissolution, Termination/Cancellation of the Contract will be with consent of both the parties. Such dissolution or termination/cancellation deed will be communicated to the registering authority within 15 days of such dissolution, termination/cancellation.

Clause 16 :

In the event of any dispute or difference arising between the parties hereto or as to the rights and obligations under this agreement or as to any claim, monetary or otherwise of one party against the other or as to the interpretation and effect of any terms and conditions of this agreement, such dispute or difference shall be referred to arbitration authority constituted for the purpose of Authority declared by State Government in this regard.

Clause 17 :

In case of change of address of any party to this agreement, it should be intimated to the other party and also to the Registering Authority.

Clause 18:

Each party hereto will act in good faith diligently and honestly with the other in the performance of their responsibilities under this agreement and nothing will be done to jeopardize the interest of the other.

In witness whereof the parties have signed this agreement on the ____ day, _________ month and _________ year first above mentioned.

SIGNED, SEALED AND DELIVERED by the)

withinnamed 'PARTY OF THE FIRST PART')

in the presence of ....)

1...)

2...)

SIGNED, SEALED AND DELIVERED by the)

withinnamed 'PARTY OF THE SECOND PART')

in the presence of ....)

1...)

2...)

Schedule I

Grade, Specification, Quantity and Price Chart

Grade	Specification	Quantity	Price/Rate
Grade 1 or A	Size, Colour, Aroma etc.		
Grade 2 or B			