



## Contract Overview of Farming: Legal Issues and Challenge

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**Abstract** :Because of the possible advantages of successful agricultural production contract activities, contract farming has recently gained interest in the development literature. This paper would begin by highlighting several examples of how the legal system regulating contract farming can take several different forms. In the contract farming sector, it can also discuss the basic contract and break down the elements of a traditional agricultural contract. It will begin with a general summary before going on to particular contract terms that can help protect the parties, as well as those that can lead to misuse of opportunities and thereby contract agricultural operations' long-term viability. Finally, the government's position in enhancing contract agricultural performance will be addressed in this study

**Key Words:** Contract farming, agricultural production, legal issues

### I. INTRODUCTION

Farmers' access to domestic and foreign markets can be improved by contract farming, which can also serve to increase income in rural areas. Contract farming, on the other hand, will guarantee a consistent supply of agricultural products that meet agreed-upon quality standards while also lowering prices for agro-industrial companies engaged in the cultivation, manufacturing, and sales of agricultural products. Fair contract structures can help to promote reasonable contract activities, helping them to enjoy the benefits of such policies. This legal mechanism will assist the parties in carrying out the contract correctly. Many different arrangements are listed in the economics and social science literature as Contract farming. Simple arrangements for the selling of agricultural goods, independent contractor agreements, personal service contracts, joint ventures, alliances, and job relationships are all examples of the essence of the relationship in Contract farming, and they all cover the scope of buyer power and involvement. Typically, separate rules regulate each of these partnerships.

Hiring decisions are taken for a number of reasons. One of the primary goals of Contract farming in developing countries is to ensure a consistent and safe supply of raw materials to trading and manufacturing industries that meet certain quality requirements. The business structure in developing countries is complex, the technical level is high, the agricultural structure is complex, and the mentality of the government is complex, to name a few influences. They created an atmosphere that was perfect for private contract negotiations focused on product requirements. Contract farming, on the other hand, starts in the developing world with the supplementation, periodic rivalry, and partial replacement of planting and field cultivation, or by assembling individual growers, and sometimes newly formed families, according to state or private plans to produce different families Consumer goods. Exports, in particular (Watts 1994).

The biggest issue facing emerging countries, least developed countries, and countries in transition is the transformation of agriculture from a conventional system to a market-oriented structure. The key fight is to reduce the proportion of the population engaged in agriculture to a certain degree by generating new workers in agriculture-related sectors such as the non-agricultural sector or the food processing industry. The food processing industry is a vital industry for these nations, and it is well acknowledged that it should be highly regarded both domestically and internationally. The food manufacturing sector is critical to both economic development and human health. By forward and backward linkages, the food industry supports the growth of other industries.

## II. LITERATURE REVIEW

### **Contract Farming as a way of Coordination**

There are three major ways of collaboration from a general system theory (theories), such as the hierarchical framework (total or integration of ownership), market (open market coordination) and network (cooperation or coordination between companies) (Veryard 1994). It can be divided into three simple teamwork categories from the business and company perspective (Roy 1963). Vertical coordination (integration) means the merger of operations with the activities undertaken in the sequence of promotion and manufacturing activities rather than those undertaken at the moment.

**Vertical coordination:** It has more to do with technical progress than with systemic advancement (Trifon 1959). The meat packer's decision to return to the supplier and run its own livestock procurement point in the region, then move it to the consumer and operate its own meat wholesale market, exemplifies this coordination (Kilmer 1986). The term "integration" refers to the merging of two or more components into one. Where two or more phases of the manufacturing and distribution process are efficiently managed by a knowledgeable authority, vertical integration is the best option.

**Horizontal coordination:** when an organization maintains leverage of firms that conduct related operations at the same stage of the development and distribution sequence, this is referred to as (integration). A local dairy cooperative entering a regional coalition is one example. Vertical and horizontal expansion are common in businesses. When horizontal and vertical operations are mixed, it produces a strong mix.

**Circular coordination:** vertical incorporation will occur if a dairy product producer association enters a dairy cooperative; however, horizontal integration will occur if the dairy cooperative is incorporated as a state cooperative partnership. Another type of organizational expansion happens when organizations or events that are not specifically connected are managed together. This is referred to as a conglomeration.

### **International Law and Guidance from International Organizations**

Many cross-border sales contracts are governed by the United Nations Convention on Contracts for the International Selling of Goods (hereinafter referred to as the "Sales Convention"). The CISG is basically a formal legal mechanism covering the conclusion of a movable property purchase contract and the rights and obligations of the contracting parties where the contracting parties have institutions in separate countries and the two countries are members of the treaty. The principles of private international law have culminated in the member states' legislation being enforced. In the way that qualifying contracting parties may voluntarily exempt part or more of the Convention, the CISG fills the void and is an infringement. There are presently 77 member states of the CISG, which comprise both developed and emerging countries. While the CISG may not be appropriate to particular contracted agricultural enterprises in certain cases, it has had a "important effect both globally and domestically" since its introduction in 1988. Despite the fact that it is a single power with instructions on interpretation in the CISG, various forums will naturally view it differently.

UNIDROIT International Commercial Partnership Standards is another international guide for Contract farming (hereinafter referred to as PICC). UNIDROIT is a non-profit intergovernmental body whose mission is to coordinate private sector legislation. The IPCC's 2010 revision (third edition) was recently passed. In 1994, the first version of PICC P&C was published. PICC P&C is an indicative right that reflects the values of various legal regimes around the world. As a result, it is not binding on the partners until it is expressly adopted as the rule of a particular contract. IPCC is applicable to all forms of international contractual contracts and can be used to influence national legislation, enforce basic rules of international law, or expressly want to use IPCC to manage particular laws of agricultural contracting. Deal No. 19 PICC Property & Liability Insurance Company, like the CISG, has shaped the international legal system and has been a standard principle in contracts, considering the fact that it is not generally part of the relevant legislation.

### **Why Contract Farming?**

Millions of people in their later years rely on agriculture for a living. Farmers are often forced to dump their goods due to a shortage of buyers. This is the best way to look at the situation. The agri-food industry, on the other hand, needs a steady supply of high-quality agricultural goods. The idea of Contract farming was born out of this possible agricultural anomaly, and it is intended to provide an acceptable

connection between agriculture and industry. Farmers require a stable market. High-quality agricultural products are needed by the agri-food industry. Contract farming will serve as a bridge between the farm and the industry. Another justification for Contract farming is to relieve the federal and state governments of their financial burdens. Agriculture would see an uptick in private spending. Contract farming is required for Indian farmers to adopt a market approach in crop selection. Individual farmers will benefit from Contract farming because it will provide a steady stream of income. Agriculture and the processing industry will be linked by Contract farming. In rural areas, Contract farming would generate paying jobs opportunities. Labor movement from rural to urban areas would be reduced as a result of Contract farming.

### **Domestic Legal Frameworks**

Contract agricultural activities are regulated widely in various countries depending on a number of factors (including national legal traditions and the timing of the formulation of regulations). As a consequence, Contract farming laws can be contained in the Civil Code, the Agricultural Code, the General Contract Law, the Particular Agricultural Contract Law, and Departmental Legislation or specific items in the national legal framework. These sources of current regulations vary in how they are applied to Contract farming. In addition to the provisions relevant to Contract farming, it is typically the most detailed civil code, addressing a broad variety of topics. Farmers have several other rules that are not relevant to contract farming, despite the fact that they are more precise. In a more basic context, certain countries have adopted legislation that centers exclusively on contract agricultural practices, or also on specific subsets of contract agricultural practices. Furthermore, depending on the region, these various sources of national Contract farming rules may be combined to form various levels of relevant rules that must be considered.

### **Farmer Cooperatives:**

An agricultural cooperative is a collective of agricultural producers who own, administer, and govern the company. Its aim is to serve the common good of its participants, who are either producers or sponsors (Rehber 1984). Vertical cooperation on a national scale is, of course, a voluntary organization. Input supply, manufacturing, and sales cooperatives, in particular, put more than one production and sales stage under the management of a single unit. Farmers who join cooperatives would be able to reach existing markets more effectively, earn higher net income, and achieve counter-competitive leverage in the face of anti-competitive market forces (Petraglia and Rogers 1991). Farmers' participants can help monitor their own fate by cooperating with cooperatives (Ling and Liebrant 1995). Cooperatives can overcome processors' monopoly control by raising the selling price of all farmers (not just cooperative members) to a reasonable level.

### **Ownership Integration**

But the various arrangements and actions of these production groups or cooperatives are separate from property incorporation and can be viewed as a form of vertical collaboration. While there is some disagreement and a rather thorough research is needed, some empirical evidence suggests that vertical cooperation between farmers and their own cooperatives has been effective. Some people claim that vertical cooperation will increase financial productivity by producer cooperatives. In the 1970s, the manufacturer's cooperative processing paradigm emerged in the American sugar industry. Any sugar firms have been manufacturers. They used to be state-owned enterprises in Turkey. There are two good encounters (Koenig 1995, Rehber 2004).

As the producer who provides the raw material often has a processing unit in the cooperative system, people may assume the relationship between the farmer and the processing unit manager is harmonious. In certain cases, the bond between a cooperative or association and its participants is more constitutive than contractual. It may include manufacturing processes, product requirements and delivery times. Indeed, this teamwork also causes challenges and conflicts, particularly when other marketing opportunities are present. To prevent such problems in cooperatives, contractual ties with member farmers are advisable (Royer 1995). There are also funding and benefit share issues. Nevertheless, in particular in the United States (Fulton and Sanderson, 2002; Hardesty, 2004), reorganized models of cooperatives, called Next Generation Cooperatives (NGC), have arisen to address these issues. This modern method of collaboration is often referred to as the organization of the agricultural network (Menard and Klein 2004). Farmers have formed negotiating cooperatives in order to create contractual partnership conditions.

In fact, however, various words and connotations of Contract farming have appeared in the related literature around the world (Glover 1992). Different contract forms can be differentiated on the basis of the number of decisions involved, risk distribution and contract conditions requirements. Two forms of contracts are described from the point of view of production decision-making or management:

**Limited Management Contracts:** Farmers sign contracts to procure some output inputs of this type. There is no such thing as a price promise. The farmer's liability is limited to the output inputs he obtains as part of the arrangement.

**Full Management Contracts:** The farmers and the integration firm in this case agreed to a deal focused on a specific yield. Farmers must abide by the conditions stipulated in the arrangement in this form of contract. Producers should guarantee that their goods have a demand and that they are safe from threats in this manner. Contracts is classified into three groups by Kohls and Uhl (1985):

**Market Specification Contracts:** They clearly define the commodity quality metrics the integrator is permitted to accept, as well as price and payment system constraints. Usually, the deal is signed at the time of planting. They decide how many and at what price the integrator will purchase. Management decisions to move farmers are rare, if at all. In the producer's opinion, if it follows the criteria, the buyer would be satisfied.

**Resource Providing Contracts:** Integrators have clear requirements for development services, administrative support, and oversight in this type of project. Stock values are typically decided on the spot market, and farmers have no assurance of profits.

**Management and Income Guaranteeing Contracts:**The first two forms of manufacturing and distribution legislation are normally included in these contracts. Furthermore, farmers' market and price threats have moved to this form of integrator. Integrators, on the other hand, are responsible for a considerable portion of a farmer's logistical duties. Other contracts, on the other hand, incorporate these two or three forms of components. The contract may, for example, prescribe manufacturing methods and sales requirements in addition to supplying inputs (Martinez 2002, Minot and Sawyer 2016).

People have been supporting Contract farming as an institutional innovation in underdeveloped and transitional countries for the past three decades, often as a result of rural development and/or settlement schemes, as an institutional innovation to increase rural results. The most important things (Ghee and Dorall, 1992, Baumann 2000, USAID 2005). State governments, private local businesses, foreign corporations, and foreign relief and banking agencies such as the US Agency for International Development, the World Bank, the Asian Development Bank, and the Commonwealth Development Corporation have all taken part in these Contract farming projects. (Silva 2005; Glaver 1994).

### **Objectives of the Contract Farming**

The main objectives of contract farming are the followings:

1. Lighten the pressure on the procurement processes at the federal and state levels.
2. Increase private sector agriculture spending.
3. Apply a market-based approach to farmers' crop selection.
4. Provide individual farmers with a consistent source of revenue.
5. Encourage value-added manufacturing.
6. Create paying jobs in rural areas, especially for landless agricultural labor.
7. Aim to eradicate all seasonality in the work mentioned above.
8. Decrease the number of residents moving from rural to urban areas.
9. Addressing emerging problems by pooling locally available tools and expertise, thus fostering overall rural self-sufficiency.

### **Legal Foundations of Production Contracts**

Contract development ties are based on historical practice of certain countries/regions, although there are no special laws in force. Such fundamental laws, such as constitutional law, contract law, or duty law, are also considered before applying the dispute to the court. Provisional law has been implemented in some countries that establishes a particular form of civil arrangement containing specifically crafted provisions that refer to various parts of the partnership. While the scope of these regulations varies, they typically set basic standards for contract form and substance to guarantee that producers recognize their

potential commitments and establish a dispute resolution process aimed at maximum conformity with the contract.

### **Civil Codes**

The Civil Code is considered to be a guide for contract farming, in particular the code requirements on contractual duties and contract forms. Argentina, the legal structure of which is largely inspired by Italy, Spain, France and Germany's traditional civil law systems, is a typical example. The Argentine Civil Code also includes several contract clauses. Therefore, the code includes certain general provisions pertaining to contract farming, such as the formulation of the contract and the signer of the contract. What is the contract's purpose? The type the contract will take and the length of the contract against a third party. The Argentine Civil Code includes more regulations on sales deals, in particular, the sales deal requirements; which can be sold; who can sign a sales contract; pre-determined laws on price determination; infringements of contractual provisions; the buyer and the seller's responsibilities, violation of contractual obligations, The conduct of contracts and associated services. The Civil Code will provide the primary context required to grasp the national legal structure (in the civil law system) governing Contract Farming, while more complex legislation exists.

### **Agrarian/rural codes**

Contract farming can also be governed by the "Agricultural Law," which is based on the "Agricultural Law" in certain countries. The French "Rural and Fishery Laws" are an example of this ("Maritime Rural Regulations"). The Rural and Fisheries Law is divided into two sections, the first of which includes several different topics relating to agriculture and fisheries, and the second of which is supplemented with accompanying regulations. General regulations on farm commodity distribution contracts and vertically integrated contracts are found in the Code's statutory section. The rules prepared in compliance with the Code are more precise depending on the items targeted by the deal. As a result, the "Code" specifies the aspects of such agricultural contracts that must be specified, such as contractual requirements, reciprocal obligations of all sides, contract length, and contract renewal terms. Such requirements that must be incorporated in agricultural contracts include force majeure clauses, disciplinary processes for settling disputes, and damages provisions in the event of contract violation.

### **General Contract Legislation**

Other nations have passed laws that governs all contracts. In India, this is exactly the case. Contracts can be regulated by both the federal (national) government and the states at the same time, according to the Indian Constitution. Contracts are normally subject to the reservation of laws that occurred under British rule at the national level (the Indian Contract Act of 1872). The "Indian Contract Law" has largely remained intact since 1872, and it is still in effect as a result of the new Indian Constitution. The prior law's validity is extended by the latter provisions. Many general provisions relating to Contract farming are included in India's "Contract Law," including the formation, validity, and usefulness of contracts, as well as the parties' obligations.

### **Soft law and Guidelines**

Finally, farmers and buyers may be directed to form contractual agreements using soft legal documents that have been accepted by public and private bodies at the national level. Codes of ethics, best practises, and instructions on agricultural contracts are examples of these instruments. The Kenyan Code of Conduct for the Selling of Fresh Horticultural Products, for example, is intended to direct the drafting of horticultural product sales contracts between farmers and purchasers. The Horticultural Crop Development Agency (HCDA), a government-owned corporation established in 1967 to oversee Kenya's horticulture industry, proposed the Code of Conduct. The code of conduct specifies the conditions that must be used in an agricultural contract, including commodity quality and quantity requirements, the buyer's output inputs, price lists, distribution terms, and the contract's length and termination. Fair processing practises for the use of pesticides, as well as management practises for the storage and handling of agricultural goods, are also recommended in the code.

### **Legal Issues and Challenge**

#### **Unfair practices**

During the contract's execution, the parties may engage in activities that obstruct the contract's proper execution. Farmers selling negotiated or partly set goods to other customers at higher rates (so-called

parallel sales) is a common unfair activity that results in the quantity sold to the buyer being less than the quantity accepted in the contract. Buyers may want to add an exclusive transaction clause in the deal if they want to maximize the possibility that farmers can produce all of their agricultural goods. Fines or other penalties (such as putting farmers on a list of untrustworthy contractors) can deter farmers from breaking contracts. In the distribution and pricing periods, there could be a lot of room for unreasonable actions on the part of the consumer. The customer may falsely declare that the product does not meet the agreed-upon quality specifications in order to reduce the agreed-upon price or reject the product, particularly when the market price shifts. Furthermore, when farmers' yields are unusually high, buyers may take advantage of the uncertainty in quality standards and refuse undesirable bits. Buyers may also degrade product quality by engaging in intentional or negligent action that has an effect on the product and its quality. In the case of a livestock production contract, for example, the buyer may promise to supply animal feed. The feed supply schedule may be exploited using this task allocation to decrease the animal's weight or nutritional status, decreasing the final price charged to the farmer. Owing to the rapid decline in sucrose levels after harvest, buyers of sugarcane production contracts may postpone purchasing sugarcane if the price is dependent on the sucrose level. To prevent quality coercion, the contract should explicitly specify the input conditions, implementation information, and quality criteria, as well as include a neutral third party to conduct quality assurance procedures. The following segment would go into more depth on certain particular contract clauses that may be abused.

### **Contract terms which may result in abuse**

The gains of Contract farming can be hampered by issues resulting from ambiguous, insufficient, or mistaken contract terms. Significant provisions intended to shield the parties are not always included in contracts. In such situations, the contract terms are vague or contradictory, resulting in miscommunication between the parties or customer abuse.

#### **Lack of clarity in price determination**

The contract words related to price calculation in Contract farming are often vague, complex, or contradictory, allowing farmers to distort or confuse how prices are determined. This is typical in livestock production contracts, where fees are based on a complicated calculation that takes into account factors like weight gain versus feed intake, mortality, and accidents. Specific scientific jargon can be difficult for farmers to comprehend. The price of a crop production contract is typically fixed at the time the contract is negotiated. Value can be compensated with premiums and discounts, although in certain contracts, the buyer's quality conditions (known as "quality specifications") are seldom defined. Due to the uncertainty of the contract terms, the buyer could attempt to exploit the contract terms in order to minimize the sum to be paid, especially in the event of market price volatility.

#### **Liability for production losses**

Farmers do not own crops or livestock in certain contracts; in these cases, farmers provide services by caring for or cultivating inputs supplied by the other party. Buyers profit from this agreement in two ways. For instance, consumers have a greater chance of securing intellectual property rights for seed genetic materials. Second, they are more favorable to stopping creditors of farmers from claiming legitimate claims to the contract's subject matter. Even if farmers mainly use the company's seeds or young animals to provide agricultural production facilities, the contract typically exposes the farmers to the possibility of production failure.

### **Challenges**

Farmers shared their experiences in contract farming schemes and highlighted some of the key challenges, including:

1. They aren't given enough time to study the contracts, which use confusing legal jargon.
2. Sometimes they aren't given a written contract at all.
3. Contracts only give rights to buyers and obligations to farmers.
4. Buyers delay in giving promised inputs like seeds or give inputs that are low quality.
5. Ultimately, the quality of the produce is determined by the buyer, and they can manipulate this to drive down prices.

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### III. DISCUSSIONS AND CONCLUSION

People have been supporting Contract farming as an institutional innovation in underdeveloped and transitional countries for the past three decades, often as a result of rural development and/or settlement schemes, as an institutional innovation to increase rural results. The most important things (Ghee and Dorall, 1992, Baumann 2000, USAID 2005). State governments, private local businesses, foreign corporations, and foreign relief and banking agencies such as the US Agency for International Development, the World Bank, the Asian Development Bank, and the Commonwealth Development Corporation have all taken part in these Contract farming projects. (Silva 2005; Glaver 1994). As a result, contract farming can be split into two groups for practical purposes: private contract arrangements and contract farming plans. Governments, purchasers, and farmer groups may be involved in designing new contract agricultural programs or enhancing the fairness, transparency, and long-term viability of existing programs.

Contract farming is a method that is still changing. The global implementation of Contract farming demonstrates that contract terms are tailored to each country's specific circumstances, differ from product to product, and each country's experience differs from that of others. In the related research and assessment, product attributes as well as geographical and national disparities should be taken into account. The major determinant of the form of vertical coordination is the characteristics of agricultural products. While some goods (such as poultry) are managed by a completely coordinated contract scheme, others (such as grain) do need to be sold on the open market. There are variations on a national and international level. Even though sectors like poultry are more or less homogeneous, various countries have different governance systems. As a result, when researching Contract farming, third-world outsourcing arrangements or multi-party negotiations should be viewed alongside developed-country implementation.

### IV. RECOMMENDATIONS

It is proposed that an autonomous body be established to settle conflicts between the company and farmers, since these are the primary causes of Contract farming loss. Disagreements and settlements between suppliers and processors will cause trials to be postponed for a long time. Arbitration is used as a means of dispute settlement in some situations. In arbitration, the arbitrator makes a ruling that is then carried out by a third party, eliminating the parties' authority. As a result, where government and non-government representatives are involved, mediation or reconciliation systems would be beneficial.

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