

Reforms for Agricultural Growth and Rural Development

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Reforms for Agricultural Growth and Rural Development

Land reform policies aimed to promote agricultural growth and alleviate rural poverty have had limited success. As a recent workshop on land reform suggested, the potential of new reform approaches such as contract farming, legalising procedures for land leasing, sanctioning homestead-cum-garden plots for the poor and landless need to be suitably examined and exploited.

T HAQUE

The department of agriculture and cooperation, government of India, in collaboration with the department of rural development, government of India and rural development institute, university of Washington, Seattle organised a national workshop on Reforms in Land Policy for Accelerated Agricultural Growth and Rural Development on September 1, 2003 in New Delhi. Nearly 50 senior level officers of government of India and various state governments mainly from the department of agriculture, revenue and rural development, and experts participated in the workshop. Among those who attended the workshop were R C A Jain, secretary, department of agriculture and cooperation, government of India, M Shankar, secretary, department of rural development, government of India, Roy Prosterman, chief, Rural Development Institute, Seattle, US.

In his inaugural address, M Shankar mentioned that the main objectives of reforms in land policy should be to promote agricultural growth and alleviate rural poverty. In the past, we have achieved very limited success in land reforms and poverty alleviation. Therefore, the potential of new reform approaches such as contract farming, land leasing and homestead-cum-garden plots in accelerating agricultural growth and poverty alleviation should be properly examined and exploited. R C A Jain, presented a keynote paper which highlighted the need for a paradigm shift from subsistence farming to market-oriented commercial agriculture. He pointed out that agricultural growth rate can be accelerated only through mutually supportive forward and backward integration leading to better post harvest management and higher value addition in the agricultural sector. This would require substantive reforms in the land policy of the country. These reforms should be directed to legalise land leasing and promote contract farming as well as the system of land share company. The whole process of market orientation should be farmer friendly and participatory in

nature. Besides, the reform in land policy should address the problem of landless agricultural labourers. There should be efforts to allot homestead-cum-garden plots to each landless family instead of either only homestead plot or constructed house, as in Indira Awas Yojana. These new approaches to land reform would not only accelerate the pace of diversified agricultural growth, but would also help alleviate rural poverty.

Roy Prosterman and Jennifer Brown of the Rural Development Institute, Seattle, who presented a paper on the benefits of homestead-cum-garden plots mentioned that Indian policy-makers concerned with rural development are faced with a serious challenge today. On the one hand, rural landlessness remains a substantial problem at the root of much of India's rural poverty; on the other hand, there is little political will to address the problem through redistributive land reform. Based on the results of a comprehensive household survey in Karnataka and West Bengal, Roy and Jennifer said that allotment of about 7-cent rural house and garden sites to landless agricultural labourers would make a significant contribution to improving their livelihoods. A properly conceived scheme of allotment of homestead-cum-garden plots can significantly improve income and food and nutritional security of poor landless families. This could be a better substitute for the current Indira Awas Yojana and would also require less resources, while benefiting greater number of landless families. This could also be thought of as a viable scheme for agricultural diversification and value addition, involving marginal farmers and landless agricultural labourers.

P K Aggarwal, joint secretary in the ministry of agriculture, presented a paper on contract farming. Aggarwal said that the ministry of agriculture, had prepared a model of contract farming, the adoption of which would immensely benefit small and marginal farmers in accessing technology, quality inputs and assured price and market support. He also pointed out that contract farming is not corporate farming, as it is commonly misunderstood.

Contract farming is different from corporate farming, inasmuch as the land rights of contract farmers remain fully protected. The spread of contract farming could significantly help increase the income of small farmers and also help promote agricultural diversification and value addition. Aggarwal however mentioned that promotion of contract farming would require an appropriate institutional arrangement at the local level, for speedy settlement of disputes, if any.

In his own presentation, the author made a plea to legalise land leasing, as legal restrictions on leasing out of agricultural land in several states, have defeated the very purpose of land reform. It has resulted in the existence of concealed tenancy which is more exploitative and less productive. Legalisation of land leasing will help improve occupational mobility of people and also aid poor people's accessibility to land through the growth of active land lease market. At present, many farmers prefer to keep their lands fallow than to lease them for fear that they would lose their land rights in case if they did so. The fear expressed by some people that legalisation of leasing would lead to the growth of reverse tenancy and greater concentration of landholding, seems to be unfounded, as necessary safeguards can be provided in law to allow leasing in and leasing out of agricultural land within the ceiling limits fixed in different states. Keeping in view the fact that there is little scope and even will-power on the part of the government to implement redistributive land reform, improvement in the poor people's access to land through an active land lease market would be crucial for poverty alleviation and raising farm incomes.

The representatives of the state governments expressed the view that proposed reforms are essential for rapid agricultural growth and rural transformation. The principal secretary, agriculture, government of Gujarat said that contract farming was a win-win situation for both farmers and the company. The small farmers who are currently deprived of any market and price support would immensely benefit from it. As some political leaders in the country have a preconceived notion that contract farming is similar to corporate farming, the term 'contract farming' could be substituted by 'contract for marketing of agricultural produce' which could bring it greater appeal and acceptance.

Vinod Aggarwal, department of survey, settlements and land records, government of Andhra Pradesh and S Bhattacharya, secretary, agriculture, government of Andhra Pradesh felt that ban on leasing out of agricultural land was probably relevant in the period immediately after independence when there was a demand and need for abolition of intermediaries/

zamindari. But in the present context, it was essential to liberalise land leasing in order to enable the large farmers to lease out land and take up non-farm activities, while allowing the marginal and small farmers to lease in land and improve their size of holding. The legalisation of land leasing would help in rapid rural transformation. S K Goel, principal secretary, agriculture, government of Maharashtra felt that even though contract farming and legalisation of land leasing would appear to negate the benefit of earlier land reform measures, it is not really so. These are new land reform approaches, which will help promote the growth of both agricultural and non-agricultural enterprises in rural areas and create additional employment and income opportunities for the farmers.

Prasadranjan Ray, principal secretary, revenue and land reforms commissioner, government of West Bengal pointed out that government of West Bengal was open to any reform proposal that aims at benefiting the small and marginal farmers and landless farmers. He also said that there was lot of misunderstanding at some levels about some proposed reforms in land policy for which much more debate and sensitisation process would be required. Ashok Vardhan, additional member,

government of Bihar expressed the view that opposition to the proposed reforms, namely, contract farming and legalisation of land leasing is basically due to fixed mindset of people. According to him, the proposed reforms would help improve the socio-economic condition of the rural poor. The representatives of the government of Madhya Pradesh, Punjab and Haryana accepted the reform proposals without any reservation. In fact, Madhya Pradesh has already drafted a model bill, almost on the same lines, as indicated in the paper presented by P K Aggarwal. It was also interesting to observe that representatives of all the state governments welcomed the idea of allotment of homestead-cum-garden plots as a potentially viable scheme for rural poverty alleviation. This could be adopted either in lieu of the existing Indira Awas Yojana or even as a new scheme of agricultural diversification and poverty alleviation.

The main conclusions of the workshop can be highlighted as follows:

Contract Farming

The contract farming arrangement is a win-win situation for both the company and the contract farmers. The farmers

benefit due to improvements in yield and income because of his access to technology, quality inputs and assured price and market support. Similarly, the company gains from assured supply of quality raw material at a pre-agreed price. However, the success of contract farming would depend on the following factors:

(a) There should be an institutional arrangement to record/register all contracts, may be with the local panchayat or some government machinery. This will promote confidence between the parties and also help solve any dispute, arising out of violation of contract.

(b) The contract should be managed in a more transparent and participatory manner, so that there is greater social consensus in handling contract violation from either side without getting involved in costly as well as lengthy process of litigation.

(c) The contract farming should have a provision for both forward and backward linkages. Unless both input supply and market for produce are assured, small farmers will not be in a position to participate in contract farming.

(d) In case of crop loss due to either pests and diseases or adverse weather condition, contract farmers should be adequately

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covered by crop insurance, for which the premium should be paid equally by the farmers and the company.

(e) In many states, agricultural tenancy is legally banned, although concealed tenancy exists. Tenants who do not enjoy security of tenure are not able to participate in contract farming. Hence, legalisation of tenancy would be a precondition for enabling the tenant farmers to benefit from contract farming.

(f) APMC acts and other relevant laws should be amended to permit forward trading/contract farming/direct marketing as an alternative to regulated markets.

(g) In order to promote contract farming, the government should identify some commodities in each state for initial exposure and rapid implementation of the concept, in collaboration with the participating company.

Land Leasing

(a) The existing laws, governing land leasing in various regions should be reviewed, simplified and liberalised in order to promote both agricultural efficiency and equity.

(b) The land leasing should be made legal in all areas, subject to the provision that the size of operational holding of a farm should not be above the ceilings fixed in respect of various categories of land in each state. In states where ownership holding is the basis for ceiling, the law should be accordingly amended.

(c) The clause of adverse possession of land in the land laws of various states should be done away with, as it interferes with free functioning of land lease market.

(d) Leases could be for any duration, namely, seasonal, annual or for more than a year. Also the land owners will have the right of automatic resumption of land after the agreed lease period.

(e) All such cultivators who have leased in land even for a season or year should be entitled to access short-term bank credit.

(f) As far as possible, the system of share cropping should be replaced by fixed cash or fixed produce systems of leasing. Particularly, the state like West Bengal which recognises only share cropping tenancies and not the fixed rent tenancies, should suitably amend the law in this regard. By and large, fixed rent tenancies are more efficient and also favourable to a tenant, as he does not have to share the result of his extra efforts put in farming.

(g) Land leasing policy should be such as to promote contract farming so that small farmers could benefit from adoption of new technology and assured market provided by the company

(h) The existing system of regulation of rent by the state should be done away with in regard to land leasing. In principle the

rent should be the market rent, as agreed upon in writing by the lessor and the lessee.

Land Share Company in Agriculture

(a) The concept of land share company in agriculture does not exist in India. However, it is possible to float a land share agro-processing company in which farmers of all categories may have the option to become shareholders in proportion to their size of holdings.

(b) There would be a provision to include all farmers of any specified village or cluster of villages as shareholders. In order to become a shareholder, the farmer leases out his land to the company and receives a share in the equity of the company. At the same time he can lease in his own land as also additional land for cultivation from the company by paying a fixed rent.

(c) It is expected that development of such participatory land share companies in agriculture would accelerate the pace of both agricultural and non-agricultural development in the rural areas. The fear that such a move may alienate the poor from his land, in case the company suffers a loss or liquidation, can also be addressed by taking necessary safeguards.

Suggested Rules/Guidelines for the Formation of Land Share Company

(a) The land share company in agriculture, based on land stock share system should be formed and governed under the Companies Act to be amended for the purpose.

(b) The access to shares of land share company should be largely restricted to local farmers/landholders, who are prepared to lease out land to the company on long-term basis against issue of a share(s). However, up to 25 per cent of the authorised/paid up capital of a company can be subscribed to in cash by landholders as well as other categories of shareholders. There should also be a provision to include all farmers of a village or of any cluster of villages.

(c) Each farmer, i.e., landholder will be allotted share(s) of the company according to the market value of the land being brought in (on lease terms) by the farmer as share capital.

(d) The land share company will operate on commercial basis. Its main function would be to produce, process, manufacture and sell agricultural and allied produce.

(e) The management of the affairs of the land share company will be in the hands of an elected board of directors. As in the case of cooperative and other producer companies, voting will be on the basis of one member one vote, irrespective of the value of share of each member. However, the general body of members will be the ultimate authority in matters of policy.

(f) Each shareholder (land or cash) will receive a share in the total profit/dividend of the company in proportion to his shareholding. In respect of land shares, the company could guarantee a minimum return on capital.

(g) There could be a contract farming arrangement between the company and the shareholding farmers. The company will provide not only assured market for the farm produce, but also ensure supply of quality seeds, inputs and credit to the farmers opting for contract farming.

(h) The company-based on-land share system should be eligible to receive concessional credit and other investment subsidies allowed for the promotion of agro-processing enterprises.

(i) In the event of liquidation of the company, the shareholders, particularly small and marginal farmers and tribals should get back their unincumbered land rights in respect of land (leased to the company) covered by the shareholding. The liabilities of the company should be met by disposing of non-land assets of the company.

Allotment of Homestead-Cum-Garden Plots

Several state governments in the past have allotted homestead land to poor rural households. However, the size of homestead plot is too low in most cases and is enough only for house construction. In cases where the size is relatively large, the poor people benefited by growing vegetables and horticultural crops. It was therefore, suggested that government should (i) initiate programmes that allocate homestead and garden plots of at least 7 cents and up to 10 cents in size to rural landless families; (ii) consider reallocating some or all of the government resources for 'rural housing' towards the purchase of larger-size homestead and garden plots; (iii) include a component of government purchase of appropriately located land in a homestead and garden allocation scheme; and (iv) provide legal rights to homestead and garden land in the joint names of husband and wife.

Allocating sufficiently sized homestead and garden plots to the poorest of India's rural poor can provide them with enhanced status and give them the opportunity to use their own labour and ingenuity to increase their income, augment their food supply, improve their access to credit and slowly build up capital assets. This deserves consideration as part of a revised agenda for land reform in India. At the end representatives of several state governments suggested that there should be similar sensitisation exercise at the state level, involving local level policy-makers and administrators. [47]