

## **Contract Farming and its Prospective in Nepal.**

**Krishna Lal Poudel**

Deputy Director (Marketing Analysis)

Agro Enterprise Center/FNCCI

P.O.Box: 7651.Kathmandu

### **Nepalese Agriculture**

- Landlocked and agricultural,Diversified topography and climate
- Subsistence agriculture
- Member of WTO
- Agriculture shares 38.81% on GDP
- 65% people on agriculture
- APP 1995 seeks aGDP growth rate from 2.96 to 4.8%
- Horticultural crops:14% of aGDP and Vegetable only 7.2%

### Land Use Pattern and Productivity

- Only 21 % of total land under agriculture
- 6.99% remain agricultural land uncultivated
- Present productivity very low in all sector
- Retarding factors: Quality inputs( seeds,protection measure,irrigation,post harvest technology)
- Poor access of agricultural finance for poor and rural people

### Contract farming: *a theoretical perspective*

- Existence for many years in various country
- Rational coordination between producers and contractors
- Strong and faithful commitment to production: Suppliers
- Remunerative and obligatory system of purchasing: Sponsor/contractor
- System of production and supply of agri.commodities under forward contracts.
- Advantage and disadvantage for both parties

### Essentials of Contract farming

- Willingness to organize the small farmers in the free market and market liberalization
- Agribusiness company rely on reliable supply of raw materials from farm
- As well small farmers to reap remunerative prices.
- Efficient and legislative contract or agreement
- Supply of inputs and the provision of technical advise: from sponsor
- Specific commodity in quantity and quality standards: from producers

### Chronological Development of Contract Farming in Nepal

- HMG/N at fifth five-year plan
- Then initiation of Public Private Partnership: AEC and MOAC. Series of workshops led to conclude the essence of Contract farming in 1999
- Legal framework also prepared and submitted
- 2003/04, AEC/FNCCI, prepared and submitted the “*Commercial Agriculture Contract Act-2060*”
- Not declared yet ,but implementing the “National agriculture Policy-2061”
- Contract framing included in this policy

### Nepalese Agri. Policy and Contract Farming

- Policy support on Commercialization in decade of 1990
- Democracy opened the door for private sector under trade liberalization and free market economy
- Cooperative agreement: USAID and FNCCI
- Some commodity association started to launch contract farming model
- Policy isn't traders friendly as compared to farmers: multi-location fees, administrative hurdles

### Land act, Holding size and Contract farming

- No. of holdings increasing than size of holding
- 1.13 ha to 0.96ha to 0.80 from 1981/83, 1991/92 to 2001/02 (avg size of holding)
- Faster rate of land fragmentation. Difficult to lease in the land for large scale of production
- Most of the cultivated land with few richest person
- Land reform is still in coma
- Small and marginal farmers don't access to finance
- That retards the commercialization and increased agribusiness

### Current Situation

- Started since 8-9 years back by the private sectors
- Lack of proper legislative approach
- First introduced by AEC/FNCCI in eastern region of Nepal in tomato,mandarin orange and banana
- Now on following
  - \* Vegetable seed production by SEAN( effective one)
  - \*Honey,Non-Timber Forest Products,Tobacco

### Success Story in Vegetable Seed

- SEAN,1993,a commodity association
- SEAN Seed Service Center Ltd.its business wings has country wide link with farmers to produce and collect seed based on the principle of contract farming
- 300 Mt. Of vegetable seed annually,400 HHs
- Export to Bangladesh.
- Demand for vegetable seed is high
- Export market for seed has high potential

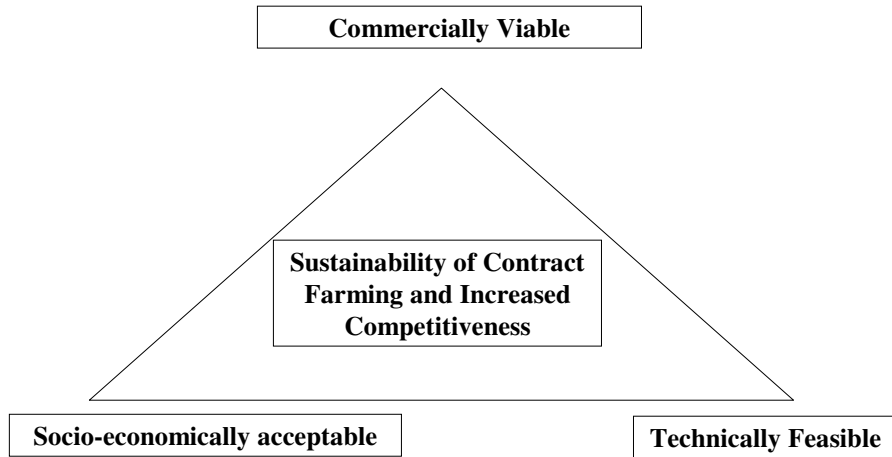
### Some Potential Sectors

- Implementation of contract farming in all agro sectors in Nepal may not be feasible. The physical, social, economic environment and government support and policy framework are sometimes act as retarding factors
- Citrus fruits in mid-hills area for processing and export
- Off-season vegetable for export
- Livestock farming for dairy industries and meat processing
- Tea, coffee, Jute, Honey etc

### Sustainability and Agribusiness

- Worthy demand as agriculture dominated economy
- Integrated and holistic dimension
- Ensure of benefit distribution among stakeholders
- Government support in commercialization
- Ensure of commercial and financial dimension
- Community empowerment

## **Sustainability of Contract Farming**



**Fig: Multivariate Integration in Sustainability of Contract Farming**

## **Conclusion and Recommendation**

- Scattered and small scale farmers need to be organized
- Regularity in supply of raw material to processor/contractor
- Permits to establish viable and reliable mechanism to flourish agribusiness
- HMG/N should responsible to implement policy to make this sector competitive in the regime of WTO
- Different sub-sector need different modality for work
- Road map for making long-lasting partnership between farmers and contractors

Thank You