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Emerging Trends of Contract Farming in India

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Contract farming is an agreement between farmer and contractor to get the desired produce at predetermined price and time. The agro-based and food companies rely on accurate and timely inputs of high-quality agricultural produce. The main objective of contract farming is to minimize the loss or to reduce the risk of price, quality and quantity. Many states had permitted CF underneath the model APMC Act 2003 of the Ministry of Agriculture and Farmer Welfare (MoAFW). There are various models through which contract farming can be done between farmer and contractor. Under contract farming, there are numerous types of price fixing procedures. Contract farming helps the farmer in Lowering transaction costs and certainty that inputs, financing, and other requirements will be met on time. For contractor it helps to get the assured quantity and quality of produce at right time. Contract farming's future in India seems bright, thanks to increased middle-class awareness of food quality and safety, rising domestic discretionary income, and the severe food safety criteria of the developed-country export market.

Keywords: Contract, agreement, farmers, contractor, Predetermine

Introduction

India is presently a service-led Economy, around 50% of GDP is contributed by Services sector and around 14% is contributed by Agricultural sector. The Government of India's National Agriculture Policy envisages that "Private sector participation will be promoted through contract farming and land leasing arrangements to allow accelerated technology transfer, capital inflow and assured market for crop production, especially of oilseeds, cotton and horticultural crops".

Contract farming is an agricultural production system where farmers enter into agreements with buyers, such as agribusiness companies, processors, or exporters, before the crop is planted or harvested. These contracts typically specify the quantity, quality, and price of the product, as well as the inputs and technical support provided by the buyer, such as seeds, fertilizers, or guidance on best farming practices. Contract farming helps reduce the risks faced by farmers, such as price volatility and market access issues, by guaranteeing a buyer and often a pre-agreed price for their produce. It also benefits buyers by ensuring a steady supply of products that meet their quality standards. However, the system can also raise concerns about power imbalances between small farmers and large corporations, as well as issues related to fair pricing and autonomy in farming decisions.

Contract farming can also play a significant role in promoting agricultural modernization and improving productivity, especially in developing countries. By providing farmers with access to improved inputs, advanced technology, and specialized knowledge, it helps enhance crop yields and product quality. For small-scale farmers, it offers an opportunity to integrate into larger value chains, gain better access to markets, and increase income stability. However, the success of contract farming often depends on the fairness and

transparency of the agreements, the mutual trust between farmers and buyers, and the extent to which both parties benefit from the arrangement. Additionally, government policies and support structures can influence the effectiveness of contract farming, ensuring that it fosters sustainable agricultural growth and rural development.

Contract Farming

Contract farming is an agricultural system in which farmers enter into agreements with buyers, typically agribusiness firms, to produce a specific quantity and quality of crops or livestock at a predetermined price. These contracts often outline the terms of production, including the provision of inputs like seeds, fertilizers, or technical assistance, while guaranteeing a market for the farmer's produce, reducing uncertainties related to price fluctuations and market access.

Historical Background

Contract farming was introduced for the 1st time in Taiwan in 1895 by the Japanese Govt. In India, Contract farming has its historical roots during the time when the Europeans 1st introduced Indigo & Opium Cultivation in the Bengal Region, under the East India company rule. Contract farming has its roots in the early 20th century, particularly in the production of cash crops like cotton, sugarcane, and tobacco under colonial rule. However, it gained significant traction after economic liberalization in the 1990s when the government encouraged private sector participation in agriculture. The liberalization policies opened up opportunities for agribusinesses to engage directly with farmers, aiming to modernize agriculture, improve productivity, and integrate Indian farmers into global supply chains. Companies in sectors like horticulture, poultry, and dairy began to use contract farming to ensure a consistent supply of high- quality produce.

By the early 2000s, contract farming became more widespread with companies like PepsiCo, ITC, and Nestlé engaging with farmers for crops like potatoes, tomatoes, and wheat. These contracts provided farmers with better access to inputs, technology, and assured markets, while helping companies secure a reliable supply of raw materials

Why Contract farming?

Contract farming offers several benefits that make it an appealing option for both farmers and buyers. For farmers, it provides a guaranteed market for their produce, reducing the uncertainties and risks associated with fluctuating prices and demand. It also gives access to high-quality inputs such as seeds, fertilizers, and technical assistance, which can help improve crop yields and product quality. Additionally, contract farming ensures better price stability, offering farmers a predetermined price, thus shielding them from market volatility. For buyers, such as agribusiness firms, contract farming ensures a consistent supply of agricultural products that meet specific quality standards. It enables better control over the production process, from input use to cultivation techniques, which is crucial for industries requiring high-quality raw materials, like food processing or export markets. Overall, contract farming can enhance agricultural productivity, promote modern farming practices, and create stronger linkages between small-scale farmers and larger value chains.

Contract farming plays a crucial role in strengthening the linkage between farms and industries by ensuring a steady supply of agricultural products that meet industry-specific standards. This system encourages private investment in agriculture, as companies are motivated to invest in inputs, technology, and infrastructure to secure high-quality produce. As a result, the financial burden on central and state governments is reduced, as private entities take on a larger role in agricultural development. Moreover, contract farming generates gainful employment in rural areas by fostering agribusiness opportunities and reducing the migration of labor to urban centers. For individual farmers, it offers a steady source of income, improving financial stability. Additionally, farmers become more market-focused in their crop selection, aligning production with demand trends, which boosts profitability and efficiency in the agricultural sector.

Advantages of Contract Farming

Contract farming offers several advantages for both farmers and buyers:

1. **Market Assurance:** Farmers are guaranteed a market for their produce, reducing risks associated with price fluctuations and demand uncertainty.
2. **Stable Income:** Contracts often provide a pre-agreed price, ensuring farmers receive stable and predictable earnings.
3. **Access to Inputs:** Farmers gain access to high-quality inputs like seeds, fertilizers, and technical assistance, which can improve yields and product quality.
4. **Technology Transfer:** Buyers often provide modern farming techniques and training, helping farmers adopt better agricultural practices.
5. **Reduced Risk:** With assured buyers and set prices, farmers face less financial risk, especially in uncertain markets.
6. **Increased Investment:** The system encourages private sector investment in agriculture, helping improve infrastructure and supply chains.
7. **Job Creation:** Contract farming generates employment in rural areas, from production to logistics, contributing to rural development.
8. **Reduced Migration:** With more opportunities and stable incomes in rural areas, the need for labor migration to cities decreases.
9. **Market-Oriented Farming:** Farmers become more focused on producing crops that are in demand, improving their profitability and aligning production with market needs.

Status of Contract farming in India

Contract farming in India has seen significant growth and evolution over the past few decades. Initially, it was limited to a few sectors like sugarcane and tobacco, but it has expanded to include a wide range of crops and livestock, such as fruits, vegetables, poultry, and dairy products.

The liberalization of the Indian economy in the 1990s and the subsequent rise of agribusinesses catalyzed this expansion, as companies sought reliable sources of high-quality raw materials. State governments have also played a role in promoting contract farming by implementing supportive policies and frameworks. Despite its growth, the sector faces challenges, including power imbalances between farmers and buyers, concerns over fair pricing, and the need for better regulatory oversight. Additionally, while contract farming has provided numerous benefits, such as improved market access and income stability for many farmers, it remains unevenly distributed, with varying levels of success across different regions and agricultural sectors.

Contract farming holds a pivotal position in India's agricultural sector, contributing approximately 17-18% to the agricultural economy. Despite its significance, it covers less than 1-2% of the total cultivable land in the country, with nearly 5 lakh hectares under contract farming agreements. The sector is supported by over 600 national and multinational companies, which engage in various crops and livestock. While contract farming has made notable contributions by providing market stability and access to modern agricultural practices, its overall coverage remains limited compared to the vast expanse of India's agricultural land. This indicates both the potential for further growth and the need for broader adoption and improved frameworks to enhance its impact on the agricultural landscape.

Table 1: State wise crops grown under contract farming in India

Sl. No.	States	Crops grown under contract farming
1	Punjab	Wheat, rice and potato, Maize, Barley, tomato and chilli
2.	Haryana	Wheat, rice, potato
3.	Karnataka	ashwagandha, marigold, chilli, coleus, gherkins, soyabean, and grapes
4.	Madhya Pradesh	Wheat, maize, soyabean, pulses, vegetables

5.	Maharashtra	Sugarcane, pulses, vegetables and medicinal plants
6.	Tamil Nadu	Cotton, maize, paddy
7.	Andhra Pradesh	Chilli, Cotton, turmeric, gherkin

Some examples of contract farming

Punjab has been a pioneering state in introducing contract farming with the entry of Pepsi Company in tomato in 1989. PepsiCo works with 24,000 farmers and provides them with seeds, chemical fertilizers and insurance facility to farmers and in return they buy back the harvest at predetermined prices.

Fruits and Vegetables: A private company in Andhra Pradesh named San Aristech's engaged in contract farming for mangos, grapes, and pomegranate, etc.

Recently Reliance entered into contract farming in vegetables in Madanapalle in Andhra Pradesh. Contract farming in 'Gherkin' in Karnataka, Andhra Pradesh and Tamil Nadu. In Karnataka alone approximately 30,000 small and marginal farmers have taken up contract farming of gherkins. Karnataka exported 50,000 metric tons of gherkins valued at Rs. 143 crore during 2004-05.

Poultry: Some large firms like Venkateswara Hatcheries Ltd, Suguna Poultry firm limited and Godrej Agro vet limited entered into contract farming to minimize the risks to the producers and sustain growth and profitability. Suguna's model provided contract growers with quality, feed medicines and technical support and guidance.

Dairy: In Punjab Nestle India started its operations with 185 farmers increased to more than One lakh contract farmers to source its daily requirements of liquid milk. 357 tube wells were installed at exceptional speed, low cost to farmers as loans favorable interest rates The company is also running 15 artificial insemination centers.

Hindustan Unilever Ltd: Kissan's story of pioneering innovation began with the launch of new formats of food, such as canned fruits and vegetables, and baked beans. The Public-Private Partnership (PPP) project, which began in 2012 between HUL and Maharashtra Government for sustainable sourcing of Tomatoes, became self-sustaining in 2015. HUL provides vital support by imparting farmers with knowledge and expertise in sustainable agriculture practices for Tomato cultivation. Around 8,000 farmers across the country cultivated Tomatoes for HUL. Oranges from Nagpur, Lemons from the Himalayan foothills, Pineapples from Kerala, Grapes from Karnataka and Peanuts from Gujarat.

ITC (e-choupal): 'e-Choupal' services today reach out to over 4 million farmers growing a range of crops

- soyabean, coffee, wheat, rice, pulses, shrimp in 35,000 villages through 6,100 kiosks across 10 states (Maharashtra, Haryana, Uttarakhand, Uttar Pradesh, Rajasthan, Karnataka, Kerala, Madhya Pradesh, Andhra Pradesh and Tamil Nadu). Farmers using e-Choupal on average receive 2.5% higher prices than the traditional mandi system.

Problems faced in Contract farming The Problems faced by farmers

1. Farmers face market and production risks when growing new crops.
2. Inefficient management and marketing issues can lead to unfulfilled quotas.
3. Unreliable sponsors or monopolies may exploit farmers.
4. The staff of sponsoring organizations may be corrupt, particularly in the allocation of quotas.
5. Production problems and excessive advances can cause farmer indebtedness.

The Problems faced by companies

1. Contracted farmers face land constraints without secure tenure, impacting long-term sustainability.
2. Social and cultural factors may hinder farmers from meeting management specifications.
3. Poor management and lack of consultation can result in farmer discontent.
4. Extra-contractual marketing reduces factory throughput as farmers sell outside the contract.
5. Diverting credit-supplied inputs lowers yields

Legal framework for contract farming by Indian Government

The legal framework for contract farming in India is designed to regulate and support this agricultural practice, though it has evolved gradually and is still developing. Key aspects include:

1. **Model Act:** The Indian government has introduced a Model Contract Farming Act, which serves as a guideline for states to draft their own regulations. This act aims to provide a legal framework for fair agreements, protect the interests of farmers, and ensure transparency in contract farming practices.
2. **Agricultural Produce Marketing Committee (APMC) Act:** States have implemented APMC Acts to regulate agricultural markets and ensure fair trade practices. While traditionally focused on market yards, reforms to these acts have been proposed to facilitate better integration of contract farming and improve market access for farmers.
3. **The Essential Commodities Act:** This act governs the regulation of essential commodities, including agricultural products, and can impact contract farming by controlling stock limits and pricing mechanisms.
4. **State-Level Regulations:** Various states in India have enacted their own contract farming laws or amendments to existing agricultural laws to address local needs and conditions. These regulations often include provisions for dispute resolution, contract enforcement, and support for both farmers and buyers.
5. **Policy Frameworks:** The central government has also introduced policy frameworks and schemes, such as the National Agricultural Policy and the Pradhan Mantri Fasal Bima Yojana (PMFBY), which indirectly support contract farming by promoting agricultural development and risk management.

NABARD's initiatives in contract farming

NABARD developed a special refinance package for contract farming arrangements aimed at promoting increased production of commercial crops and creation of marketing avenues for the farmers.

The various initiatives undertaken by NABARD in this direction are:

- Financial Interventions
- Special Refinance package for financing farmers for contract farming in AEZs
- 100% refinance to disbursements made by SCBs, RRBs and SCARDBs.
- Term facility for repayments (3 years).
- Fixation of higher scale of finance for crops under contract farming.

While these frameworks provide a foundation for contract farming, there is ongoing discussion about the need for more comprehensive and uniform regulations to ensure fair practices and protect all parties involved.

Challenges of contract farming in India

Contract farming in India faces several significant challenges:

1. **Power Imbalance:** Large buyers often hold more bargaining power, which can result in unfavorable terms for smallholder farmers, such as low prices or unfair contract conditions.
2. **Pricing Issues:** Farmers may face issues with pricing, including delayed payments or prices that do not adequately cover their production costs, impacting their financial stability.
3. **Contract Enforcement:** The enforcement of contract terms can be problematic, particularly in the absence of clear legal mechanisms or in regions with weak regulatory oversight.
4. **Quality and Standard Discrepancies:** Discrepancies between the quality standards specified in contracts and the actual product can lead to disputes and rejected produce.
5. **Dependence on Buyers:** Farmers may become heavily reliant on a single buyer, making them vulnerable to market fluctuations or changes in the buyer's business situation.
6. **Limited Access:** Small-scale farmers often face barriers to entering contract farming agreements, such as lack of information, resources, or access to necessary infrastructure.

7. **Risk of Exploitation:** There is a risk of exploitation where buyers might impose stringent terms or engage in practices that are detrimental to farmers' interests.
8. **Regulatory Gaps:** Inadequate regulation and oversight can lead to inconsistencies and abuses in contract farming practices, affecting fairness and transparency.
9. **Legal Complexity:** The legal framework surrounding contract farming can be complex and fragmented, with variations across states, which may complicate the enforcement and execution of contracts.

Conclusion

Contract farming represents a strategic approach in agricultural production where farmers and buyers enter into agreements to enhance efficiency and profitability. By establishing clear terms regarding the quantity, quality, and timing of produce, contract farming helps mitigate risks associated with market fluctuations and production uncertainties. This arrangement can lead to increased access to technology, inputs, and financial support for farmers, thereby boosting productivity and income stability. However, the success of contract farming hinges on fair and transparent agreements, as imbalances in power and information can lead to exploitation and disputes. Overall, while contract farming offers significant benefits in terms of market access and risk management, it requires careful implementation and regulation to ensure equitable outcomes for all parties involved. Contract farming offers mutual beneficial partnership between farmer and buyer. Contract farming provides stable and predictable market for farmers while ensuring high quality product for buyers. Contract farming continues to play an important role in supporting sustainable agriculture and meeting growing demands of global food system and livelihood.

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