AGRI MAGAZINE
(International E-Magazine for Agricultural Articles)
Volume: 02, Issue: 11 (November, 2025)
Available online at http://www.agrimagazine.in
©Agri Magazine, ISSN: 3048-8656

Contract Farming a Model of Agribusiness

Ranvir Kumar, Suman Kalyani, Prem Chand Kumar, Shaheen Naz,
*Beerendra Singh and Anand Kumar Jain
Bihar Agricultural University, Sabour (Bhagalpur), Bihar, India
*Corresponding Author's email: beerendrasoil@gmail.com

Contract farming is an agribusiness model where a farmer agrees to a forward contract with a buyer, such as a food processor or marketing firm, for the production and supply of agricultural products. This agreement typically specifies the quantity, quality, and delivery time of the produce, often at a predetermined price. In return, the company may provide various forms of support, such as technical advice, inputs, and guaranteed market access, creating a structured and risk-sharing relationship. Contract farming in India is an agreement between a farmer and a buyer (like a company or exporter) to produce a specific agricultural product under pre-agreed terms for quality, quantity, price, and delivery. This system is designed to provide farmers with benefits such as assured prices and market access, while sponsors gain a reliable supply of raw materials. Regulations are governed by laws like the Indian Contract Act of 1872, with states enacting their own specific laws based on models like the one proposed by the Ministry of Agriculture in 2018.

Contract farming in India seems like a brand-new concept. Many people came to know about the contract based farming recently due to the farm bill passed by the government. However, the reality is different. Contract farming is an old concept in India. During the 1850s-60s, first time Indian cotton got credit and exported to Britain as US supplies got disrupted. This cotton was grown by indian farmers under the contract signed with east india company. With the east india company being mentioned, how can we forget about the plantation of tea and coffee in north east and south while poppy and indigo in the plains by the indian farmers grown under the contract with Britishers. Yes, under these contracts the farmers were exploited. However, the scenario changed after independence. In the 1950s first time contract based seed production started. The concept got recognition when a FMCG company called PepsiCo came to India and set up a tomato processing plant in Hoshiarpur, Punjab. They procured the tomatoes from farmers directly by setting up contracts with them. This led to an increase in tomato yield from 7.5 tons per acre to 20 tons per acre. But you might be wondering what is contract farming? Is it good for the farmers? What is the type of contract farming practiced in india? Don`t worry, all your questions will be answered in this article. Just stay tuned till the end.

Key components

Agreement: A formal or informal agreement between a farmer and a buyer for the production and supply of crops or livestock.

Predetermined terms: The contract establishes a commitment for the farmer to deliver a specific quantity and quality of a commodity at a specific time and price.

Support services: The buyer often provides support to the farmer, including high-quality seeds, technical assistance, and other inputs.

Risk management: This model can help reduce production and marketing risks for both parties. The farmer gets a more certain price and market access, while the company secures a reliable supply of raw materials.

Benefits for farmers

Market access: Provides a guaranteed buyer and direct access to markets, including niche export or processed product markets.

Price stability: Offers a more predictable income by agreeing on a price before production begins, shielding them from seasonal price fluctuations.

Technical and financial support: Can include access to capital, new technology, better inputs, and expert advice, which helps improve yields and quality.

Benefits for agribusiness firms:

Supply chain security: Ensures a consistent and reliable supply of a required commodity, with consistent quality, which is crucial for processing and marketing.

Reduced risk: Offers an alternative to the high costs and risks associated with corporate farming, as the production risk is shared with the farmer.

Lower costs: Can be more cost-effective than establishing large-scale estates, as it leverages existing smallholder farms and their labor without the direct costs of ownership and management.

Potential drawbacks and considerations

Power imbalance: A significant power imbalance between the large firm and the smallholder farmer can lead to unfair contract terms if not properly managed.

Inadequate monitoring: Poor management can lead to issues like farmers failing to meet quotas or quality standards, which can cause processing inefficiencies.

Need for clear contracts: Contracts can be complex and legally binding, so farmers must carefully analyze all terms, including crop ownership, quality conditions, and payment details, before signing.

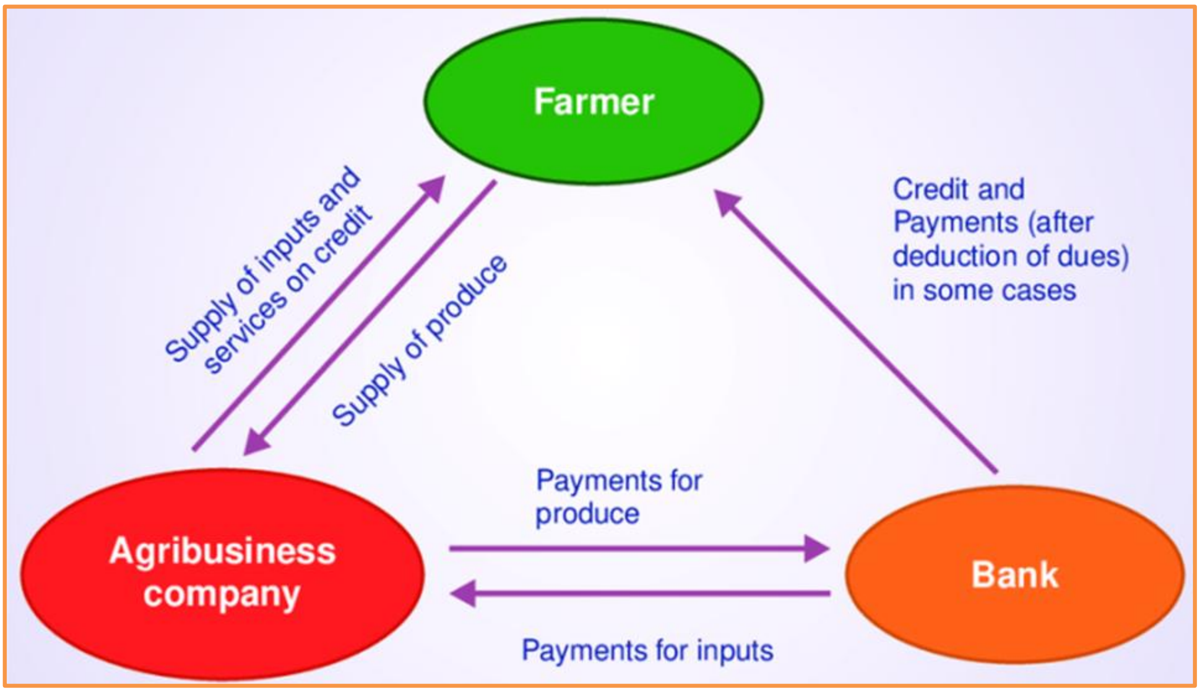
Salient Features of Contract Farming

- The Act lays special emphasis on protecting the interests of the farmers, considering them as the weaker of the two parties entering into a contract.
- In addition to contract farming, services contract all along the value chain including pre-production, production and post-production have been included.
- "Registering and Agreement Recording Committee" or an "Officer" for the purpose at district/block/ taluka level for online registration of sponsor and recording of agreement is provided.
- Contracted produce is to be covered under crop/livestock insurance.
- Contract framing is to be outside the ambit of the APMC Act.
- No permanent structure can be developed on farmers' land/premises.
- Promotion of Farmer Producer Organizations (FPOs)/Farmer Producer Companies (FPCs) to mobilise small and marginal farmers has been provided.
- It ensures buying of the entire pre-agreed quantity of one or more of agricultural produce, livestock or its product of the contract farming producer as per the contract.
- Contract Farming Facilitation Group (CFFG) is being created for promoting contract farming and services at village/panchayat the level provided.
- An accessible and simple dispute settlement mechanism at the lowest level possible is provided for the quick disposal of disputes.

How Contract Farming Works

- Under contract farming, farmers can be given seeds, credit, fertilizers, machinery and technical advice so that their product is tailor-made for the requirements of the companies.
- There would be no middlemen involved and farmers would get a predetermined sale price from the companies.
- The farmer does not have to make trips to the mandis nor worry about getting seeds and credit for farming operations.

- By entering into a contract, the farmer reduces the risk of fluctuating market demand and prices for his produce and the companies reduce the risk of non-availability of raw materials.



Objectives of Contract Farming

1. To promote a steady source of earnings at the individual farmer level.
2. To expand private sector investment in agricultural business.
3. To inspire financially rewarding employment opportunities in rural communities, especially for landless agricultural labour.
4. To bring down the burden of central and state-level procurement systems.
5. To minimize migration from rural to urban areas.
6. To create a market focus on crop selection by Indian farmers.
7. To promote value addition and processing.
8. To bring down as far as feasible, any seasonality associated with such employment.
9. To encourage rural self-reliance by pooling locally available resources and expertise to meet new challenges.

Advantages of Contract Farming

1. Contract farming ensures a consistent supply of agricultural produce with quality, at the right time and lesser cost resulting in better control over the factors of production.
2. Farmers benefit from assured procurement and price stability, reducing uncertainties in agricultural marketing e.g. HyFun Foods procured 300,000 tonnes of potatoes from 6,000 farmers in Gujarat in 2023-24 and plans to engage 20,000 farmers by 2027-28 across 80,000 acres.
3. Assured supply aids food processing industries in better supply chain management. It reduces the demand-supply gap by plugging supply-side constraints. Contract farming also enables the food processing industries to invest in warehouses, cold storage and design the logistics in the long term.
4. It makes small-scale farming competitive. Small farmers can access technology, credit, marketing channels and information while lowering transaction costs. They are assured the market for their produce at their doorsteps, reducing marketing and transaction costs.
5. It reduces the risk of production, price and marketing costs. Contract farming can open up new markets which would otherwise be unavailable to small farmers, thereby reducing intermediaries thus providing more options to farmers.

6. Contract farming also ensures higher production of better quality, financial support in cash and /or kind and technical guidance. It enables optimal utilisation of installed capacity, infrastructure and manpower, and responds to food safety and quality concerns of the consumers.
7. **I**t leads to direct private investment in agricultural activities as they find it profitable. The farmers enter into contract production with an assured price under terms and conditions.

Challenges/Limitations of Contract Farming

1. Small and marginal farmers may not be roped in for this form of farming because companies may want a particular size of the crop which small farmers with their small parcels of land may not be able to produce. So, this will leave out the most vulnerable farmers from the ambit of corporate farming.
2. A medium sized farmer may not be literate enough to understand the nitty-gritty of the contract and all the clauses, and if the product does not meet the standards of the company, he may face mass rejection.
3. The farmer may be forced to produce only one type of crop year after year which will lead to monoculture, This invariably leads to the deterioration of soil.
4. Predetermined prices do not take care of food inflation and in case there is a price rise of the product, the farmer cannot take advantage and make a windfall profit because he is under contract to sell at the price agreed upon beforehand.
5. The average farmer being poor and semi-literate has little bargaining power vis-à-vis big corporations and hence there is little chance of his getting a fair price for his produce.
6. Informal or weakly enforced contracts limit farmers' legal recourse, leaving them exposed to unfair practices, such as stricter quality standards during bumper crop seasons.
7. A single buyer engaging with multiple farmers creates dependency, reducing farmers' negotiating power and enabling firms to dictate terms and maximize profits.

Way Forward

1. Design policies specifically benefiting small-scale farmers, ensuring equitable terms, access to inputs, and fair prices to prevent marginalization.
2. Foster more competition to incentivise firms to offer better terms and services to the farmers. Steps should be taken to improve farmers' connectivity to spot markets and mandis across the country.
3. Information asymmetry should be addressed by maintaining an information repository of farmers, contracting firms, land availability, default rate and performance standards. This will help farmers and sponsors to evaluate each other prior to engaging in contracts.
4. Efforts should be made to encourage softer means for enforcement such as risk-sharing mechanisms in contracts, renegotiation options, and simplified and transparent contract terms.
5. Emphasis should be given to education and awareness regarding Farmer's rights. This can be done by leveraging Farmer Produce Organisations (FPO) and cooperative farming models.
6. Technology should be leveraged and Research and Development should be promoted. for contract registration, price monitoring, and grievance redressal to enhance transparency and efficiency in contract farming operations. Some of the areas which can be explored are:

- GIS/Remote Sensing
- Soil Mapping
- Crop Clinics
- Farm experimental Facilities
- Artificial Intelligence

Conclusion

India has most small and marginal farmers. They are not able to avail some basic services required in Agriculture. The reason can be either they are not aware of such services or they are not able to access them. Contract farming in India can solve this issue. Moreover, there is constant price fluctuation in the market, due to which not only farmers but also exporters, agri processing firms are facing challenges. This system of getting under contracts gives them the assure price and the timely exchange of the farm produce. India has to evolve from its conventional way of farming. The first step is to adopt the contract farming system and scaling the model throughout the geography. Government can also support by actively making public private partnerships and working with farmers making many such joint ventures and achieving the target of doubling farmers' income. Contract farming benefits farmers by providing a guaranteed market, stable prices, and access to essential resources like credit, inputs, and technical guidance, which reduces production and market risk. This arrangement leads to higher yields and income by introducing new technologies and improving management skills, ensuring a steady and reliable income for the farmer. Contract farming is therefore seen as a key strategy to modernize India's supply chains and reduce agricultural risk, provided the regulatory framework remains strong enough to protect the interests of the small farmer.