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# An Empirical Study on Contract Farming in India

**Deepa Singh[1], Praveen Kumar Rai[2], Anurag Tiwari[3*]**

*[1,2]Assistant Professor, Department of Business Management & Entrepreneurship, Dr. Rammanohar Lohia Avadh University, Ayodhya*
*[3]Assistant Professor (Computer Application), Department of Business Management & Entrepreneurship, Dr. Rammanohar Lohia Avadh University, Ayodhya*

**Abstract**

*Contract farming in India has been gaining momentum as one of the modes of agricultural productivity in recent years. The activity of contractual farming includes the practice of maintaining agreement among farmers with their buyers. These buyers often comprise corporate companies and businesses that are interested in marketing the agricultural production. Contract farming had been evaluated as a means of combining farming and agricultural production with marketing the farm products through contractual agreement among the contracting corporations and the farmers. Contract farming has been adopted in India's agricultural sector as a solution for promoting high-value crops, technology and others.*

*The trend of contract farming is often adopted for increasing awareness towards the higher quality crops, given that such activities could satiate the demands from both the corporations and businesses focused on marketing farm products and the farmers. There are several marginal and small category farmers in India with poor resources that often could be mitigated through contract farming by benefiting through contractual agreements and market access and so on. There are several states that take part in contract farming in India, along with the fact that there are legal regulations such as the APMC Act 2003 that secure regulation and government support for contract farming be effective and benefiting practices among the agriculture and corporate sectors.*

*However, there are certain challenges to availing fruitful and effective benefits of contract farming. This includes the potential of mistreatment of the farmers from the corporate companies and contractors. This includes the possibility of the farmers to be facing the threats of losing their contracts with the private business, particularly the small and marginal sized farmers. Moreover there could also be issues in the progressive achievement of interests of both the corporates and the farmers, due to the market and profit-oriented nature of these contracts that are extended by corporations to the farmers. The following study is an empirical overview on contract farming in India, its functioning, impact, regulatory implementations, challenges and potential benefits.*

***Keywords; Contract Farming in India, Agricultural Marketing, Small and Marginal Farmers, Agricultural Policy and Regulation, Sustainable Agricultural Development***

## INTRODUCTION

Contract farming is often observed as a form of measures for connecting agriculture and the corporate sectors in the market in the case of India among several other developing countries. Contract farming could be understood as a form of "preharvest agreement" settled between farmers and buyers, often businesses and corporations, for "smallholder market participation" (Meemken & Bellemare, 2020). This impacts the involvement of the farmers in with businesses as buyers before harvest seasons, further on influencing the improvement of farmers' connection with the markets through trading farm products. India, among multiple developing nations and one of the low and middle-income countries, holds the potential of agricultural development through contract farming. Contract farming holds the opportunity as a vital aspect of agricultural and rural development policy (Vicol et al. 2022). As a prospective development activity among farmers and corporations for increasing farm production and trade in the market, contract farming also attracts the potential for developing through diverse schemes.

Contract farming brings over a diverse range of potential opportunities, most specifically in the form of increasing awareness through high quality and high value crops. Contract farming is often capable of boosting use of high value crops in developing countries, and India is one of the benefiting countries. Additionally, contract farming holds the opportunity for increasing the opportunity for increasing economic development for the farmers and profitable development businesses or sponsors involved (FAO.org, 2024). Contract farming also promotes the possibility of increasing access to increased yield and advanced farming inputs and facilities. Though there are also some challenges to contract farming, with some of these issues potentially being risk towards production and unsuitability of technology and facilities, failure of market and other potential risks. Despite this, contract farming in India is gaining momentum for growth with increasing awareness of its contributory impacts.

India is among one of the developing countries that have made policy and scheme implementations regarding contract farming. Contract farming acts as an agreement for predetermined product quantity through agricultural productions among farmers and agriculture-related businesses. There have been different schemes and policies that act as "regulatory structure" on contract farming in India such as Agricultural Produce Marketing Committee (APMC) that oversee contract farming activities in India under the APMC Act 2003 (Ray et al. 2020). Some other regulatory implementations include facilitation groups (CFFG) for boosting contract farming participation and services for farmers at village levels, regulations and policies that propose securing farmers' interests in contract farming and so on. The following study looks into contract farming in India and evaluates in an empirical study from numerous existing information on the subject.

## RESEARCH OBJECTIVES

The research study aims to explore the subject of contract farming in India through an empirical study. The following are the research objectives.

- To identify the function and impact of contract farming in India through empirical findings
- To evaluate the possible challenges and benefits that contract farming faces in India
- To give a brief overview on contract farming related regulatory implementations in India.

## RESEARCH METHOD

The following research had conducted qualitative research for conducting an empirical research study on the subject of contract farming in India. The development of empirical research could be associated with the study of contemporary phenomena in real life context through a diverse range of evidence (Gregory, 2020). This would indicate the use of secondary data as the medium for deriving definite qualitative and describable findings that can act as evidence for understanding the case or situation of contract farming in India in relation to the research questions. This includes the use of a qualitative research method as a justified methodology.

This is chosen for delivering on the research study through secondary information. The use of qualitative research is regarded as a study of the nature of phenomena (Busetto, Wick & Gumbinger, 2020). The research focused on gathering evidence from secondary qualitative data collection sources for the study. Secondary data mainly include previously published data and knowledge that is available from newspapers, articles, books, magazines and other existing sources of information (Taherdoost, 2022). The secondary qualitative data collection and its further analysis is done in the interest of expanding empirical findings on the phenomenon of contract farming in India alongside the challenges, benefits and regulations related to the same.

## RESULT

According to NAAS, (2022), contract farming includes the activity of agribusiness firms engaging with farmers through contract for receiving products at a "pre-decided price" with the assurance of delivering a particular quantity and quality of farm products within a certain time. Contract farming has been practiced in India through its implementation for linking smallholder farmers to the markets and focusing on advance agreements on volume, requirements, delivery and price. As per Press Information Bureau (2022), by the year 2022, around 15 Indian states have "provisioned Contract Farming in their state APMC Acts". These states and union territories include, Odisha, Telangana, Andhra Pradesh, Chhattisgarh, Madhya Pradesh, Haryana, among others, with Punjab having its separate Act related to APMC. Additionally, NAAS (2022) also noted, there is mixed evidence of contract farming's inclusivity, with India's small farmer participation in perishable goods contract farming being reportedly 33-56%. More specific participations include 15% contract tomato producers in

Haryana, and Punjab's contract producers with 2% of potatoes and 8% basmati paddy from small farmers.

In the study of Barik (2021), it was noted that the Indian government has been developing in favour of contract farming for integrating "two end-activities" and facilitating farm services to small farmers from "agro-processors, traders and sponsors". The Agriculture Produce Marketing Committee (APMC) acts as regulatory body for wholesale markets for agricultural produce in India, with the "Model Agriculture Produce Marketing (APMC) Act of 2003" being probably the first central government implemented regulation for contract farming. Other legal implementations include "State/UT Agricultural Produce & Livestock Contract Farming (Promotion and Facilitation) Act, 2018" and the "Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020", also called "'Contract Farming Act 2020' (CFA 2020)". All these Acts and regulations are developed with the intention to promote a "standardized national framework" for farmers to be empowered during farming agreements and contracts negotiations in a mutual and transparent manner.

In a study by Yadav (2024), contract farming in India is subject to many cases of possible benefits and development among farmers in recent decades. Multinational companies and agro businesses had been participating in contract farming, such as Pepsi foods under the multinational company PepsiCo, had extended contract farming projects for tomatoes and potatoes in Punjab. Hindustan Lever and Nestle were among the multinational firms that had expanded their contract farming towards wheat flour market through other agencies and subsidiaries such as Rallis of Tata Enterprise and local firms such as Nijjer Agro Foods, respectively. In one of the mentioned cases from FAO.org (2024), Hindustan Lever's contracts with 400 farmers in northern India was one of the beneficial examples of contract farming projects. The case noted that 400 farmers in northern India were contracted with the company for growing "selected varieties of tomatoes for paste". It was found that this project had caused a potential increase of farmers' income and production yield, due to use of hybrid seeds and assured market accessibility, with the contracted farmers having 64% higher yields than open market farmers.

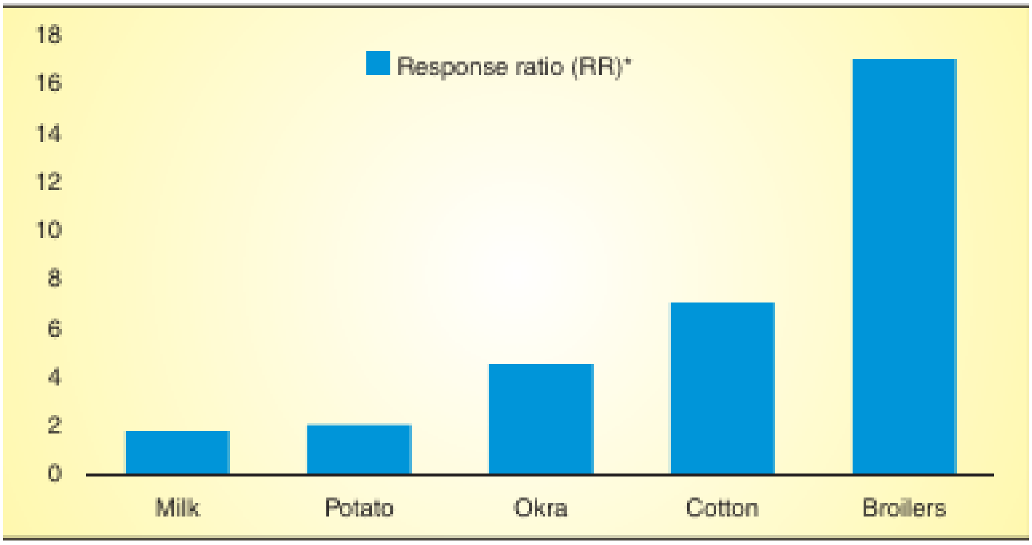


**Figure 1: Impact of contract farming on India**

(Source: Kumar et al. 2021)

According to Kumar et al. (2021), contract farming had been effectively impacting both firms and farmers in a rather benefitting manner. This includes the potential of contract farming to increase farmers' incomes and provide the farmers with financial stability. Additionally, contract farming provides the opportunity to improve the range of income of farmers, with evidence that farmers and agricultural workers involved in production of agricultural products including milk, potatoes, cotton and broilers have seen improving income. The benefits and potential of contract farming also include the possibility of improving liquidity due to "pre-financing" input delivery, reducing input costs through bulk purchase and sale, decreasing credit risks and facilitating financial support for food safety. Apart from the aforementioned monetary opportunities, contract farming facilitates numerous non-monetary advantages. These include stability in market access, enhanced availability to technology and training and up-skilling, “market and production risk” reduction, enabling approaching high income crop potential and improving food and nutrition security.

In research by Ray, Clarke & Waley (2021), Indian farmers involved in contract farming run the risk of facing certain difficulties. One of these difficulties include the possibility of losing contract among the small and marginal farmers during poor or difficult market conditions. Additionally, the risk of overlooking small farmers is also high in terms of contract farming, given the tendency of corporates working with “larger-scale landowners” for facilitating better mechanisation use. There is also a rather internal issue of rural income inequalities from contract farming. Another issue that can arise from contract farming is the tendency of produce rejection due to corporation-imposed quality control. The practice of rejecting produce of farmers has been rather common among corporations for “exacting standards” regarding product quality, and can further cause problems to small farmers.

As Tiwari & Tripathi (2020) note in their study, regulatory bodies and frameworks in India are more intent on trying to assist farmers towards supporting contract farming. The Indian government’s actions have been in support for “removing intrastate and interstate trade barrier for farmers” in order to letting them participate in market negotiations for selling agricultural produce to “wholesalers, processors, aggregators, exporters and large retailers” through contract farming. India has observed supportive development of regulatory models for empowering farmers to engage in contract farming through “restriction-free trade of agro-produce” enhance marketing channel competition and promote farming through “pre-defined contracts”. The study further noted that there are potentially also been amendments in the laws for supporting farmers to engage with corporates and related businesses for availing the advantages of financial development and market access through contract farming.

## DISCUSSION

The above findings have provided a brief image of the situation of the practice and enabling of contract farming in India. The empirical study provided with findings indicating that the field of contract farming has been observed as a supportive and enabling form of agreements within farmers and corporates. Contract farming has also been supported by government policies, schemes, regulatory bodies, acts and so on. APMC, APMC act Contract Farming Act 2020 are among some of the government regulations that have been some of these supportive measures and adoptions from the Indian government (Yadav, 2024). Contract farming in India had been observed as a rather empowering activity that is benefactory for both farmers and firms that are involved, though the evidence of its adoption and impact are seen to be in a more positive yet developmental stages.

The evidence for contract farming had been gathered from the above evaluations. These findings supported that there were several cases of contract farming among the farmers and corporations was benefitting for extending market accessibility of farm products in market. Furthermore, contract farming related regulations support empowering private investment regarding “capital, technology and upgrade the value system” (Rashid, 2021). The findings had further suggested that improvement of access to market, technology, high value crops, newer hybrid seeds and other forms of accessibilities have been the result of contract farming in India. The evidence supported the claim that contract farming evidently improved financial and non-monetary situations of farmers, particularly for contract farmers to gain high value crops, increase in income, productivity and crop yield against open market farmers.

However, the study also noted the presence of several issues and challenges that farmers could face during contract farming, including market and contract availability risks. In addition to contract farming arrangement among companies and farmers lending potential for improving market reach, there is the risk of “trade-off” between company’s profit intent and farmers’ interests (Sahoo, Wani & Rout, 2020). Nonetheless, the study’s findings also indicated that legal schemes and programs that the Indian government have implemented are efficient in terms of supporting a more transparent and supportive trading and market access for farmers and firms in India.

## CONCLUSION

The above study had been an insightful evaluation and analysis of existing evidence in relation to the situation of contract farming in India. The study’s evidential findings suggest that contract farming is one of the rather benefiting aspects that potentially support smallholding farmers and the firms that engage in trading, with the Indian government also rolling out and integrating diverse supportive and transparency-inclined schemes. However, the study had also identified that contract farming's effects are rather developmental in nature. Though there are certain issues and hindrances that contract farming possess, the benefits are also efficient in supporting growth, particularly through government enabled schemes. In conclusion, contract farming holds potential in farmer-corporate production and market assurance development.

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