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Does Contract Farming Work?

By: Gopal Naik

Offering a multidisciplinary comparative analysis, 'Contract Farming in Developing Countries' bridges theory and practice, serving as a comprehensive primer on rural development strategies while equipping readers with critical thinking tools.

Developing smallholder agriculture remains a major policy challenge in many developing countries. Small and often fragmented land holdings, a lack of collective effort, and weak governance mechanisms make production and marketing costly, threatening the viability of smallholder farming. Given their large and growing numbers, these farmers require strong policy support to safeguard their livelihoods.

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Transforming smallholder agriculture through modern technology and best practices often pushes farmers to engage more actively in markets. Many, however, may find themselves inadequately equipped to transact effectively. This challenge has grown more significant as markets have globalised, requiring farmers to adopt a market-oriented approach and adapt to changes in distant customers' preferences and product standards.

Alternative forms of market participation, such as contract farming—which is flexible enough to accommodate a variety of situations—were once considered well suited to countries like India. Contract farming was expected to facilitate the adoption of technology, encourage best practices, promote market orientation, and enhance both quality and value addition. It was also seen as a means to correct institutional gaps in exchange through formal contracts, making it a win-win option for both farmers and agribusiness firms.

However, empirical evidence from numerous studies over time suggests a more mixed picture. While there are some islands of success, large-scale adoption of contract farming methods has not occurred. In addition, the contract farming arrangements that do exist generally exclude smallholders from participation.

Sudha Narayanan's book makes an exemplary contribution to our understanding of contract farming in developing countries, especially in regions where smallholder agriculture dominates. Drawing on a comparative institutional framework, it highlights how institutional complexity shapes the outcomes of contract farming. It also shows that relying on a single disciplinary lens is inadequate to explain these outcomes.

Reviewing past studies, the author notes that they have failed to produce a coherent picture. Most have focused on addressing the problem of missing markets. Although contract farming has attracted much research, the lack of comprehensive studies has resulted in what the author calls a “patchwork of perspectives”.

While frameworks from multiple disciplines are relevant to explaining the performance of contract farming, most studies have relied on the perspective of a single discipline. For example, many economic studies use a representative farmer and firm as their units of analysis, treating contract farming primarily as an efficient, risk-sharing mechanism. This generalised approach ignores the substantial heterogeneity among farmers and firms, raising questions about how well such studies apply to real-world situations.

Firms often use specific selection criteria, which can systematically exclude certain categories of farmers. In addition, without effective enforcement mechanisms, contracts tend to rest on social, technical, and economic relationships. Many studies fail to recognise and incorporate these prevailing conditions or examine their sustainability over time. Even within the same discipline, contradictory results frequently appear depending on the methodologies used. Most studies focus on either theory or empirical evidence, but rarely combine the two.

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By analysing a wide range of contract farming situations across regions, periods, and products, the author demonstrates how apparent contradictions in disciplinary perspectives can be reconciled. This approach provides new insights to explain the outcomes of contract farming.

The book stands out for its nuanced, multidisciplinary examination of contract farming, moving beyond single-discipline frameworks to explain both its potential benefits and pitfalls. It also identifies the specific contexts in which contract farming is appropriate, highlights the important safeguards to consider, and discusses possible policy implications.

The author takes a cross-disciplinary approach, exploring the reasons for both the success and failure of contract farming within broader socio-economic, political, and cultural settings. This integrative method enables a more comprehensive analysis and uncovers new factors that influence outcomes. For instance, the author recognises that power dynamics can play a major role in contract performance, and calls for effective policy and regulation to support the proper functioning of such contracts.

The book centres on a key question—does contract farming truly benefit smallholders? It begins by introducing the concept, then traces its historical evolution, and examines the renewed interest spurred by globalisation and the expansion of agribusiness. The analysis is situated within the economic and institutional domains, drawing on theoretical frameworks such as transaction cost economics, the principal-agent problem, and comparative institutional analysis.

Challenging simplistic narratives, it demonstrates that contract farming arrangements vary widely by region, commodity, and type of actor, resulting in diverse performance outcomes. Drawing on numerous cases and examples, the book classifies different types of contracting arrangements and highlights how these variations affect results for both farmers and firms.

The author examines a wide array of case studies and policy documents, presenting empirical evidence from real-world situations in Asia, Africa, and Latin America. By analysing various contracts, disputes, and farmer experiences, the book reveals the diversity of outcomes in contract farming. Case studies from different regions help illustrate the many issues that can arise in these arrangements.

A key theme is the power asymmetry between agribusiness firms and farmers, especially regarding bargaining outcomes and contract enforcement. In India, for example, the cases show that agribusiness firms often wield disproportionate power. Contracts may be biased in favour of companies, leaving farmers vulnerable to exploitation or sudden termination. Several cases describe situations in which farmers growing tomatoes or gherkins for export companies were forced to accept lower prices than originally agreed upon. Contracts are frequently verbal or poorly documented, leaving farmers with little legal protection when companies fail to honour agreements.

Across many developing countries, legal recourse for farmers is limited, and enforcement mechanisms are often absent or out of reach. The book underscores the need for a strong legal framework and institutional support to protect farmers from exploitation. It discusses enforcement mechanisms, dispute resolution processes, and the role played by intermediaries within contract farming systems.

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Another pitfall the book explores is the exclusion of certain farmers from contract farming schemes. By investigating who is included and who is left out—paying particular attention to gender, land tenure, and class or caste dynamics—the book finds that smallholders, women, and landless labourers are often excluded from these schemes. Firms typically favour farmers with better land, reliable irrigation, or easier access to credit, which further deepens rural inequality.

Cases from Kenya and Zambia, for example, reveal that horticulture and poultry contract farming schemes frequently exclude smallholders lacking irrigation facilities or formal land titles. As a result, the benefits of contract farming are concentrated among wealthier farmers, widening rural inequality.

The book also addresses sustainability concerns, including issues of monoculture, pesticide use, and labour conditions. It raises important questions about the long-term viability of contract farming and the ethics of sourcing. In some cases, contract farming appears to prioritise short-term gains over long-term sustainability. These examples illustrate that, although contract farming can provide market access and stability, it often does so at a cost. To prevent deepening existing vulnerabilities, strong institutions, transparent contracts, and inclusive designs are essential.

In Vietnam and Thailand, contract farming for shrimp and rice has been linked to excessive chemical use and water pollution. Farmers, under pressure to meet quality standards, often overuse inputs, harming local ecosystems, and threatening sustainability.

Another pitfall is that farmers become dependent on a single buyer or crop, increasing vulnerability to market shocks. If the firm defaults or exits, farmers may be left with unsold produce and debt. In Ecuador's banana industry, farmers tied to multinational firms faced sudden contract cancellations when global prices dropped. With no alternative buyers and sunk costs, many were pushed into debt or forced to abandon farming.

The book reviews national and international policy frameworks that affects contract farming and suggests reforms to improve transparency, accountability, and farmer protection. It offers a roadmap for a more equitable and sustainable contract farming.

True to its title, the book shows that while contract farming can offer market access and stability, it often requires strong institutions, transparent contracts, and inclusive design to avoid deepening existing vulnerabilities. In presenting various types of contract farming situations and their outcome, the author makes the significant point that a “one size fits all” approach cannot work. It is important to take the production, marketing, and policy scenarios into account, as well as the social, cultural, and governance contexts, when designing contracts. This is a crucial lesson for public policy analysts, as well as for those involved in designing and implementing policies. By drawing on a wide range of case studies, the book offers insights that are relevant to both developing and developed countries.

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The author's critical perspectives provide invaluable insights to people interested in contract farming. The book is a must read for researchers and students in agricultural economics, development studies, anthropology, rural sociology, geography, and public policy because it has a multi-disciplinary comparative analysis, and it bridges theory and practice. It is a comprehensive primer on rural development strategies, and it equips the reader with critical thinking tools.

The book provides clear insights and directions for policymaking, not only on contract farming but also for shaping agrarian reform in developing countries. It offers grounded recommendations for designing inclusive and enforceable contract farming policies. It helps officials understand the risk of exclusion, power asymmetries, and environmental degradation and how to mitigate them through regulation. The large number of situations covered in the book will assist practitioners understand the lived experiences of farmers and the barriers they face. This should help in designing contracts that are equitable, transparent, and sustainable.

For managers of agribusiness firms, the book offers insights into the pitfalls of poorly designed contracts and the long-term value of ethical sourcing. It encourages trust-based relationships with farmers and investing in inclusive models. The book also empowers farmers and farmer organisations with knowledge about their risks, rights, and negotiation strategies. It helps them to seek fairer contracts and better institutional support.

This book is not only informative but also equips readers with an integrated perspective that reconciles research from various disciplines. By bringing together theory and empirical evidence, it succeeds in providing a coherent and comprehensive view of contract farming.

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