



Commercial Agriculture for Smallholders and Agribusiness

Revived Commitment to Contract Farming in Ethiopia Following the Legal Framework

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HISTORICAL CONTEXT OF CONTRACT FARMING IN ETHIOPIA

Contract farming is an arrangement in which agri-SMEs contract smallholder farmers/cooperatives to produce a specific crop or crops with a specified quantity and quality, supplying the technical support and inputs required by the farmers, usually on credit to be deducted from the final purchase price. Contract farming has been undertaken in Ethiopia for over 20 years through the support of development partners and a few state-owned enterprises such as [Wonji Shoa Sugar Factory](#). Wonji has used contract farming since 1975, making it the oldest contract farming practitioner in the country to use an out-grower model. It has also been tried out for malt barley (in the brewery supply chain), particularly around North Gondar, Sebeta and Arsi, and in sesame, chickpea, and some in the vegetables and livestock sectors¹, but not before in the oilseed sector. These initiatives were managed simply through written and/or sometimes oral agreements that lacked contract farming-specific legal support. The practice was thus characterised by weak legal enforcement due to the absence of a tailored contract farming framework. Most of the support was initiated from development partners due to the intention that the business model would benefit both agri-SMEs and the producers.

The benefits of initiating contract farming are two-fold: 1) For farmers to have guaranteed markets, stable prices, and access to agricultural inputs, such as seed, farm machinery, and fertilisers, which helps to increase productivity and reduce market risks, and 2) For buyers to ensure a steady supply of raw materials that meet specific quality standards and production methods. However, despite these efforts,

contract farming remained in its infancy in Ethiopia until the recent contract farming framework development. It was limited to the pilot stage, where both buyers and producers remain hesitant to address their core problems through contract farming. Yet, farmers have suffered from price volatility, which led some to abandon the production of certain crops. Buyers/processors have faced poor quality and intermittent supply of raw materials. Most of the agro-processing industries in the country operate at less than 50% of their capacity. Due to the recent enabling framework, contract farming has shown significant progress. In 2023, the Ministry of Agriculture reported that 1.6 million tonnes of crops were produced through contract farming, involving 656 cooperative unions and 600,000 farmers in Oromia, Amhara, and the Southern regions².



Contract farmer Mr Tsegaye and his family

1. Holtland, G (Ed) 2017 Contract Farming in Ethiopia: Concept and practice. AgriProFocus. ISBN 978-94-91629-07-5.

2. Addis Fortune. December 2023. Ministry Mops Up Contract Farming Provision.

CHALLENGES HOLD BACK CONTRACT FARMING EFFORTS

Several factors played a crucial role in hindering contract farming success in the country, despite the efforts made by some private sector actors through the support from various development partners. These have included initiating the contract farming concept, providing capacity-building support both for the private sector and producers, and supplying inputs directly or through grant support. These challenges have slowed the contract farming progress in the country:

- The previous absence of a legal framework that both parties rely on as a protection.
- When local collectors know that farmers have a contract agreement to supply and start supplying at an agreed price to the offtaker, they inflate the market price, which is higher than the effective price between farmers and the offtaker. Then, farmers either request an additional price or tend to sell to local collectors outside their contract agreement. Mostly, offtakers are not interested in increasing the price caused by such artificial means and then withdraw from the market. Then the collectors lower the price again once they kick out the contracted offtaker. Offtakers do not want to call on legal procedures when side selling is discovered and so avoid getting into contractual relationships. Private sector actors feel that when cases were appealed to courts, undue advantages were provided to producers.
- Some buyers fail to fulfil their contractual commitments (e.g., technical and material supply) and even fail to buy the produce due to shortage of finance and market failure.
- Most contract agreements were initiated through unions or cooperatives, yet the management lacks capacity to follow up and ensure the contract commitments are fulfilled.
- Fragmented landholdings make it unattractive for buyers to enter production contracts with many individual farmers.
- Access to working capital finance is a constant challenge. It is needed at both planting time for inputs (especially if these are provided on credit under the terms of the contract) and harvest time for crop purchase. Difficulties in mobilising timely finance is a real deterrent to entering contractual arrangements.
- There are communication gaps between the contracting parties and even within the organisations to clearly understand the progress of contract farming. Digitalisation of supply chains is currently rare but can provide needed data and traceability that can enhance management and financing decisions.



Soybeans at KUNAP from contract farmers

GOVERNMENT CREATES AN ENABLING ENVIRONMENT TO FOSTER CONTRACT FARMING, AND AGRI-SMES RESPOND

To provide better opportunities to transform the agribusiness sector in the country and encourage local value addition, the House of Federation³ in July 2023 enacted [Proclamation No: 1289/2023](#) that provides a framework for agricultural production contracts that can improve production quality and quantity by linking agro-processors and large buyers with producers in a sustainable manner. The proclamation has established a clear legal framework for the relationships between producers and contractors, and for resolving disputes and defining the rights and duties of parties, which helps businesses develop confidence to engage in contract farming.

The enabling framework helps private buyers move from a trial contract farming modality to an intensive engagement covering production to collection, as it increases confidence for buyers that supply obligations will be enforceable. The framework encourages the private sector to engage in contract farming initiatives, and shapes government personnel's understanding of contract farming. The extension agents play a critical role in cascading training and providing ongoing technical support for farmers. The strong cooperation and technical support from Bedele zone to realise the contract farming agreement between [Kunifira Agro Processing \(KUNAP\) Ltd](#) with Chewaka and Bedele Unions is an example.

After the contract farming proclamation was enacted, the Ministry of Agriculture developed a contract farming implementation guide ([No: 1027/2017](#)) detailing procedures to follow during contract farming engagement in 2024. The guide mentions critical requirements for both parties and particularly for the private sector, like the need to deposit 2% of the total contractual amount as a contract guarantee fund, to build or rent warehouses near the contract farming location, to acquire permission certificates to engage in contract farming from the

Ministry of Agriculture or the Bureau of Agriculture, to specify the types of technical and material support for producers, and other contractual details including price fluctuation adjustment and quality control.

However, this implementation guide had a few biased clauses that deterred the private sector from pursuing contract farming, such as the need to deploy its own extension staff at the beginning of the contract, the need to build or rent warehouses, and the 2% guarantee deposit. Agri-SME funds were tied up for nearly eight months, from the contract initiation to actual procurement. Producers could use the 2% contract guarantee requirement to request a higher price as an enforcing mechanism since withdrawing could cause the offtakers to lose their guarantee payment. The mandatory requirement for the company to recruit their own extension supporting staff at the initial stage may have caused a financial burden for the companies, even though this is a cost to be absorbed into the model. They considered these requirements to inflate the cost of production until full trust had been built, and a secure supply was guaranteed from the producers. Due to these conditions, in 2025, CASA-supported agri-SMEs cancelled their contract farming efforts and instead explored simpler aggregation agreements.

Contract farming has often been viewed as an undesirable option for both companies and producers, primarily due to instances of side selling and some businesses failing to meet contractual obligations. The businesses raised these threats during the partnership development. The businesses have also lacked focus and long-term objectives on how they should pursue a contract farming business model as a main means of raw material sourcing. However, after the continuous discussion and capacity-building efforts of CASA described below, the business attitude on understanding its importance has improved. As a result, early signals

3. The House of Federation is the upper house of the bicameral Federal Parliamentary Assembly.

from the CASA-supported businesses showed that the private sector invested millions into contract farming, mostly for input supply and technical support. KUNAP, [Soreti International Trading Company \(SITCO\)](#) and [Limu Inara Farmers' Multipurpose Cooperative Union \(LIFMCU\)](#) were in the forefront. Feedback from the farmers has been largely positive. Smallholders who had previously faced poor market access for soybean production reported that the contract arrangements helped them to scale production due to guaranteed market access before being involved in production. The input access and follow-up technical support built the farmers' confidence of a secure market.

Since the introduction of the Federal Government's Agricultural Production Contract Proclamation No:

1289/2023, the private sector's response to contract farming in Ethiopia has thus shifted markedly from curious experimentation to active engagement. Private companies that had a previous negative experience with contract farming arrangements became willing to re-engage under the new framework, whilst some firms – new to contract procurement and entering the space for the first time – became more optimistic. CASA was able to tap into this new optimism. Although initially reluctant to participate due to the perceived bad image of contract farming as an undesirable business model, the unions and cooperatives engaged more in the second year when they witnessed the active engagement and efforts of the private sector.

CASA'S SUPPORT TO BUSINESSES AND COOPERATIVES

The capacity-building facilitated by CASA – in collaboration with partners KUNAP, [LEOS](#), LIFMCU, and SITCO – on soybean contract farming business models and government partners have addressed the gaps identified by the system actors during the business plan development in response to the proclamation. This has played a catalytic role in helping cooperatives and private firms to customise the standard contract templates and strengthen communication channels among contractors. CASA's specific support started in co-creating a business plan to support the contract farming business model with the private sector. This was done before the national guidelines were published so the designs did not include elements that would follow the disliked clauses, hence the later retraction in 2025.

The support for the private sector⁴ included:

- Building their internal capacity through developing strong business management and business leadership skills
- Linking them with producers and facilitating capacity-building training
- Linking with seed producers to supply improved seed for demonstration plots
- For some, recruitment of field staff to ensure close follow-up and effective contract farming deals such as SITCO and KUNAP

- Tailoring contractual agreements for contract farming, brokering contractual deals, recruiting extension staff for some, and
- Building the capacity of government experts and producer farmers on a cost-sharing basis.

CASA, with its private sector partners, also facilitated awareness creation among farmers, cooperatives management and development agents regarding the contract farming proclamation to ensure smooth implementation. The CASA support involved recruiting short-term consultants, utilising its own experts for high-level advisory and consultation, and refresher training for selected government staff, particularly for extension support. The capacity-building particularly focused on addressing previous causes of mistrust and resulted in building positive expectations among market actors to pursue contract farming arrangements and that such activities should be built into any contract farming business model. In summary, the combined effect of CASA's practical market systems intervention – and Ethiopia's formal legal framework on contract farming in the intervention areas – has resulted in a positive experience for the private sector to thrive in the contract farming business environment.

4. Although not provided to soybean offtaking or producing partners, CASA did support vegetable offtakers and producers with digital tools, which improved smallholder supply chain management and financing options.

KUNAP AS AN EXAMPLE

Kunifira Agro Processing (KUNAP) is a company that processes edible oil from soybeans. The company is operating below 50% capacity due to a shortage of raw materials. The contract farming engagement provides an opportunity to increase the supply shortages and improve the quality of soybeans, which is currently challenging due to adulteration and poor post-harvest handling management. KUNAP managed to collect soybeans from Chewaka Union in 2024 even though the previous year was characterised by poor harvest, and a small number of farmers involved in contract farming. In 2025, the number of contracted farmers was more than triple and a large volume was collected. In particular, this was affected by:

- KUNAP recruiting dedicated staff to follow up on the contract farming activities and others valuing the importance of the staff recruited through the CASA partnership.
- Increasing their field presence to follow up on production progress.
- Up-scaling the pilot contract farming experience to other areas.
- SITCO and LIMFCU investing in inputs purchase (seed and rhizobium) to supply farmers.
- Actively participating and initiating discussions with the producers (cooperatives and unions).

The Chewaka Union (and also Bedele Union) involvement has shown improvement in the second year of CASA support and contract farming period when they witnessed the active engagement and effort from the private sector, and communications were strengthened following the continuous discussions and capacity-building efforts through the CASA partnership. As a final decision-maker, the board of directors were also involved in the various discussions and training, which made them aware of the contract farming. They were actively involved in the farmer selection and training that was facilitated under the supply agreement. KUNAP initiated a new contract arrangement in the Assos area following positive experiences with Bedele and Chewaka unions.

Contract farming experience in Ethiopia is growing as a collaborative effort among government, development organisations and projects including CASA, and the growing number of agro-processors in the country. The following are opportunities for agri-SMEs to consider contract farming as a sustainable business model:

- The contract farming proclamation that has clarified the roles and responsibilities of the actors involved as a main player and supporter, and the implementation guide developed by the Ministry of Agriculture.
- The coordinated effort – particularly among development partners, government and the private sector – towards contract farming awareness creation and technical support.
- Increasing technical and grant support from development partners for agri-SMEs to establish and promote contract farming.
- Growing availability of off-the-shelf and bespoke digital smallholder management tools and software that enable improved traceability and supply chain management as well as facilitate access to input financing.
- Availability of input and output loans linked to signed contract farming deals⁵ to encourage export and domestic processing.
- Special privileges for farmers to access seed and fertiliser supply as part of a contract commitment.
- Awareness of grassroots government staff on contract farming is improving following the government's (as well as CASA's) continuous capacity-building efforts to support both agri-SMEs and producers.

The above, though, should be viewed by agro-processors that have so far been wary as temporary inducements to experiment with contract farming models. During such supported experimentation each company would identify which elements of the model make commercial sense in their context and build those into their long-term cost modelling.

5. As currently endorsed by the National Bank and [Cooperative Bank of Oromia](#)

LESSONS LEARNED

CASA has been working with private agribusinesses that have experienced both successes and failures in contract farming, as well as those who are new to it. The level of commitment and effort from these partners was varied. Lessons from CASA's contract farming experience are based on the contract farming agreements made through the farmers' organisations (cooperatives and their unions):

- In areas where government support was strong, such as Buno Bedele Zone, the success of contract farming was encouraging. Thus, ensuring buy-in and support from government officers, e.g. through refresher training of extension staff and providing opportunities to promote understanding of the model by farmers, is a strong success factor.
- Companies with decentralised decision structures (i.e., delegation capacity regarding the matter of contract farming, such as contract negotiation, follow-up and procurement deals) have a better success rate because the design and negotiation is an inherently iterative process requiring flexibility and adaptability in short timeframes without the delays of seeking higher management approval. Appointing a specified contact point and granting decision-making authority during the negotiation period is also a key success factor.
- The contract farming agreements that were made between the parties did not specify a price; rather the mechanism and timing through which prices would be later agreed was specified and the agreed mechanism implemented through negotiation during the peak marketing season. Fixing the exact mechanism to decide the price is critical to avoid excuses for contractual breaking.
- Contrary to the flexibility and delegation needed within processing companies, the opposite was found with cooperative unions. The general managers' decision alone was not enough for the success of contract farming within highly participatory organisational structures like cooperatives and unions. The board of directors' involvement played a crucial role in ensuring supply contract commitment.
- A transparent quality assessment procedure, coupled with calibrated weighing scales, builds trust. One union that had supplied to one of the CASA partners in 2024, and complained that a few quintals were declared low-grade during the quality check, was convinced after being involved in the sampling and grading procedure.

KUNAP workshop on contract farming



RECOMMENDATIONS

For the private sector:

- **Establish a clear objective and strategy for transitioning from open sourcing to a contracted supply chain**, including a targeted percentage of raw materials sourced from this initiative, along with a defined timeline; a gradual transition strategy over a few seasons should reduce risk.
- **Create a common consensus among the staff and management** on its importance and how to manage and negotiate contract farming arrangements by assigning a focal point with delegated authority.
- **Develop negotiating and contracting skills of internal staff and the parties working with them** and establish a clear communication modality between the contracting parties and among the organisations.
- **Improve access to finance:** The agriculture sector is characterised by challenges in securing working capital; the critical shortage for output finance for cooperatives and unions to buy their members produce, and input finance for processors to buy from suppliers, has often forced producers into side selling. No matter how good a contract farming agreement is, without the required finance to oil the wheels it will grind to a halt. The Cooperative Bank of Oromia's FarmPass application and other banks' involvement is critical to provide tailored solutions to the sector.

For government:

- **Strengthen legal and institutional enforcement:** Ensure consistent implementation of the *Contract Farming Proclamation (No: 1289/2023)* through a continuous capacity-building effort at all levels, including the judiciary structure, to establish fair and accessible arbitration mechanisms, and balancing the rights and obligations of producers and buyers.

- **Revise restrictive requirements:** Replace prohibitive requirements such as the 2% deposit requirement to encourage the private sector to get involved in contract farming business models. Provide support to successfully manage contract farming for the private sector and producers (cooperatives and unions) so that it ensures sustainable linkages.
- **Promote transparency, coordination, and trust:** Strengthen communication and monitoring systems among agri-SMEs, cooperatives, and local authorities; standardise grading and weighing practices. The involvement of illegal traders or collectors without a licence has played a significant role in distorting the market; controlling this interference has a significant impact on the success of contract farming by reducing side selling.

For development organisations:

- **Build the managerial and technical capacity of cooperatives and unions: In areas where the land holding is minimal, creating contract farming directly with the producers may not be attractive for the private sector. Hence, the role of cooperatives and unions remains irreplaceable.** Provide targeted training on improving member services such as contract management, financial governance, and quality control, while linking these skills to ensure access for inputs, finance, and market incentives.
- **Support firms to digitalise the contract farming system**, that improves farmers' data tracking, and production support like weather data, market information and payments.
- **Scale and replicate successful models for inclusive growth:** Document and replicate proven contract farming models.



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