



Agrobusiness and small farmers



A new FAO guide argues that well managed contract farming has proven effective in linking the small farm sector to sources of extension advice, mechanization, seeds, fertilizer and credit, and to guaranteed and profitable markets for produce. "It is an approach that can contribute to both increased income for farmers and higher profitability for sponsors," says *Contract farming: Partnerships for growth*. "When efficiently organized and managed, contract farming reduces risk and uncertainty for both parties. The approach would appear to have considerable potential in countries where small-scale agriculture continues to be widespread. In many cases small-scale farmers can no longer be competitive without access to the services provided by contract farming companies."

In northern India, for example, a multinational corporation issued contracts to 400 farmers to grow hybrid tomatoes for processing into paste. A study of the programme confirmed that yields and farmers' incomes were on average almost 50% higher than those of other farmers growing tomatoes for the open market. In Sri Lanka, a flourishing export trade in gherkins has been built on contracts between companies and more than 15,000 growers. On a much larger scale, more than 200,000 farmers in Thailand grow sugar cane for the country's 46 mills under a government-sponsored system which assigns growers 70% and millers 30% of total net revenue.

Access to inputs... "The advantages and disadvantages of contract farming vary according to the physical, social and market environments in which sponsors and growers operate," FAO's guide says. "The prime advantage for farmers is that the sponsor will normally undertake to purchase all produce grown, within specified quality and quantity parameters. Contracts can provide farmers with access to a wide range of services that otherwise may be unobtainable. Farmers can also use the contract agreement as collateral to arrange credit with a commercial bank in order to fund inputs."



Small-scale farmers are frequently reluctant to adopt new technologies because of the possible risks and costs involved. In contract farming, private agribusiness will usually offer technology more effectively than government agricultural extension services, because it has a direct economic interest in improving farmers' production. Indeed, most of the larger corporations prefer to provide their own extension. In Kenya, for example, a major sugar company employs some 30 extension agents to work with its 1,800 contracted farmers. The agents' prime responsibility is to foster the managerial skills needed when new transplanting, cultivation and harvesting practices are introduced. In addition, the company promotes farmer training programmes and organizes field days to demonstrate the latest sugar-cane production methods.

Skills the farmer learns through contract farming may include record keeping, the efficient use of farm resources, improved methods of applying chemicals and fertilizers, and a knowledge of the importance of quality and of the demands of export markets. Farmers also gain experience in carrying out field activities according to a strict timetable, and they often apply techniques introduced by management to other cash and subsistence crops.

A further advantage of contract farming is that it offers stable prices. "The returns that farmers receive for their crops on the open market depend on prevailing prices and their ability to negotiate with buyers," FAO says. "Contract farming can, to a certain extent, overcome this uncertainty. Frequently, sponsors indicate in advance the prices to be paid and these are specified in the agreement." Sponsors also relieve small farmers of the need to find and negotiate with local and international buyers, and usually organize transport of crops from the farm gate.

... and "political acceptability". In exchange for their price guarantees, loans, inputs and extension advice, sponsors also enjoy distinct advantages. The first is "political acceptability". Many governments are reluctant to host large plantations, and some are actively involved in closing them down and redistributing their land. In Zimbabwe, for example, contract farming is actively encouraged in the sugar-cane, tea and cotton industries. In Central America, multinational corporations have moved away from plantation production of bananas to contracts with individual producers. The same trend is found in the international tobacco industry, where smallholdings have replaced estates in several countries.

Contract farming also gives companies access to crop production on land that would otherwise be unavailable, with the additional advantage of not having to buy or lease it. Working with contracted small farmers enables them to share risks, find reliable supplies of raw materials for processing plants, and guarantee that their products conform to quality standards.

Nevertheless, both parties in contract farming must accept a degree of risk. For farmers, there is the uncertainty involved in growing new,

unfamiliar crops and producing for markets that might not always live up to their expectations - or their sponsors' forecasts. "Considerable problems can result if farmers perceive that the company is unwilling to share any of the risk, even if it is partly responsible for the losses," the guide says. "In Thailand, a company that contracted farmers to rear chickens charged a levy on farmers' incomes in order to offset the possibility of a high chicken mortality rate. This was much resented by the farmers, as they believed that the poor quality of the chicks supplied by the company was one cause of the problem." Inefficient management can lead to overproduction, and in some cases sponsors "may be tempted to manipulate quality standards in order to reduce purchases". One of the biggest risks for farmers is debt caused by production problems, poor technical advice, significant changes in market conditions, or a company's failure to honour contracts.

"The contract farming system should be seen as a partnership between agribusiness and farmers," the FAO guide concludes. "To be successful it requires a long-term commitment from both parties. Exploitative arrangements by managers are likely to have only a limited duration and can jeopardize agribusiness investments. Similarly, farmers need to consider that honouring contractual arrangements is likely to be to their long-term benefit." However, FAO cautions: "The decision to use contract farming must be a commercial one. It is not a development model to be tried by aid donors, governments or NGOs because other rural development approaches have failed. Projects that are primarily motivated by political and social concerns, rather than economic and technical realities, will inevitably fail."