

Status of Contract Farming in Sri Lanka

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INTRODUCTION

- Market situation for agricultural products
- Government intervention
- Producer, Buyer, Processor & Credit organization
- Who is suffering from unstable price situation
- Strategies for mitigation

BACKGROUND

- Informal agreements
- Formal agreements in Cinnamon cultivation (1896)
- Forward Sales Contracts (1999)
- Types of contract farming in Sri Lanka
 1. Forward Sales Contract (FSC)
 2. Contract farming agreement made between a private firm and the producer
 3. Seed production program of the Department of Agriculture (DOA)

CURRENT SITUATION

Forward Sales Contract (FSC)

- A legal document
- Predetermined price
- Accepted quality & quantity
- Implementing area
- Crops under FSC
 - Maize, Rice, Chilli, Soybean, Vegetables*
- Farmer participation

Table 01. Number of Forward Sales Contracts (crop wise) mediated by the regional branch of central bank of Sri Lanka, Anuradhapura - 2004

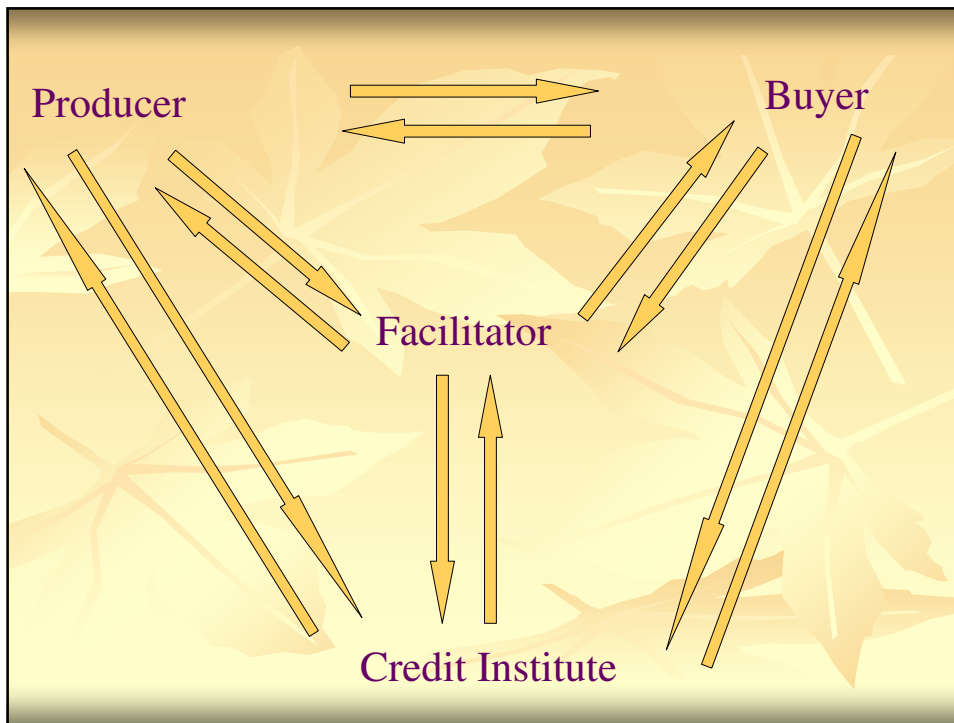
Crop	Number of Agreements	Expected yield (mt)	# of companies/institutes/individuals involved
Soybean	2796	3089	03
Maize	1574	4889	02
Rice	8249	44922	85
Chilli	7	12.25	01
Total	12626	52912.25	91

Source: Central bank of Sri Lanka

Table 02. Local firms involved in Forward Sales Contract system and related crops (mediated by Regional branch, Anuradhapura) - 2004

Firm Crop	Plenty foods (pvt) Ltd	KST Evergreen	Lanka merchants investment	Rice mills	Farmer comp.	Farmer org.	Others
Soy bean	2702	-	-	-	-	-	94
Maize	739	835	-	-	-	-	-
Rice	-	-	96	2012	362	456	5323
Chilli	-	-	-	-	-	-	07

Source: Central bank of Sri Lanka



ROLE OF GOVERNMENT

- Intervention in the past
- Interest free treasury advances to cooperatives
- Purchasing institute
- Guaranteed price systems
- Minimum price schemes
- Current intervention

Govisahanaya (Relief to Farmers)

Credit at low interest

Seed production of DOA

LEGISLATIVE MEASURES

- FSC is under the sales of goods act
- Can submit to the bank as a legal document
- Breaking the agreement
- Quality standards set by SLS
- Seed act

SUPPORT SERVICES

- Central Bank of Sri Lanka
- Department of Agriculture
- Department of Agrarian Development
- Department of Irrigation
- Mahaweli Development Authority
- NGOs (Sarwodaya)

Role of support services

- ✿ Find farmers
- ✿ Formulate farmer groups
- ✿ Supply technical know how
- ✿ Input supply
- ✿ Credit recovery
- ✿ Help in crop selection
- ✿ Price determination
- ✿ Quality and quantity aspects

DIRECT & INDIRECT INCENTIVES

- ✿ Technical know how through the free extension service
- ✿ Information dissemination
- ✿ Credits provided at a lower interest rate
- ✿ Possibility of producing the FSC agreement as a guarantee to a crediting institute
- ✿ Formulation of farmer organization and Farmer companies
- ✿ Guaranteed price

CONSTRAINTS

- ❖ Wide differences in spot price and agreed price in some seasons
- ❖ Lack of technical know how
- ❖ Crop failures due to environment hazards (drought, pest and diseases, wild animals etc.)
- ❖ Farmers' capacity to supply commodities to the buyers continuously
- ❖ Lack of good extension network
- ❖ Lack of reliable price information

CONSTRAINTS contd.....

- ❖ No possibility of profiting from favorable spot market developments
- ❖ Lack of bargaining opportunity
- ❖ Change of government policies
- ❖ Dependent upon informal sector for credit needs at high interest rates
- ❖ Quality standards in seed production

SOLUTIONS

- Get the farmers organized as groups
- Strengthening of farmer companies
- Agreement for the price based on different standards of the product
- Crop insurance schemes

EXAMPLES FROM SRI LANKA

Example 01.

- Plenty foods private limited
- Soy bean cultivation
- Rs.7500.00 (75 us dollars) per acre
- Inputs as materials
- Pre agreed price
- Cultural practices by the firm (Land preparation)
- Field level supervision

Example 02.

- Seed production by DOA
- Only basic seeds are provided
- No other inputs
- Guaranteed price
- Maintain of quality by field officers
- Certification based on seed lab report
- Purchasing by DOA

Table 03. Vegetable seed production by the DOA in 2003 (kg)

Crop	DOA farms	With out growers
Beans	290	6465
Bittegouds	0	318
Brinjal	254	0
Bushitao	281	0
Capsicum	11	0
Cucumber	235	0
Luffa	188	0
Mae	109	175
Okra	189	0
Snakegourd	35	85
Tomato	103	12
Spinach	65	0
Total	1765	7056

Source: Department of Agriculture, Sri Lanka

Table 05. Seed production of other field crops by DOA in 2003

Crop	Amount (kg)	
	Out growers	DOA farms
Black gram	5896	0
Cowpea	4443	0
Green gram	13440	0
Ground nuts	6794	0
Millets	1095	1239
Maize	51856	2408
Soybean	1748	0
Total	85272	3647

Source: Department of Agriculture, Sri Lanka

