TOBACCO CONTRACT FARMING

Agricultural systems worldwide have been transformed by a tight align chain and networks of productions due to the changes in technology, demography, financial mobility, consumer demands, markets competitions, and liberalization of trade. Taking these into consideration, one of the most prominent strategies to enhance agricultural production is the use of contract farming arrangement. Contract farming arrangements have become important in to date agricultural production system especially in cash crops such as tobacco. Tobacco industry contributes in the world for the economic growth and played the most significant role in provision of income, employment, government revenue, food expenses and adding foreign currency. The available literature (Singh, (2008), Sambuo, (2014), Oya (2011) and Bellemare, (2010)) defines contract farming as a system for the production and supply of agricultural and horticultural produce by farmers/ primary producers under advance contracts, essence of such arrangements being a commitment to provide an agricultural commodity of a type at a specified time, price and place in a specified quantity to a known buyer.

In fact, contract farming can be described as a halfway house between independent farm production and cooperate/captive farming, and can be a case of a step towards complete vertical integration or disintegration depending on the given context. It basically involves five things, pre-agreed price, quality, quantity or acreage (minimum/ maximum), place and time. From a developmental intervention point of view, it is a situation in which the relationship between agri-business firms and the farmers takes the form of an expert endowing the apprentice with resources, knowledge and skills. Or alternatively, it is more a case of bringing the market to the farmers, which is navigated by agri-business firms (Singh, 2008). If the conditions that are stipulated in a contract farming agreement are detrimental to the interests of either partner, be it for reasons of imbalances in market power, opportunistic behavior or other unfair practices, the relationship between buyer and farmer will most likely deteriorate. Under such a scenario, contract farming operations will not be successful and opportunities for the mutual benefits that can ensue from a well-coordinated buyer-seller relationship will be missed (FAO, 2012).

Contract farming is known by different variants like the centralized model which is a company-farmer arrangement; the outgrower scheme which is run by the government/public sector/joint venture; the nucleus-outgrower scheme involving both captive and contract farming by the contacting agency; the multipartite arrangement involving many types of agencies; the company and he farmer; and satellite farming referring to any of these models. In fact, contract farming varies depending on the nature and type of contracting agency, technology, nature of crop/produce, and the local and national context as explained by Will in the Contract farming handbook.

The contacts could be of three types: (*a*) procurement contracts under which only sale and purchase conditions are specified; (b) partial contracts wherein only some of the inputs are supplied by the contracting firm and produce is bought at pre-agreed prices; and (c) total contracts under which the contracting firm supplies and manages all the land and inputs on the farm and the farmer becomes just a supplier of land and labor (Singh, 20008).

These types are not mutually exclusive whereas the first type is generally referred to as marketing contracts, the other two are types of production contracts. But there is a systematic link between product and factor markets under the contract arrangement as contracts require definite quality of produce and therefore specific inputs. Also, different types of production contracts allocate production and market risks between the producer and the processor in different ways.

The contracts are highly biased against the growers. The company obligations are not specified. The contracting agencies end up rejecting low-quality produce without any compensation for the grower, and the defaulters on the other hand, are expelled from future contracts. Firms favor large farmers for various reasons, and finally large farmers also become dependent on these firms due to the large of crops they grow (Scoones et’al, 2017).

Contract farming can be analyzed in the framework of the principal-agent model, where the firm works with the farmer to produce or grow a crop. The firm chooses a farmer and sets the contract terms and conditions. The farmer, inturn, chooses whether to accept these conditions, and participate in new production method or not. A combination of these choices describes a farmer’s participation in contract farming. It is more likely that the firm initiates the contract, the farmer’s participation in contract farming depends more on the firm’s criteria rather than any of his or her choice (GrowAsia, 2018). The aim of a contract is to organize production in such a way that the income generated through the co-operation will be higher than that without it. The income from contract mode of production can be therefore evaluated relative to the income generated in non-contract situation.

However, there is no specific process of tobacco contract farming as this depends on a number of factors such as, the contracting firm terms and conditions, location and other variables. A basic tobacco contact farming process would be described as follows: first step in contract farming is negotiation: The buyer and farmer negotiate the terms of the contract, this includes the price, quantity, quality, delivery date of the product, as well as the inputs and technical advice provided by the buyer, even though in many cases these conditions are predetermined by the contracting firm and the farmer has no say or no right to change the terms and condition but only to agree or turn down the contract. Next is the production phase in which the farmer produces the agreed upon crop in our case: tobacco according to the specification outlined in the contract, this phase may involve the provision of inputs such as seeds, pesticides, fertilizers and technical advice from the contracting company, and may also include field visits where the company monitors the progress of the production process and the condition of the farm environment. After production follows the Delivery: in which the farmer delivers the product to the buyer at an agreed upon time and place, the buyer might provide transportation services or may not, depending on the contract they agreed upon. Finally the payment: the buyer pays the farmer on the arm produce according to the terms agreed upon in the contract.

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