Exploratory Analysis of Contract Farming: Evidence from Ethiopia’s Barley Contract Farming

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ABSTRACT

The advent of multinational brewing companies to the Ethiopian brewery sector has contributed to the introduction of Contract Farming Arrangements (CFAs) among small scale malt barely farmers in various parts of the country. That is, subsequent to the arrival of multinational brewing companies to the Ethiopian business landscape, the major brewing companies have introduced CFAs with smallholder barley farmers from major barley growing areas of the country, particularly in Arisi, Sebeta, and North Gondar areas. However, no systematic, empirical study has been conducted to assess the ongoing contract farming practices implemented by those breweries in terms of progress, achievements and challenges encountered.

Accordingly, this study endeavours to provide an original, empirically anchored evidence, on the prospects and challenges of the ongoing barley CFAs with particular focus on the perspectives of the smallholder barley farmers towards addressing existing challenges they face and in order to better delivery the CFA for the benefits both the smallholder farmers and the sponsoring companies involved by way of better organizational commitment. Towards this end, an exploratory, qualitative studies approach was employed to assess the concurrent barley CFAs that the prominent foreign and local breweries are implementing. In doing so, the study conducted in depth interviews with fifteen respondents, including six managers from three sponsoring companies and nine individual farmers’ representatives. This study has hugely benefited from the unique opportunity that CFA offers in terms of assessing the direct relationship between the sponsoring firms and the smallholder farmers involved.

The study results show that there are diverse organizational support activities that the sponsoring firms are rendering to the smallholder farmers in the CFAs such as providing improved quality seeds, subsidizing prices of improved quality seeds, input credit, premium prices, and agronomical support in terms of training and technical assistance. Nonetheless, there are certain concerns raised by some of the smallholder farmers that deserve due consideration of the sponsoring firms, which can be addressed through further organizational commitments from the part of the sponsoring firms of the CFAs.

Keywords- Contract farming, farmers, smallholder, sponsoring firms

I. INTRODUCTION

Contract farming has been in existence for many years as a means of organizing the commercial agricultural production of both large scale and small scale farmers. Interest in it continues to expand, particularly in countries that previously followed a central planning policy and in those countries that have liberalized marketing (Eaton & Shepherd, 2001). A number of agro-industries, globally, out-source production of the raw materials they need to the smallholder farmers, often under CFAs (Llastarria-Cornhiel, 2016). Advocates of Contract Farming Arrangements (CFAs) uphold that it benefits both the farmers and sponsors, who involve in this strategy. Accordingly, Otsuka, Nakano, and Takahashi (2016) explain that contract farming contributes to the improvement of farmers’ income by introducing new crops and production methods, and it also has a room for strengthening its effects on poverty reduction through policy. Similarly, Bhaumik (2008, p. 192) states that “contract farming leads to big jumps in incomes and employment in agriculturally backward regions, and brings a break from low levels of productivity and instability in production, putting the local economy on a dynamic path of growth and development.” Moreover, the World Bank (2008) expressed its support to contract farming asserting that contract farming is “an institutional innovation, which can reduce the transaction costs and risks of smallholders” (p.237), as it is “essential for smallholders to take part in value chains” (p241) as a result it is “often viewed as a means of increasing smallholder welfare in developing countries” (Bellemare, 2012, p.1418).

The core idea behind CFAs is “it is an agreement between a farmer and a firm—either a simple verbal commitment or one based on written documents—where the farmer produces a fresh or partially processed product and the firm is committed to buying it under certain stipulated conditions” (Arumugam, Mohamed Arshad, Chiew, & Zainal Abidin, 2010,p.436), and it is “becoming increasingly important in developing countries” (Abebe, Bijman, Kemp, Omta, & Tsegaye, 2013,p.22). That is, “recent years have seen considerable interest in the impact of contract farming on farmers in developing countries,
motivated out of belief that contract farming spurs transition to modern agriculture” (Wang, Wang, & Delgado, 2014, p. 1257); and Warming and Key (2002, p. 255) also noted that “contract farming is playing an increasingly important role in many developing countries. A contract-farming arrangement typically obliges a firm to supply inputs, extension, or credit, in exchange for a marketing agreement that fixes a price for the product and binds the farmer to follow a particular production method or input regimen.”

Particularly for farmers from the developing countries, it is maintained that CFAs have potential benefits because “as farm scale tends to be small, farmers are generally less educated, production and management technologies are less efficient, and infrastructure such as transportation, storage, and information channels are underdeveloped; contracting with a large agribusiness firm may be the only way farmers can access higher-end markets and receive higher returns” (Wang, et al., 2014, p.1257-1258). In connection, the flocking of multinational brewing companies to the Ethiopian brewery sector has contributed to the introduction of CFAs to poor, smallholder malt barley farmers in various parts of the country. That is subsequent to the arrival of multinational brewing companies to the Ethiopian business landscape, the major brewing companies have introduced contract farming system to the smallholder barley farmers that grow barley in the major barley growing areas of the country (Arisi, Bale, Sebeta, and North Gondar areas). However, no systematic, empirical study has been conducted to assess the ongoing contract farming practices implemented by these breweries in terms of progress, achievements and challenges encountered. Accordingly, this study endeavours to provide an original, empirically anchored evidence on the prospects and challenges of the ongoing contract farming practice with particular focus on the perspectives of the smallholder farmers towards addressing existing challenges they face and in order to better delivery the CFAs that benefits both the small scale farmers and the sponsoring businesses involved. This is also in line with the notion that typical CFAs studies encompass topics that focus on benefits of contract farming, limitations of contract farming, rationale for contracting by firms, and problems and disputes in CFAs (Naidu, Mishara, & Askon, 2015). Further, this research seizes “the unique opportunity that contract farming provides researchers to examine the direct interactions between the sponsoring businesses and the smallholder farmers” in suggesting what more needs to be done by the sponsoring businesses on the bases of the views of the smallholders (Zhang, 2012, p. 3).

II. PROBLEM STATEMENT

CFA is an effective way to coordinate and promote production and marketing in agriculture. It is an approach that can contribute to both increased income for farmers and higher profitability for sponsors. When efficiently organized and managed contract farming reduces risk and uncertainty for both parties as compared to buying and selling crops on the open market (Eaton & Shepherd, 2001, p.10). In other words, CFA could be an institutional arrangement, which encompasses advantages of providing the smallholder farmers with inputs and production services, access to credit, introducing new technology, skill transfer, early prices (guaranteed and fixed), better management of risk, improved family employment, and access to reliable market, (Eaton & Shepherd, 2001; Ramaswami, Birthal, & Joshi, 2006; Simmons, 2002; Simmons, Winters, & Patrick, 2005; Wang, et al., 2014). So, in view of this, this study explores the existing organizational support that the smallholder barley farmers receive from the CFAs and the challenges that they still encounter under the CFA in order to forward suggestions to address the prevailing challenges (mainly farmers’ concerns), which in turn will help reinforce the ongoing CFAs to deliver better results to the smallholder farmers in terms of improving the farmers’ productivity and income. Such study is of particular importance in contexts where smallholder farmers in poor economies like Ethiopia dominate the agriculture sector (Negash, 2015).

III. RESEARCH OBJECTIVES AND QUESTIONS

The main objective of the study is to examine the ongoing CFAs that companies in the Ethiopian brewery sector are implementing with smallholder barley farmers in the barley growing regions of the country towards identifying the prospects and challenges involved and to provide suggestion (recommendation) on how the ongoing contract farming system in focus could be reinforced to deliver better results through organizational support. In other words, the study will address the following questions.

- What are the existing organizational supports that the small holder barley farmers receive from the barely CFAs?
- What benefits do the small scale farmers get out of the barley CFAs?
- Why do the case companies under the study embark on barley CFAs?
- What are the major problems (concerns) that the small scale barley farmers are still faced with in the barley CFAs?
IV. SIGNIFICANCE OF THE STUDY

This study focuses on assessing the ongoing CFAs that have been undertaken by three prominent breweries that operate in Ethiopia. Information obtained from the companies websites (all are public information) and preliminary data indicate that these breweries are working closely with small scale barley farmers from various barely growing regions of the country on the basis of contract farming, which promises improving the productivity and income of the poor farmers on the one hand and sourcing the barley that the breweries need from local sources on the other hand. According to the 2014 local sustainability factsheet of Heineken Breweries, the company is continuously working on a barley development project to improve the quality and volume of local barley supply and provide market access to farmers. The project operates in Oromia Regional Zone and as of 2014 this project has reached about 6,000 smallholder farmers through contractual relationships, up from 1,700 in 2013. Besides, the 2016 sustainability report of the company indicates that the company is still working on this barely development project and it is stimulating a sustainable local barley supply chain in Ethiopia stressing that the project will reach 20,000 smallholder farmers in the country by 2017. Similarly, Diageo-Meta Brewery also maintains that it has strengthened its partnerships with smallholder barley farmers in the Oromia Regional Zone and it is currently sourcing half of its barely demand from these small scale farmers and its target is to source 100% of its cereal raw material from within Ethiopia by 2017. Further, preliminary interview data obtained from Dashen brewery also indicates that this brewery works closely with thousands of small scale barley farmers in Northern Gondar Zone to source part of its barley demands from local sources. Nonetheless, thus far, no systematic, empirical study has been conducted to assess the ongoing contract farming practices in terms of progress, achievements and challenges encountered. Accordingly, this study endeavours to provide empirical evidence on the prospects and challenges of the ongoing contract farming practice with particular focus on the perspectives of the smallholder farmers towards addressing existing challenges they face and in order to better delivery the CFAs for the benefit of both the smallholder farmers and the sponsoring businesses involved. With this purpose in mind, this paper begins with explaining the conceptual framework by way of literature review that lays the theoretical underpinning for the analysis of this study on the ongoing CFAs undertaken by the selected companies with smallholder barley farmers.

V. LITERATURE

This section presents a review of literature in line with the research questions of the study. A review of prior, relevant literature is an essential feature of a research process (Webster & Watson, 2002). It represents “a summary of a subject field that supports the identification of specific research questions” (Rowley & Slack, 2004, p. 31). Accordingly, the literature review of this study provides a brief review of the theoretical arguments on the meaning of contract farming, types of support that sponsors of CFAs provide to smallholder farmers in contact farming, why the sponsors engage in contract farming, benefits of contract farming to smallholder farmers, challenges/concerns in contract farming, and approaches to successful delivery of CFAs.

VI. OVERVIEW AND MEANING OF CONTRACT FARMING

It is noted in the literature that CFAs are widely embraced approaches among processing companies, particularly in the developing world, to source raw material for their production needs. But only too little is known about the implementation of such contracts, especially in a small farm context (Saenger, Qaim, Torero, & Viceisz, 2013). Contract farming is broadly understood as those contractual arrangements between farmers and companies whether oral or written specifying one or more conditions of production and/or marketing of an agricultural product (Roy, 1963), and the contractual arrangements could be explicit contracts or implicit contracts (Reardon, Barrett, Berdegué, & Swinnen, 2009). It is indicated that businesses that enter CFAs also assist small farmers with the seasonal inputs, finance, technical support, and quality monitoring systems they need to meet production and quality requirements (Poulton, Dorward, & Kydd, 2010). Common Forms of Support that Sponsor Firms Provide to Farmers in Contact Farming and the Associated Benefits to Smallholder Farmers

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1 http://www.theheinekencompany.com/search?q=Sustainability+Factsheet+2014+HEINEKEN+Breweries+S+C+++Ethiopia
2 http://www.theheinekencompany.com/sustainability/reporting?tab=sustainability
Accordingly, there are different types of support that sponsor organizations extend to the smallholder farmers who are participating in the contract farming arrangement. And it is believed that the supports do benefit the farmers. In other words, there are certain benefits that contract farming brings to smallholder farmers through the support mechanisms incorporated in the CFAs. Some of these benefits include access to extension services and credit (Azumah, Donkoh, & Ehiakpor, 2016; Bellemare, 2010). Likewise, Singh and Asokan (2005, p. 105) explain that contract farming “can also provide farmers with access to a wide range of managerial, technical and extension services that otherwise may be unobtainable. Thus, the main potential advantages for farmers are: provision of inputs and production services; access to credit; introduction of appropriate technology; skill transfer; guaranteed and fixed pricing structures; and access to reliable markets.” Other authors also noted that the benefits to the smallholder farmers may include input control, field visits, and quality assessment (Hueth, Ligon, Wolf, & Wu, 1999); “smallholders benefit from contract farming through better access to inputs and technology as well as higher and more stable prices, yet they may struggle to meet strict quality standards” (Saenger, et al., 2013, p. 3). Further, Prowse (2012, p. 16) reiterates that contract farming offers “numerous opportunities for farms: access to a reliable market; guaranteed and stable pricing structures; access to credit, inputs, production and marketing services (seed, fertilizer, training, extension, transport, and even land preparation), and it can stimulate technology and skill transfer.” Smallholders, in particular, are likely to find contracting desirable if they have difficulty in accessing key markets (Simmons, et al., 2005).

VII. SOME REASONS FOR FIRMS TO SPONSORING CFAS

In connection, it is important to note that there are compelling reasons why the sponsor organizations are extending those support mechanisms in particular and engaging in the sponsoring of the CFAs in general. Firms can choose to contract for different reasons, but mostly when crops of desired quality and quantity are not available in spot markets (Key & Runsten, 1999). Similarly, wrote that firms are “turning to contract farming for a variety of reasons, including guarantee of cheap crop supplies” (Clapp, 1994, p. 79). CFAs enable that contracting firm to have control on the production process and the product without directly entering into farming or production of the crops; accordingly, Bijman (2008) explains that the advantages of CFAs for sponsoring firms include: contracts reduce transactions costs, contracts reduce coordination costs, firms can obtain more uniform products, and contracts reduce the risk of obtaining sufficient produce. In other words, it is noted that for firms, the opportunities provided by contract farming are clear and convincing, sponsoring firms enter into contract farming when agricultural produce of desired quality and quantity was not available in spot markets, to avoid large fixed investments and other costs associated with direct production, to avoid problems associated with managing labour and farm operations, to get access to high quality produce(greater control over the production process and crop attributes ) at required times and to avoid the vagaries of open market, firms can reduce the costs associated with owning and cultivating lands (the off-loading of production risk onto farmers) and get the required quality of produce grown cheaply by small farmers, and economies of scale in procurement, via the provision and packaging of inputs.” (Naidu, et al., 2015; Prowse, 2012). Generally, “the decision by a business firm to undertake expansion through contract farming reflects the view that the total production and transactions costs of contracting are less than the costs associated with alternatives such as open market operations or vertical integration through plantations” (Simmons, et al., 2005, p. 7).

VIII. CHALLENGES (PROBLEMS AND CONCERNS) SURROUNDING CFAS

Nonetheless, there could still be challenges and concerns that the participants (mainly - the sponsors and the smallholder farmers) experience in the implementation of the contract farming arrangement. “Just as there are numerous opportunities in contract farming for both farms and firms, there are also numerous risks, particularly for small-scale producers and the firms contracting with smallholders. Five risks are particularly important for smallholders: (1) Contract farming can contribute to a loss of autonomy and control over farm enterprises and a form of dependency on the contracting firm; (2) there is substantial production risk if the technology or the company’s forecast is inappropriate; (3) the firm’s exclusive purchase rights can depress producer prices, or lead to late and/or partial payments; (4) contracts can be verbal, and even if they are written, it is not always in the vernacular — this can result in manipulation of conditions, with smallholders in a weak position to challenge alleged discrepancies; (5) the intra household distribution of labour/income can be altered to the detriment of women’s interests.” (Prowse, 2012, p. 67). Other authors have also specified certain challenges surrounding CFAs such as lack of firms’ capacity to enforcing contract, problems of side-sell of production by farmers to the traditional channels or other buyers (this calls for firm’s financial capacity to make above-market-rate payments to induce farmers not violate the contract), lack of access to company, NGO, or government assistance in terms of credit, inputs,

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information, and so on (Reardon, et al., 2009); “limits to the inclusivity of contract farming schemes (often restricted to the top tier of smallholder producers), often unequal relations between more powerful monopsonistic service providers” (Poulton, et al., 2010), and “contract farming will lead to the disruption of subsistence production and is instrument for the subordination of smallholders” (Clapp, 1994, p. 79).

IX. SOME PERSPECTIVES TO SUCCESSFULLY EXECUTE CFAS

Finally, with regards to the goal to reinforce the ongoing contract farming arrangement, an initial natural approach to successfully deliver the ongoing contract farming arrangement is to address the problems and concerns identified at an organizational level. Along this line the study will forward recommendation based on the findings of the study that would reveal existing problems (concerns) from both parties involved. Besides, the recommendation will also shed light on policy implications as “ contract farming can be an attractive option to policy makers keen on integrating the poor in developing countries into a more industrialized sector of the economy and helping them access the gains from trade that characterize successful Contract Farming Arrangements(CFAs)” (Barrett et al., 2012, p. 3).

More expansively, Kirsten and Sartorius (Kirsten & Sartorius, 2002) explained that “ Contract farming in developing countries has experienced a mixed fortune, yielding some successes and many failures” (Kirsten & Sartorius, 2002, p. 509), and they shared a criticism of CFAs that “ contract farming as an institution leads to an increase in the marginalization of farmers and communities that do not participate in contracting”(p. 509) (Kirsten & Sartorius, 2002) p 509, and particularly “In the African context, contract farming has been observed to disrupt power relations within farm households; to exploit an unequal power relationship with growers; and to lead to growers becoming overly dependent on their contracts” (Kirsten & Sartorius, 2002, p. 510). In view of this the authors argued that the chances of success will be enhanced in CFAs if the following measures are taken as Shown in Table:

- The farmer partners should be properly screened.
- The country-specific historical and institutional legacies that have shaped local conditions should be taken into account in project design.
- Commodities requiring more labour-intensive production techniques should be selected.
- Crops displaying a high value per hectare, as well as requiring post-harvest facilities that are not feasible for the farmer, should be selected.
- Mutual asset specificity between the contracting partners should be incorporated, thus raising the exit costs for both partners and ensuring a much more stable and sustainable relationship.
- The location and concentration of growers in relationship to the location of the agribusiness Ž firm and other logistical factors should be optimized.
- If a competitive local market is present, contracted farmers may choose to sell to the fresh market instead of the contracting firm, who is often unable to legally enforce contractual obligations. Serious disruption to input supplies to farmers can result in such a situation.
- The legal system should be well-developed, strong and respected, ensuring contract enforcement at minimal costs.
- Contractual relations should be well managed and based on mutual trust.
- Farmer interests should be well represented in contract negotiations. In this respect, the formation of farmer cooperatives in a contract farming arrangement is seen as the most cost-effective way to represent the interests of the contracted farmer, as well as for the integrator to deliver inputs and services to the individual farms.
- Agribusiness should play a key role in coordinating farmers’ access to a range of inputs, services and facilities. These could include promoting literacy, improving business skills, fostering farmer links with agribusiness and banks, establishing a facility for resolving conflicts, infrastructure development, etc.

Table 1 Measures Promoting CFAs' Success (Source: Kirsten and Sartorius, 2002)

<table>
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<th>Sample</th>
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<tr>
<td>For this exploratory, qualitative study, the sample was drawn from farmers and managers. In-depth interviews were conducted with a total of 15 respondents consisting of 9 farmers’ representatives of the smallholder barley farmers who are involved in the contract farming strategy with three companies. The farmers are located in the major barley growing areas of the country: Assela (Arisi), Northern Gondar, and Sebeta. Besides, 6 interviews were conducted with the managers of the case companies that sponsor the contract farming. The interviewed farmers are model farmers, who are also the representatives of the farmers. The managers who were interviewed are those who have</td>
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the knowledge of the study subject and are participating in the contract farming strategy that their company sponsors.

Data Collection and Interview Protocol

During the interviews, each interviewee was interviewed by the researcher. Slightly different interview guides for both groups of respondents were employed to help capture relevant views. Topics in the interview guide were organized under themes in light of the research questions of the study. The interview lasted 30-60 minutes and it was undertaken in locations that were most suitable for the respondents, for the farmers, it was either in the fields or near their villages, and for the managers, it was either in their work place or quite cafeterias/hotels. All of the interviews were tape recorded. Then it was transcribed by professional transcribers. Later, the researchers have listened carefully to the recording repeatedly to make sure that all the relevant data pertaining to the questions asked during the interview are captured. At the outset of the interview, assurances were given to respondents that the information that they would provide would be kept confidential and it will be treated in absolute anonymity. Then, guided open interviews were utilized to capture the responses of the interviewees, and the responses remained open ended and this enabled respondents to produce as much information as they wish to and provides a room for the researchers to probe while consistency is ensured at the same time (Easterby-Smith, Thorpe, & Jackson, 2008; Turner, 2010). This is mainly based on the belief that this approach will allow respondents to describe and analyze their experiences or feelings in their own words without being constrained by any form of framework. The interview questions sought to probe more deeply.

Referencing Respondents

Two managers were interviewed from three companies under investigation; which makes the total number of six managers from the three case companies. The companies are coded as Case#1, Case#2, and Case#3. The managers who participated in the interviews from Case#1 are identified as Manager 1 and Manager 2, from Case#2 as Manager 3 and Manager 4, and from Case#3 as Manager 5 and manager 6. The farmers, who participated in the interviews and that have working relationships with Case#1 are identified as Farmer 1, Farmer 2, and Farmer 3; those farmers working under the contract strategy with Case#2 are identified as Farmer 4, Farmer 5, and Farmer 6; and the farmers that work with the remaining company, which is Case#3, are identified as Farmer 7, Farmer 8, and Farmer 9.

Data Coding and Analysis

In this study, the gathered data was coded and analyzed qualitatively. Strauss and Corbin stated that “qualitative methods of data gathering and analysis have gained popularity over the years” (1990, p. 8).

Accordingly, this study is an empirical research based on qualitative data that is gathered mainly through interviews. As such the specific goal of the analysis of the data is to produce answers to the research questions raised in the study. Groenland affirmed that “the purpose of any empirical analysis is finding meaningful patterns in the data and the designation ‘meaningful’ refers to the fact that every analysis must answer (part of) a research question as defined within the problem analysis” (2014, p.2).

Two separate templates were developed for both the managers and the farmers’ interview responses to categorize their responses in line with the interview questions, which in turn are informed by the research questions of the study. In line with this argument, methodologists suggest that “deciding on and generating the format for displaying qualitative data are important first steps. Your template is a visual outline, of sorts, for the data to be filled in” (Miles, Huberman, & Saldaña, 2013, p.109). Then in presenting the results, a narrative approach was employed with the goal to uncover the complexity rather than reducing it, and as it was in the interviews, the researchers were open to the unexpected without being constrained by certain framework. Speaking of narrative report, methodologists assert that a research report based on a narrative approach is one of the most established ways of writing qualitative research reports (Savenye & Robinson, 1996). Besides, it is noted that “narrative analysis as a research tool has become increasingly useful in organizational studies and the method is useful in the analysis of interview data but can also be used with other text based media” (Easterby-Smith, et al., 2008, p.182).

Results

This particular section outlines the findings of the empirical study in some detail. This will be done by presenting the results in accordance to the themes of the research questions of the study: (1) the existing organizational support that the small holder barley farmers receive through the contract farming strategies, (2) the benefits that the small scale farmers get out of the contract farming; (3) the reason why the case companies under the study undertake contract farming?, (4) the major problems(concerns) that the small scale barley farmers are still faced with under the contract farming? and (5) How could the contract farming system, which is currently underway, be reinforced to deliver better results to the small scale farmers in terms of improving the farmers’ productivity and income?

XI. EXISTING ORGANIZATIONAL SUPPORT TO THE SMALLHOLDER FARMERS

In assessing the forms of organizational support that are rendered to the small scale farmers that work with
the case companies on the basis of contract farming, first, interviews were conducted with the managers of case companies, and then for the interest of triangulation interviews were also conducted with selected farmers (farmers representatives). The responses provided by the managers from each company and the respective farmers are found to be similar. However, there is some form of variation in terms of variety of support that each case company renders to its respective farmers, who are engaged in the contract farming. Table 2 shows the forms of organizational support offered by each case company.

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<th>Cases</th>
<th>Forms of Organizational Support to Farmers</th>
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<tr>
<td>Case#1 (Heineken)</td>
<td>Agronomical support, improved quality seeds, organize rigorous trainings, technical assistance, financial assistance (loan), premium prices, free transportation, distributes durable packages</td>
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<tr>
<td>Case#2 (Diageo)</td>
<td>Facilitating access to credit to the local farmers to buy the necessary inputs, providing improved quality seeds, agronomical support, trainings, and business advises; access to market, premium prices, distributes durable packages and some transportation facilities</td>
</tr>
<tr>
<td>Case#3 (Dashen)</td>
<td>Subsidizing price of improved quality seeds, deploying agronomical experts to support the farmers, early prices to the barley growers, and some transportation facilities</td>
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Table 2: Forms of Organizational Support that the Sponsoring Firms are rendering to the Smallholder Farmers (Source: Empirical Finding of this Research)

More specifically, as depicted in Table 1, in its effort to source malt barley locally and in order to help build the capacity of the local smallholder farmers, the company under Case#1 provides considerable agronomical support to smallholder barley farmers mainly in Assela (Arisi) area; it supplies the local farmers with improved quality seeds, organizes trainings to the farmers on best agronomical practices, it provides them technical assistance, and renders to the farmers financial assistance in a form of loan. Besides, the company represents a market opportunity for the farmers as it buys their barley by paying them premium prices, provides them free transportation to transport the farmers’ barley, and it distributes durable packages to the farmers. The smallholder farmers who work with this company under the CFA expressed their satisfaction with the support that they are currently receiving from the sponsoring firm.

Likewise, the company under Case#2 also works towards sourcing barley locally, and in view of this objective it works closely with local smallholder farmers in Assela (Arisi), Sebeta, and Woliso areas and provides a range of support to the farmers that it works with. The company facilitates access to credit to the local farmers to buy the necessary inputs for their farming activities, it provides the farmers with improved quality seeds, renders agronomical support, trainings, and business advises to the farmers. Besides, the company has created access to market for the small scale farmers, and offers premium prices to the farmers who sell their barley to the company. It also provides the farmers some transportation facilities to transport their harvest and distributes packages. Similar to the views of the smallholder farmers that work with the company under Case#1, the smallholder farmers who work with this second case company have expressed their content with the ongoing support that they get from the sponsoring firm.

With regards to the company under Case#3, the study results show that this company is committed to a certain (but relatively lesser intensity of commitment compared to the other two case companies) to build up the capacity of smallholder farmers in Northern Gondar area by improving their productivity, establishing market access, subsidizing price of improved quality seeds, assigning agronomical experts that help improve the productivity of the farmers, offering early prices to the barley growers, and some transportation service to transport the harvests of the barley farmers that it works with. Nonetheless, the farmers that work with this particular sponsoring firm expressed their dissatisfaction on the lower price that they are paid for their barley by the sponsoring business compared to the prices that other CFAs (of Case#1 and Case#2) offer to smallholder farmers in other areas of the country. Besides, the farmers also complained that the company is not providing them robust agronomical support to improve their productivity, and they criticize it for playing mainly a buyer’s role. This implies that the sponsoring firm that works with these particular smallholders still needs to work closely with the farmers in terms of providing them rigorous agronomical support that helps improve the productivity of the smallholder farmers. It is worth to note that most CFAs are based on institutional innovations that involve providing various organizational support to the
smallholder farmers involved to improve their performance (Rehber, 1998).

Overall, the major types of organizational support that the small holder farmers attain from the case companies, to a lesser or greater extent, in the contract farming practice/strategy include agronomical support that involves improved quality seeds (or subsidizing price of improved quality seeds), trainings on agronomical practices, technical assistance, financial assistance (such as loans and pre-finance); premium prices (except for Case#3), and some transportation and packaging assistance.

**XII. THE BENEFITS THAT THE SMALLHOLDER FARMERS OBTAIN FROM THE CONTRACT FARMING**

This section highlights the results of the study with respect to the benefits that the smallholder farmers obtained from the CFAs. This is done on the basis of the analysis of the interview responses of both the managers of the sponsoring firms and the farmers, who have participated in the study. This is done in a case company per case company fashion incorporating both the views of the managers and the farmers about what benefits this contract farming strategy has brought about to the farmers.

**Case#1**

The interview results with the company managers indicated that this case company works closely with the small holder malt barley farmers and extends a range of support to improve their productivity by providing them the necessary inputs and agronomical assistance. Besides, the managers interviewed from this case company shared that their firm is committed to create access to market for the farmers, and it also offers them attractive prices for their harvest. The farmers also asserted that they managed to produce larger quantities with commendable quality, and get higher incomes as a result of the premium prices they get from this sponsoring firm that buys their barley. It is also noted that the company provides free transportation to transport the farmers’ harvests to the factory using the company’s vehicles; the interviewed farmers disclosed that this commitment of the sponsoring firm has addressed the transportation challenges that the farmers had been experiencing for years. Further, as indicated by the farmers, the distribution of durable packages/sacks by the sponsoring firm to the farmers has also its own positive contribution in reducing the cost of packaging in the supply chain. Moreover, the findings show that the sponsoring firm provides trainings to the farmers on the use of fertilizers, pesticides, and herbicides; and promotes the benefits of rotation farming to foster organic farming. Although the farmers upheld that they are thus far satisfied with the support they get from the sponsoring firm, the farmers suggested that they still expect the firm to bring them more and better improved quality seeds. Furthermore, they expect the company to play additional roles in environmental protection activities in the farming areas such as in soil protection and addressing water scarcity problems.

**Example**

“[The most tangible benefit is the increased productivity, we managed to harvest unprecedented amount of malt barley from a hectare of land. Before we get the support from the sponsoring firm in terms of improved quality seed and agronomical support such as training and technical assistance, we used to harvest very limited amount of malt barley. We have clearly benefited in terms of having an enhanced harvest both in quality and quantity]” (Farmer 1, Case#1)

**Case#2**

With regard to the company under Case#2, based on the interview data obtained from the managers and the farmers, it is found out that the company provides the farmers what it considers to be necessary support such as input credit, improved quality seeds, agronomical support, business advises, and it is also the buyer of the farmers’ barley, which provides the farmers access to market. It is also found out that, based on the opinions of the farmers, the sponsoring firm pays attractive prices to the farmers, and the farmers have confirmed their satisfaction on the price they receive from the company they sell to the company. Similarly, the farmers have appreciated the agronomical support and trainings they get from the company that helped improve their productivity. They asserted that the trainings and agronomical support that the firm provides them on the use of fertilizers, pesticides, and herbicides; as well as weeding and row planting are very helpful to boost their productivity. Even if the farmers are satisfied with such supports they get from the company, they did not relinquish from pointing out critical concerns that they have such as their cattle getting killed due release of poisonous chemicals from the sponsoring firm’s manufacturing facilities, and the farmers have also complained that the company is less sensitive to environment protection activities.

**Example**

“We [farmers] have obtained both tangible and intangible benefits as a result of working with the company. The tangible benefits are those including the attractive price, improved quality seeds, and input credits that we receive from the company; whereas the intangible benefits are trainings and knowledge transfers we get from the company, which are worth more than money. There are more of this such as the peace of mind to be certain that there is market for our barley, peace of mind that we do not worry about lack of cash for buying inputs such as improved quality seeds and fertilizers because we know that even if we lack cash, the company gives as input credit, and that brings you peace of mind by itself.” (Farmer 5, Case#2)
In this case, interview results reveal that the company mainly acts as the most important buyer of barley from the local farmers. The company’s major contribution is creating access to market for the local farmers and subsidizing the price of improved barley seeds. Except for these contributions, the company is found to be less committed especially in terms of providing robust agronomical support to the local barley farmers. The farmers have put their pledge on the table requesting the company to work at a grass root level to improve the productivity of the farmers. Besides, the study results show that even if it is the single major buyer of barley from the local farmers in the area, the price that it offers to the farmers is not worth their effort and the cost incurred to grow the barley; that is the farmers have expressed their disappointment with the price that the company offers for their barley.

Example

“The most important contribution is access to market created by the company, it buys our barley. That means we have an established market to sell our barley. The company is the buyer of our barley. The price subsidies that the company makes to the price of improved quality seeds are also commendable.” (Farmer 8, Case#3)

Hence, the findings above show that there are both tangible and intangible benefits that the small holder farmers are experiencing as a result of the contract farming. The major benefits that have been emphasized by the farmers include ease of access to market (early price and premium price), improved quality seeds, fertilizers, input credits, and other agronomical supports such as trainings and technical assistance. Thus in order to capitalize on the increasingly important role that CFAs are playing in favour of smallholder farmers in the developing countries (Bellemare, 2012; Warning & Key, 2002), it is useful to offer diverse supports to the smallholder farmers that CFAs typically oblige a sponsoring firm to supply inputs, extension, or credit, premium prices, and other relevant assistance (Bhaumik, 2008; Otsuka, et al., 2016; Wang, et al., 2014; Warning & Key, 2002)

XIII. WHY DO THE CASE COMPANIES UNDER THE STUDY EMBARK ON CONTRACT FARMING?

In the assessment of the reason why the case companies engage in contract farming with the local farmers, results show that all the case companies share the same objective - the goal is a win-win situation, which involves to source barley locally and at the same time to help build the capacity of the local smallholder farmers. All the managers who participated in the interviews asserted that the objective of engaging in the CFAs has benefits for both the companies and the farmers involved. In other words, it is uncovered that the contract farming helps the companies to source part of the barley they need from local sources and at the same time they are also supporting the farmers to produce more and sell more. This is in line with the assertion that contract farming systems are a mutually beneficial mechanism for sourcing specific kinds of products (Singh & Asokan, 2005). The findings below provide further explanation regarding the issue of why the companies engage in contract farming along with some excerpts/quotations taken from the interviews.

Case#1

The interviews result with the company managers (Case#1) indicates that this particular company has a major program that is entirely devoted to sourcing raw materials sustainably and towards this end the company is working on a big project to improve the quality and volume of the local barley supply and providing market access to farmers. It is found out that thus far the project has managed to reach over six thousand smallholder farmers through CFA. One of the managers stated that:

“In this malt barley project, we have a close working relationship with small holder farmers and we help the farmers get assistance in advices, technical support, and training on best agronomical practices; and we also provide them pre-finance(credit) and premium price for their products. We pre-financed the small holder farmers, and supply them with improved malt barley seeds; we distribute to them improved malt barley seeds imported from abroad. Productivity is improved as a result. Over six thousand farmers have already benefitted and are reaping the benefits from this malt barley project and in a couple of years this number will reach to twenty thousand smallholder farmers.” (Manager 1, Case#1)

Another one added:

“The small holder farmers’ malt barley program is one of the major programs in our company. With respect to this malt barley program, we are working closely with smallholder farmers with three primary objectives. The first one is we want to improve the living standard of thousands of smallholder farmers and their families by improving their incomes, and secondly the program enables additional malt barley be available in the local market, and this in turn helps substitute or reduce import of malt barley from foreign market, which saves the country its hard currency; and thirdly we are supplying the smallholder farmers with tangible knowledge and skills on best agronomical practices alongside supplying them improved seeds, and other related trainings, as well as technical and logistical support.” (Manager 2, Case#1)

Case#2:

Interview results show that that the company under Case#2 performs contract farming strategy to enhance farmers’ productivity and welfare, it is disclosed in
the interviews with the company managers that the company has a program called sourcing for growth that is designed with the goal of sourcing all its malt barley from local sources by the end of 2017. With this goal in mind, the company is running a comprehensive barley development program in the major barley growing regions of the country by employing contractual relationship with smallholder malt barley farmers. One of the interviewed managers shared the following:

“We are working with the local farmers in our barley development program that supports small scale barley farmers to improve their productivity and then their income; and this is also one avenues for us to source the portion of barely we need.” (Manager 3, Case#2)

Case#3

Interview results with the company managers indicates that this company works with smallholder farmers, who grow temperate zone malt barley; and it encourages barley production and productivity so that the small holder barley farmers benefit from higher production and sale, and the company also gets access to barley from local sources. It is also reiterated that the company is committed to promote the production of barley among the local farmers. One of the managers explained:

“As our marketing people go door to door to the bars and hotels to sell the beers we produce, our extension workers go to the farmers villages to persuade them to grow malt barley and the benefits that they would get if they grow malt barley such as improved production and better income.” (Manager 5, Case#3)

Therefore, the study results above show that obviously, the reason why the case companies engage in contract farming with the local smallholder farmers is to source locally and to enable the farmers produce more and sell more.

Therefore, the result above is in line with the notion that CFAs bring about benefits for both parties involved, namely the contracting firms and the smallholder farmers. That is for the smallholder farmers, while CFAs with sponsoring businesses or processors “often overcome the access barriers to assets, information, services and markets faced by smallholders, the processor/marketer gains the advantage of an assured supply of the commodity at harvest at a fixed price, quality control and the option of making collateralised loans to farmers” (Delgado, 1999, p. 175). Besides, CFAs have great potential to create employment and income opportunities for local populations (Ariza-Montobbio & Lele, 2010).

XIV. THE FARMERS CONCERNS REGARDING THE ONGOING CONTRACT FARMING STRATEGY

Another aspect of the study was exploring the concerns of the farmers regarding the ongoing contract farming strategy. Table 3 illustrates the prevailing concerns indicated by the farmers.

<table>
<thead>
<tr>
<th>Cases</th>
<th>Farmers Concerns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case#1</td>
<td>No worries at all, and the farmers are happy working with the company; farmers are satisfied with the assistance, which the company extends to them and the attractive payment (premium price) they get for their harvest, which the company buys from them.</td>
</tr>
<tr>
<td>Case#2</td>
<td>The company discontinued its support after one round of working with other fellow farmers, less sensitivity to environment protection activities, in a recent incident a number of livestock was killed, the reason was untreated waste release by the company</td>
</tr>
<tr>
<td>Case#3</td>
<td>Unsatisfactory barley price, lack of recognition as individual farmers, and lack of robust agronomical support from the company</td>
</tr>
</tbody>
</table>

Table 3: Farmers Concerns Regarding the Barley CFAs (Source: Empirical Finding of this Research)

Hence, as shown in Table 3, there are isolated concerns that the farmers uphold over the ongoing CFAs that they are part of. The study identified distinct concerns: unsatisfactory barley price; lack of recognition as individual farmers; and lack of robust agronomical support from the company (Case#3), and the company discontinued its support after one round of working with other fellow farmers, which caused fear of abandonment among the existing smallholder farmers (Case#2). In view of the later complaint, CFA literature upholds that “where smallholders are excluded from contracting, contract farming may serve to exacerbate income and asset inequalities” (Key & Runsten, 1999, p. 396). The following are a couple of excerpts highlighting the farmers’ concerns.

Examples

“We are not happy with the price that we receive from the company for our barley. Most farmers are now getting discouraged for the unfair price and are about to shift to growing other crops in place of barley. Most farmers are contemplating to grow other crops such as...
wheat and potatoes which bear much more yields per hectare with less work.” (Farmer 7, Farmer 8, Farmer 9, Case#3)

“The company does not work and discuss issues closely with the individual farmers; it just keeps its ties only with the cooperatives. We expect the company to work at grass root level by approaching and discussing with us [the farmers]. We do not even negotiate price directly with the company, we need to be recognized individually, and negotiate price by our own.” (Farmer 7, Farmer 8, Farmer 9, Case#3)

Whereas the farmers, who work with Case#1 disclosed that they have no worries at all over the CFA sponsored by this particular company. Instead, they shared that they are very happy working with the company; and they maintained that they are satisfied with the assistance, which the company extends to them. Besides, the farmers have appreciated the attractive payment (premium price) they get for their barley from this particular company. It is found out that the company offers the smallholder farmers early prices and a price provision that provides the farmers premium of about 3 percent over the market price in situations where market prices of barley are higher than the early price. As indicated earlier, this is in line with what literature suggests that businesses are expected to work with and source inputs from close(local) source particularly from minority-owned suppliers (such as small scale farmers), and establish lasting relationships by implementing contract farming, which encompasses providing the small scale farmers with inputs and production services, access to credit, introducing new technology, skill transfer, offer early fair prices, and access to reliable market (Eaton & Shepherd, 2001; Spiller, 2000; Sprinkle & Maines, 2010).

XV. CONCLUSIONS AND RECOMMENDATION

This research explored contract farming practices and concerns by examining ongoing CFAs implemented by companies with smallholder barley farmers in Ethiopia with the goal to provide insight on what forms of organizational support are rendered to the small holder farmers by the companies that sponsor the CFAs, the benefits that the smallholder farmers obtain from their involvement in the CFA, why the case companies engage in contract farming, prevailing concerns that the smallholder farmers are faced with in the CFAs, and how could the barley CFAs, which are currently underway be reinforced to deliver better results to the smallholder farmers in terms of improving the farmers’ productivity and income. This section attempts to recapitulate the study by providing conclusions and recommendation by offering the summary of the findings in light of the research questions that the study raised. While the conclusions part provides a summary the findings for the first four research questions, the recommendation part winds up the study by forwarding suggestions in light of the fifth research question of the study.

Conclusions

Research Question 1: What are the existing organizational supports that the small holder barley farmers receive from the barely CFAs?

Regarding the forms of existing organizational supports that the smallholder barley farmers receive from the CFAs, the findings of the study found out that the major types of organizational support that the small holder farmers attain from the case companies, to a lesser or greater extent, in the contract farming practice/strategy include agronomical support that involves improved quality seeds (or subsidizing price of improved quality seeds), trainings on agronomical practices, technical assistance, financial assistance (such as loans and pre-finance); premium prices (except for Case#3), and some transportation and packaging assistance. This is in line with the common types of supports that sponsoring firms of contract farming extend to smallholder farmers to address constraints (e.g. problem of access to markets, lack of financial reserves, lack of seed and extension facilities) that limit the productivity of smallholder farmers (FAO, 2013; Minot & Sawyer, 2016; Prowse, 2012).

Research Question 2: What benefits do the small scale farmers get out of the barley CFAs?

With respect to the benefits of the contract farming to the smallholder farmers, (Bellemare, 2015) explains that in contract farming arrangements, smallholder farmers obtain benefits from the arrangement “as it is often the case that the processor advances inputs which would otherwise be difficult or impossible for the grower to obtain,” (p. 2). Besides, Glover (1990, p. 303) stated that smallholder farmers get certain benefits as “often the firm provides credit, inputs, and technical advice”. The findings of this study also reveal similar results. The study results affirmed that there are both tangible and intangible benefits that the smallholder farmers are attaining from their involvement in the contract farming. The major benefits are ease of access to market (early price and premium price), improved quality seeds, fertilizers, input credits, and other agronomical supports such as trainings and technical assistance.
Research Question 3: Why do the case companies under the study embark on barley CFAs?

Concerning the assessment of reason why the case companies have embarked on CFAs with the smallholder barley farmers, the study result revealed that the prime reason behind the case companies engagement in the barley CFAs with the local smallholder farmers is to source locally and to build the capacity of the farmers so that this could enable the farmers to produce more and sell more. Such is some of the typical reasons behind the involvement of sponsoring firms in CFAs (Bijman, 2008)

Research Question 4: What are the major problems (concerns) that the small scale barley farmers are still faced with in the barley CFAs?

Next, in assessing the farmers’ concerns regarding the ongoing CFAs, the study unveiled that the farmers have isolated concerns depending upon the case company that they work within the contract. The study uncovered discrete concerns particularly pertaining to the companies under Case#3 and Case#2. Accordingly, the identified concerns are: unsatisfactory barley price; lack of recognition as individual farmers; and lack of robust agronomical support from the company (Case#3), and the company discontinued its support after one round of working with other fellow farmers, which left a fear of abandonment among the smallholder farmers (Case#2). Whereas the farmers who work with Case#1 have decidedly expressed their satisfaction with the support and the benefits they get working with this case company.

Recommendations

Concerning the issue of how the ongoing barley CFAs could be reinforced to deliver better results to the smallholder farmers in terms of improving the farmers’ productivity and income, a logical starting point will be addressing the typical concerns shared by the smallholder farmers, particularly by those farmers who work with the companies under Case#2 and Case#3. In line with this idea, the unique opportunity that CFAs create for researchers to study the direct relationship between the sponsoring businesses and the smallholder farmers involved in the CFAs (Zhang, 2012) makes it convenient to forward suggestions regarding what the sponsoring businesses may have to improve in the CFAs based on the concerns and expectations presented by the smallholder farmers. Accordingly, concerning the company under Case#2, even if the farmers are satisfied with supports they get from the company, the farmers did not relinquish from pointing out critical concerns that they have such as discontinuation of such contract farming practice that has negatively impacted other farmers as a result of the unexplained stoppage of the company’s business relationship with the local farmers who were once working with the company under the barley CFA. There is fear of being abandoned by the sponsoring firms without prior notice and explanation. Whereas, concerning the company under Case#2, the farmers pledge this company to work at a grass root level to improve their productivity. Besides, even if it is the single major buyer of barley from the local farmers in the area, the price that it offers to the farmers is described as not worth their effort and the cost incurred to grow the barley; that is the farmers have expressed their disappointment with the price that the company sets for their barley. In connection, the farmers who work with Case#1 and who affirmed their greatest satisfaction has also pointed out that though they are satisfied with the support they get from the company thus far, the farmers suggested that they still expect the company to bring them more and better improved quality seeds. Furthermore, the smallholder farmers explained that they expect the company to play additional roles in environmental protection activities in the farming areas such as in soil protection and addressing water scarcity problems. Overall, CFA literature suggests the approaches to deliver successful CFAs from the perspective of organizational support of sponsoring firms focus on, among others, careful management of contractual relations based on mutual trust, ensuring farmers interests are well respected and represented in the contract negotiations, and extending the necessary support to the smallholder farmers, whereby the contracting firm plays the major role in the coordination of farmers’ access to inputs, services and necessary facilities (Kirsten & Sartorius, 2002). Further, as the success of contract farming in the developing countries also depends on some other commitments outside the sponsoring businesses involved such as “available infrastructure needs intensive government involvement and also the financial support of domestic and foreign donor agencies and initiatives of national and multinational companies, and integration of the tendency for transnational corporations to shift from land ownership to a contracting system to a national economy” (Rehber, 1998, p. 18).

LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FUTURE RESEARCH

This study is limited to exploring the direct relationship between the sponsoring firms and smallholder farmers involved in the CFAs by way of farmers’ representatives and managers of the sponsoring firms of the CFAs. So, this limitation represents a window of opportunity for broader exploration of the barley CFAs in Ethiopia by incorporating the perspectives of other actors...
and institutions such as the government, NGOs, and other corporate actors involved in the barley CFAs in Ethiopia.

REFERENCES


