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Contract Farming Arrangements (CFAs): Common Forms, the Rationale and Typical Challenges

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Abstract
For a long time now, a vast amount of the Contract Farming Arrangements (CFAs) literature has endeavoured to outline its meaning, the common forms of support that such arrangements (schemes) do extend to smallholder farmers, the rationale behind implementing CFAs, and the challenges CFAs encounter. However, due to the vast volume and diversity of this literature, a review article was deemed essential to provide focus and clarity regarding the meaning of CFAs, the basic types of support that the management team or the sponsoring organisation sponsoring CFAs render to smallholder farmers, the typical reasons why sponsoring firms execute CFAs as part of their supply chain management responsibility and challenges encountered. This review of literature could provide a summary of general ideas pertaining to these specific points and it can also be used as a framework to undertake an empirical investigation of CFAs in a particular context.

Introduction
This review of literature provides a brief review of the theoretical argumentations 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. This in turn will lay a basic framework for researchers in the field who wish to conduct empirical studies on CFAs.

Overview and meaning of CFAs
It is noted in 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, & Viceisza, 2013). A CFA 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
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, Winters, & Patrick, 2005).

Some Reasons for firms to Sponsor 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, Mishara, & Askon, 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)

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 to not violate the contract), lack of access to company, NGO, or government assistance in terms of credit, inputs, 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).

Some Perspectives to successfully execute CFAs

Finally, with regards to the goal to reinforce contract farming arrangement, an initial natural approach to successfully deliver such is to address the problems and concerns identified at an organizational level with respect to the CFAs. Besides, necessary efforts should be in place to to introduce or sharpen policy frameworks such as at national level that could extend support to the effectiveness of CFAs in developing countries. This is particularly important because "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 (2002. P. 509) explained that " contract farming in developing countries has experienced a mixed fortune, yielding some successes and many failures", and the authors have also 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 take part in the CFAs; and in the African context in particular, CFAs have been observed to disturb power relations within farm households; to exploit an unequal power relationship with growers; and to lead to growers becoming overly dependent on their contracts. 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 the table below:

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

- 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 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.

Concluding Thoughts

In due course of conducting this brief review of literature regarding CFAs, it is found out that there is no a single, unifying definition given in the literature about a CFA. Various scholars defined the very term CFA differently, however most theoretical explanations of a CFA emphasize that it is a contractual agreement (verbal or written) that is entered between a sponsoring firm and farmers. Likewise, the types of support that the sponsoring firms extend to the participating farmers vary widely. While some CFAs work closely and intensively with farmers, others maintain a less intensive approach depending upon the capacity (financial and agronomical) of the participating firms. Besides, the rationale behind sponsoring CFAS by firms varies from firm to firm as well as from place to place. However, the overriding reason for firms to sponsor CFAs is to secure the raw materials, this is particularly true when the firms are convinced that it is economically most viable to contract than other options (such as running own farmlands or sticking to open markets). Finally, the challenges to CFAs are also found to be diverse depending upon circumstances. Some of the common challenges are subordination of smallholder farmers by sponsoring companies, unequal relations between the sponsoring companies and smallholder farmers, and lack of commitment to integrate rural women in CFAs.

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