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| Category | : International Rice Research Conference |
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| Title of Entry | : Contract Farming and Production Constraints: Evidence from a Field Experiment in Benin |
| Presenting author | : Jeffrey D. Michler |
| Presenting author email | : jeffrey.michler@usask.ca |
| Co author 1 | : |
| Co author 2 | : |
| Affiliation presenting author | : University of Saskatchewan |
| Affiliation 1 | : |
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| Abstract | <p>: Even before the modernization of agricultural value-chains, contracts played an important role in small-scale agricultural production. Economists viewed these contracts as agrarian alternatives to the organizational structure of the firm, in that they resolve high transactions costs in land and labor markets. The literature on agrarian contracts has primarily focused on the gains to the principal from the contract. But failures in the land, labor, and input market can impact small-scale farmers as much as they impact large landholders or processors. In this paper, I explore contract farming's ability to mitigate market failures that constrain production by small-scale rice farmers in Benin. I develop a theoretical model in which a processor (the principal) contracts with a farmer (the agent) to purchase a high quality good. Similar to the canonical principal-agent model, the processor offers an incentive bonus to the farmer to achieve high quality. I next relax the assumption that the high quality good is within the agent's feasible production set. The result is that the principal offers a modified compensation package designed to relax the production constraints, allowing the agent to achieve high quality. In the empirical setting, these constraints are either a lack of improved inputs or a lack of technical knowledge in rice farming. To test the model's predictions, I use data from a randomized control trial. Working with a processing firm, rice farmers were offered one of three types of contracts: 1) a price bonus in order to incentivize farmers to produce high quality rice, 2) a smaller price bonus plus technical training to ensure farmers know how to produce a high quality product, or 3) an even smaller bonus plus fertilizer inputs and training. The three contracts provide farmers with the same expected payouts. Results indicate that the price incentive alone is insufficient to allow farmers to produce the high quality good. Farmers produce significantly more high quality rice under contracts that provide training or training and inputs. The results suggest that contract farming may be a useful tool in allowing farmers to increase productivity in the absents of markets for necessary inputs.</p> <p style="text-align: right;">Read more»</p> |

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