

A new typology of contract farming arrangements (CFAs)

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INSTITUTIONAL ENVIRONMENT

Law, Policy, Culture, Tradition



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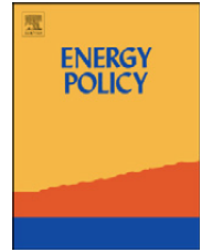
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Institutional arrangements in the emerging biodiesel industry: Case studies from Minas Gerais—Brazil

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The presentation is based on the following publication:

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Typology of contract farming arrangements: a transaction
cost perspective. *Agrekon*, 59(2), 169-187.

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Earlier typologies of contract farming arrangements or models

- Mighel and Jones (1963); Singh (2002)
 - Market-specification contract
 - Production-management contract
 - Resource-providing contract

- Eaton and Shepherd (2001)
 - Nucleus estate model
 - Multipartite model
 - Informal model
 - Intermediate model

Why do we need a (new) typology?

- For practice: to design and implement effective CFAs with (small) farmers
- For academia: to better understand drivers, constraints and impact
- For policy makers: to promote and support effective arrangements

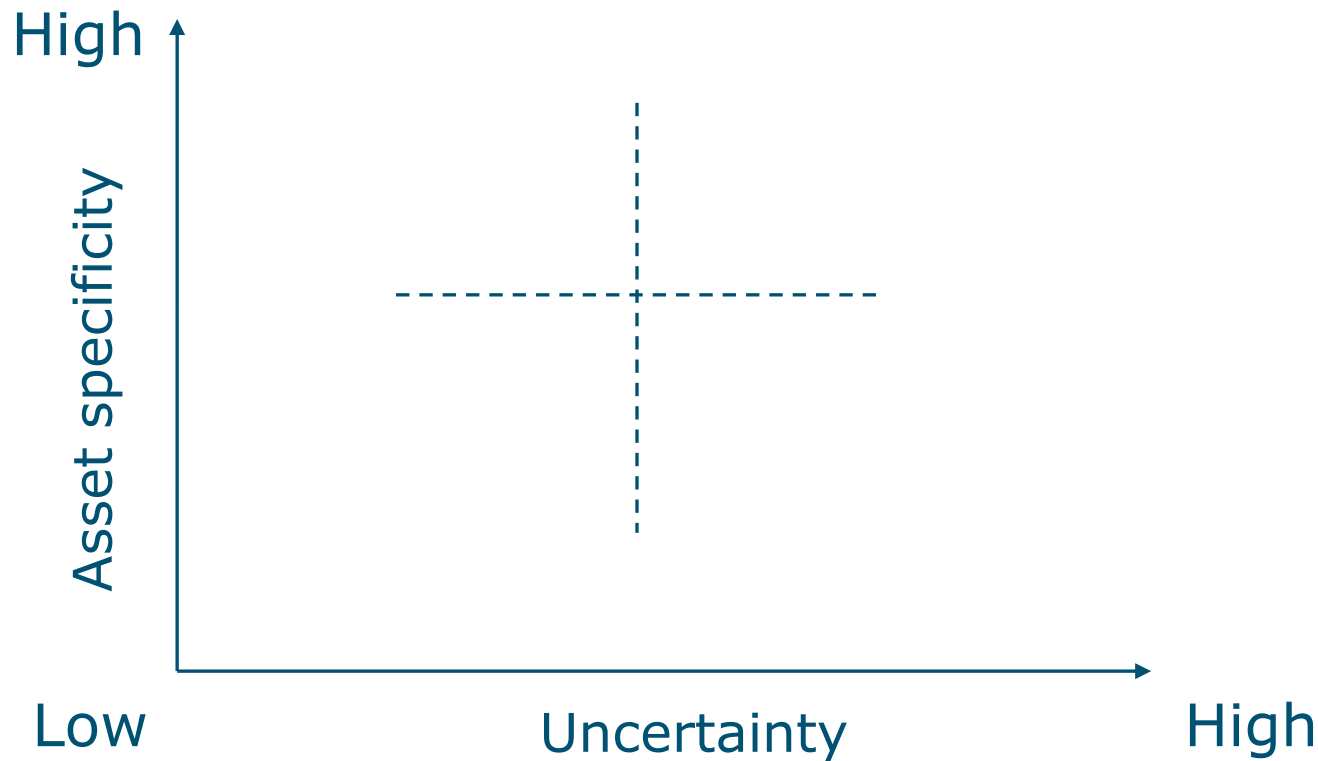
- Older typologies merely provide empirical descriptions; they do not explicitly use a theoretical perspective
- Our typology is based on Transaction Cost Economics

The agribusiness perspective

- CFA is a tool to reduce transaction cost
 - reduce uncertainty
 - reduce transactional risks
 - improve coordination

- Agribusiness considerations in contract design:
 - Asset specificity : physical, temporal & brand
 - Uncertainty : environmental & behavioral

Governance structures are shaped by interactions between asset specificity and uncertainty (Williamson, 1979; Ménard, 2004)



Testing the new typology

- 8 case studies from Zimbabwe
 - 4x wheat
 - Trading
 - Processing
 - 4x tomato
 - Processing
 - Fresh

A typology of four CFAs

Asset specificity	High	Group Contract	Total Contract
		Medium in Vertical Coordination	High in Vertical Coordination
		Farmer organisation mediates between farmers and agribusiness firm	Agribusiness firm applies command and control
		Used for standard products, private label product (e.g., milk)	Used for crops with strict quality standards (e.g. vegetables for export)
		Technical assistance provided by firm and FO	Technical assistance provided by firm
		Market Contract	Lean Contract
		Low in Vertical Coordination	Medium in Vertical Coordination
		Used for commodities (e.g. cereals)	Used for commodities for processing (e.g., oil seeds)
	Technical assistance provided by state	Technical assistance provided by firm or state	
	Low	Uncertainty	High

Further research

- Do the actors matter? Should we distinguish different types of agribusiness firm and different type of farms / farmers?
- Comparative analysis: Embeddedness of contracts in institutional context (Claude Menard, today's presentation)

Thank you for your attention

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<https://www.wur.nl/en/Persons/Jos-dr.-WJJ-Jos-Bijman.htm>