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“Development on the margin”

## Strategies to Improve Smallfarmers' Market Integration in Marginal Areas: Synergies between Farmer Organisations and Contract Farming

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### Abstract

Economies where markets and services reach and work effectively for the poor have also achieved better results in terms of real poverty reduction. In developing countries, smallholder farmers are the major actors who can lead to agricultural development and inclusive growth. Improved smallholders' market access can in fact create employment, increase incomes and food security and lead to sustained agricultural growth.

With changing market trends, due to new consumption patterns and evolving agricultural marketing chains, the potential of high value crops, such as fruits and vegetables, is rapidly emerging for expanding market opportunities of small farmers in marginal areas. New opportunities for small farmers are also accompanied by challenges, related to conditions characterising still underdeveloped markets, particularly high transaction costs for market participation and business development.

This work aims to investigate strategies that improve framework conditions, reduce transaction costs and lead to an enabling environment for the integration of small farmers to established and new markets. High value crop markets which can offer high potential for growth particularly in geographically marginal areas are at the centre of the analysis.

The proposed strategy analysed by the research is the use of contract farming schemes through farmer organisations in order to reduce the transaction costs generated by lack of vertical coordination. Contract farming has in the last decades extensively been proposed as a promising institutional arrangement to better integrate farmers to new and established organised output markets. Working with farmer organisations can be an effective institutional arrangement to better include also smallholders within the contractual relations. The question is to assess the advantages and risks involved in implementing those contract farming schemes through farmer group facilitation, and to identify under which conditions the two approaches work best together. Some of the most important factors taken into consideration are the reduction of farmers risk's default for the contracting company, improved traceability and monitoring and the increased negotiating power for small farmers. Findings derived from literature on the topic and secondary data summarising mixed experiences from developing countries, provide the basis for further analysis during the field research in Uttarakhand, a North Indian State.

**Keywords:** Contract farming, farmer organisations, high value agricultural products, marginal areas, markets