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Navigating risks through organisational innovations: The potential of contract farming for smallholders' in Punjab, Pakistan

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Abstract

Small-scale agriculture is a major source of livelihoods in large parts of Pakistan with more than 60 % of farmers cultivating less than two ha of land, a large share of them in Punjab, Pakistan's agricultural heartland. While impact from climate change, increasing water scarcity, and soil degradation put small-scale production systems under pressure, economic stressors have an exceptionally high relevance for smallholders often lacking market access, depending on middlemen, and competing with bigger producers or agricultural corporations.

Therefore, production arrangements are needed that specifically counterbalance such unfavourable conditions smallholders operate in. Besides cooperatives, such arrangements also include, for instance, contractual approaches. While cooperatives have rather failed in Pakistan mostly due to dependency on government credits, lacking self-sustenance, and internal power dynamics, contractual approaches mostly involve medium- or large-scale agricultural producers in Pakistan, usually excluding smallholders.

Against this backdrop, we analyse the potential of contract farming arrangements in Punjab/Pakistan in terms of value-chain relations and economic effects for involved small-scale farmers as well as effects on their production systems.

Based on empirical data from selected districts in Punjab, we explore circumstances under which different types of smallholders can partake in contract farming as well as contract farming strategies and contractual conditions that are needed for smallholders to improve market access, enhance competitiveness, reduce economic risks, while still adhering to sustainable production practices, and eventually improve their livelihoods. Our empirical data comprise qualitative interviews with contract- and non-contract farmers engaged in various cultivation systems as well as with contracting companies and experts.

Regarding suitability, value-chain integration, and economic effects, preliminary results indicate that smallholder participation in contract farming can be successful under specific conditions and potentially improves bargaining power and reduces vulnerability to market fluctuations. These initial results also suggest a tension between economic viability and sustainable production practices.

We therefore draw the following tentative conclusions: contractual arrangements should account for scale-specific needs, should be tailored to smallholders' realities, and must navigate trade-offs between sustainability and competitiveness. Moreover, the entailed risks for smallholders need to be sufficiently addressed in order not to defeat the purpose of reducing smallholders' economic risks.

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