

PLANTATIONS TO BENEFIT FROM CONTRACT - GROWING SYSTEM

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It has been claimed that the recent wage increase granted to plantation sector workers has pushed the cost of production of Sri Lankan teas to the highest in the world. The wage increase, it has been said, will cause the cost of production of tea to escalate to its highest levels ever by an increase of Rs.40 per kilogram. Sri Lanka's cost of production of tea is, already, the highest in the world, COP of a kilo of tea in Sri Lanka stood at Rs.391 in 2012.



It has also been re-iterated that there is a greater need for enhanced productivity particularly in tea which is the least viable of the main crops in the corporate sector and RPC's expectations from trade unions and workers are high and worker performance should be at peak levels as the RPCs have been struggling with high labour costs with several companies finding the wage revision a challenge to sustain.

Also, there will be a continuation of the drift of estate population to urban areas, looking for alternate sources of income that would provide higher status and also cause reduction in poverty.

In some developing countries, attempts have been made by governments and developmental agencies to arrest this drift through the stimulation of out-grower/ contract systems of production, with worker/ small farmer participation.

Can such a system be a solution to the current issues in the plantation industry of the country?

Out – grower / Contract farming

Out-grower systems are schemes that provide production and marketing services to farmers on their own land. These generally connote a government scheme with a parastatal enterprise, purchasing crops from farmers, either on its own or as a joint venture with a private firm.

Contract farming normally, refers to a system whereby a private sector, say RPCs in this instance, with processing and exporting facility purchases the harvests of individual workers to whom plots of land in the estate are leased out on long term basis, and the terms of the purchase are arranged through contracts. It's a range of initiatives taken by private sector to secure access to worker produce. The terms of the contract vary and can specify how much produce the contractor will buy and at what price. The contractor often provides credit inputs and technical advice.

Contracting is a way of allocating the risks between producer and contractor; the grower takes the risk of production and the contractor the risk of marketing. The basis of such arrangement is the commitment of the grower to provide a specific

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commodity in quantities and at quality standards as determined by the purchaser and the commitment of the company is to support the grower's production and to purchase the commodity. The intensity of the contractual arrangements can vary according to the depth and complexity of the provisions in each of following three areas:

Market provision: The grower and buyer agree on terms and conditions for the future sale and purchase of the crop;

Resource provision: In conjunction with the marketing arrangements the buyer agrees to supply selected inputs, including on occasions land cultivation and technical advice;

Management specifications: The grower agrees to follow recommended production methods, inputs regimes, and cultivation and harvesting specifications.

Contract farming systems should be seen as a partnership between the RPCs and workers. To be successful it requires a long-term commitment from both parties. Exploitative arrangements by a company are likely to have only a limited duration and can jeopardize agribusiness investments. Similarly, workers need to consider that honouring contractual arrangements is likely to be to their long-term benefit.

It must be stressed that the decision to use the contract farming system modality must be commercial. Systems that are primarily motivated by political and social concerns rather than economic and technical realities will inevitably fail.

Workers

The advantages include; Income are known and more or less secured, The RPCs would provide inputs and production services, often on credits, Contract system often introduces new technology and also enables workers to learn new skills, Worker's income risk is often reduced as many contracts specify the monetary benefits in advance, Opens new opportunities, which would otherwise be unavailable to workers, and a central buying place close to the workers plots will be available.

The problems likely to be faced by workers include; Particularly during heavy cropping periods, workers may face the risk of both market failure and production problems, RPCs may offer unrealistic terms or exploit a monopoly position, Partiality and favoritism may creep in, particularly in the allocation of resources/quotas, Workers may become indebted because of production problems and excessive advances, Workers may be made dependent on the RPCs, after which exploitation can occur, and the production of the same crop by the estate as well, first preference will be given to the estate production, resulting in later buying, transportation.

RPCs

The advantages include; Contract system with small-scale growers is more politically accepted than, for example, production on estates, Working with workers overcomes land constraints, Purchases are more reliable and sustainable compared to the present system and the company faces less risk by not being responsible for production, A strong business relation can be build up through the earlier mentioned services, More

consistent quality can be obtained compared to the present system, and Significant quantities of crop can be purchased.

The problems likely to be faced by RPCs include; Social and cultural constraints may affect workers' ability to produce to managers' specifications, Adequate professionalism, staffing, finance and management skills are required. Poor management and lack of consultation with workers may lead to worker discontent and results in a long and expensive training process for the RPCs, Workers may sell outside the contract (extra-contractual marketing) there by reducing processing factory input, Workers may divert inputs supplied on credit to other purposes, thereby reducing yields, Poor recovery rates and problems with defaulters, and RPCs need more well motivated field staff to attend to the contracted workers.

Contracts

A well-managed contract growing system is an effective way to coordinate and promote production and marketing in agriculture. Nevertheless, it is an agreement between unequal parties, companies (RPCs) on the one hand and economically weaker workers on the other. It is, however an approach that can contribute to both increased income for workers and higher profitability for RPCs. When efficiently organized and managed, this system through contract farming reduces risk and uncertainty for both parties as compared to the present system.

Criticism

Critics of this system may emphasize the inequality of the relationship and the stronger position of the RPCs with respect to that of growers. This system may be viewed as essentially benefiting the RPCs by enabling them to obtain cheap labour and to transfer risks to workers. However, this view contrasts with the increasing attention that system is receiving in some developing countries, as evidence indicates that it represents a way of reducing uncertainty for both parties. Furthermore, it will inevitably prove difficult to maintain a relationship where benefits are unfairly distributed between RPCs and workers.

The advantages, disadvantages and problems arising from this system will vary according to the physical, social and market environments. More specifically, the distribution of risks will depend on such factors as the nature of the markets for both the raw material and the processed product, the availability of alternative earning opportunities for workers, and the extent to which relevant technical information is provided to the workers. These are likely to change over time, as will the distribution of risks.

Preconditions

No Contract-growing system should be initiated unless some basic preconditions are met. The primary precondition for any investment in this system is that it must be likely to be profitable. Having identified a potentially profitable growing system, the RPCs can move on to assess whether the workers in a particular location can profitably supply the crop. This involves an assessment of the social and physical

environment of the proposed contract area as well as the potential support likely to be provided by the government.

The physical and social environments

The success of any agricultural investment requires that two multidimensional preconditions be met: The general suitability of the topography, location contract - growers, climate, soil fertility and water availability and the suitability of the physical environment for the specific plant genotype

The extent to which all these factors interact determines production yields, quality and profitability. Many worker communities are wary of modern agribusiness and strongly influenced by traditional practices. There are often great disparities in cultural attitudes towards work. Before beginning such a venture, RPCs need to develop an understanding of the cultural attitudes of whom they are working with.

MPI support

The government (MPI) has to play an important role if contract farming is to be successful. The MPI's role is to establish a legal framework that captures the conditions for the legal agreement in the contract-grower system. A relevant legal framework and an efficient legal system are preconditions. Many systems depend on either legal or informal agreements between the contracting parties. An informal agreement is not reliable and should not be encouraged. In this system nobody has any rights; there is no formal agreement on paper hence making it difficult for the parties to count on each other. The legal agreements, in turn, have to be backed up by appropriate laws and an efficient legal system.

Government agencies need to be aware of the implications of all laws and policy decisions on agribusiness development and how those policies influence this system. It is however unfortunate that many systems do not have this legal framework to back up the legal system of the contract-growers. Experience elsewhere has shown that the establishment of such policies and legal frameworks by the government is usually done after noticing the ill and unfair management of such systems. While it may not be considered a precondition it is desirable that the government plays an arbitration or dispute resolution role, and safe guard the interests of both partners.