

EXECUTIVE SUMMARY

As an alternative to the conventional government intervention in agricultural marketing, the Central Bank of Sri Lanka introduced Forward Sales Contracts (FSC) under the *Govi Sahanaya* scheme in 1999. More than ten years after the implementation of FSCs, still a mixed performance and low-level of adoption can be observed. The major objective of the study was to assess the factors affecting the adoption of FSCs. This study applied the Maximum Likelihood Logistic Regression (*Logit*) method to analyze the factors affecting the adoption of the forward sales contracts system related to the two groups of contracted and non contracted maize farmers. The analysis indicated that variables such as agricultural experience, agricultural income, and total agricultural land holdings are positively and significantly related to farmer's decision making on adoption of FSCs. Moreover, statistically significant higher yield by maize contract farmers over non contract farmers was achieved due to efficient input delivery mechanism. Regarding agricultural income, significant differences between adopters and non adopters were observed since adopters had more agricultural income than non adopters. This is mainly due to growing cash crops by the adopters during other seasons while growing rain fed crops by others. Nearly 44% of the contract farmers were young (below 40 years) and the participation of women was 20%. Nearly 85% of the contract farmers were satisfied with the extension services and seeds given by the company.

The findings revealed that experienced, educated progressive small scale maize farmers with more exposure to other cash crops cultivation with high income earning are more likely to participate in contract farming through agricultural forward contracts. It also revealed that following the whole contract farming model instead of following FSCs alone, was productive. Further, efficient input delivery mechanism, vertically well integrated value chain of the company, proper monitoring of each step, agricultural extension service, long term relationship and building mutual trust between farmers and buyers, an assured market for buyers, thinking beyond FSC document, group formation and encouraging the group cohesion among farmers, and welfare and social programmes implemented by the company are the key factors for the success of FSCs. For ensuring more participation of small farmers, company limits the land extent of each farmer. Inability to sell the whole harvest to the company, high input prices, lack of credit, and lack of crop insurance have been identified as major constraints of contract farmers.

A very essential factor derived from the success stories is that, for the sustainability of forward contracting practicing the whole concept of contract farming through vertically integrated value chain is beneficial than limiting to only forward sales buying agreement.

Smallholders organize themselves into farmer organizations as a prerequisite for entering into contract farming and establish proper crop insurance and credit programme and increase the awareness of all stakeholders about such programmes.

Standards and minimum guaranteed prices should be defined separately for the maize and soya for the food and feed use. In selection of crops, priority should be given to industrial processing and export oriented crops such as maize, soya bean, green gram, black gram and gerkin.

The findings suggest that in future, when planning more attention should be paid to contract farming system than FSC approach. At the national level, there should be a framework that supports contract farming. Such a framework does not currently exist in Sri Lanka. Lessons learnt from the success programmes should be replicated. Experiences suggest the need for government to create a favorable environment and a mechanism to encourage implementing agricultural forward contracts through contract farming. Development of a mechanism for legislation, guidelines and awareness of contract farming practices in Sri Lanka are prerequisites for success. Effective coordination among the concerned parties and stakeholders through awareness programmes is vital for the sustainability.