

# The Role of intermediaries' Power on Contracting Decision between Farmers and Intermediaries.

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# Outline

- **Introduction**
- **Greenhouse Tomatoes Sector in Albania**
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# Introduction

Contract farming (CF) generally refers to “agricultural production carried out according to an agreement between a buyer and farmers, which establishes conditions for the production and marketing of a farm product or products” (FAO, 2013)

- Incentives to Engage in Contract Farming
  - helps farms to commercialize their products
  - higher incomes for small farmers
  - modernization of the agricultural sector through technology transfer
  - Solve productivity constraints for small farmers including reduced market risks, access to credit, inputs and information
- Disincentives to Engage in Contract Farming
  - Exploitation of small farmers from Large buyers
  - Could leave Small farmers out of High Value Chains
  - Increase inequality



# Introduction

## Intermediaries' Power

Farmers livelihood and business

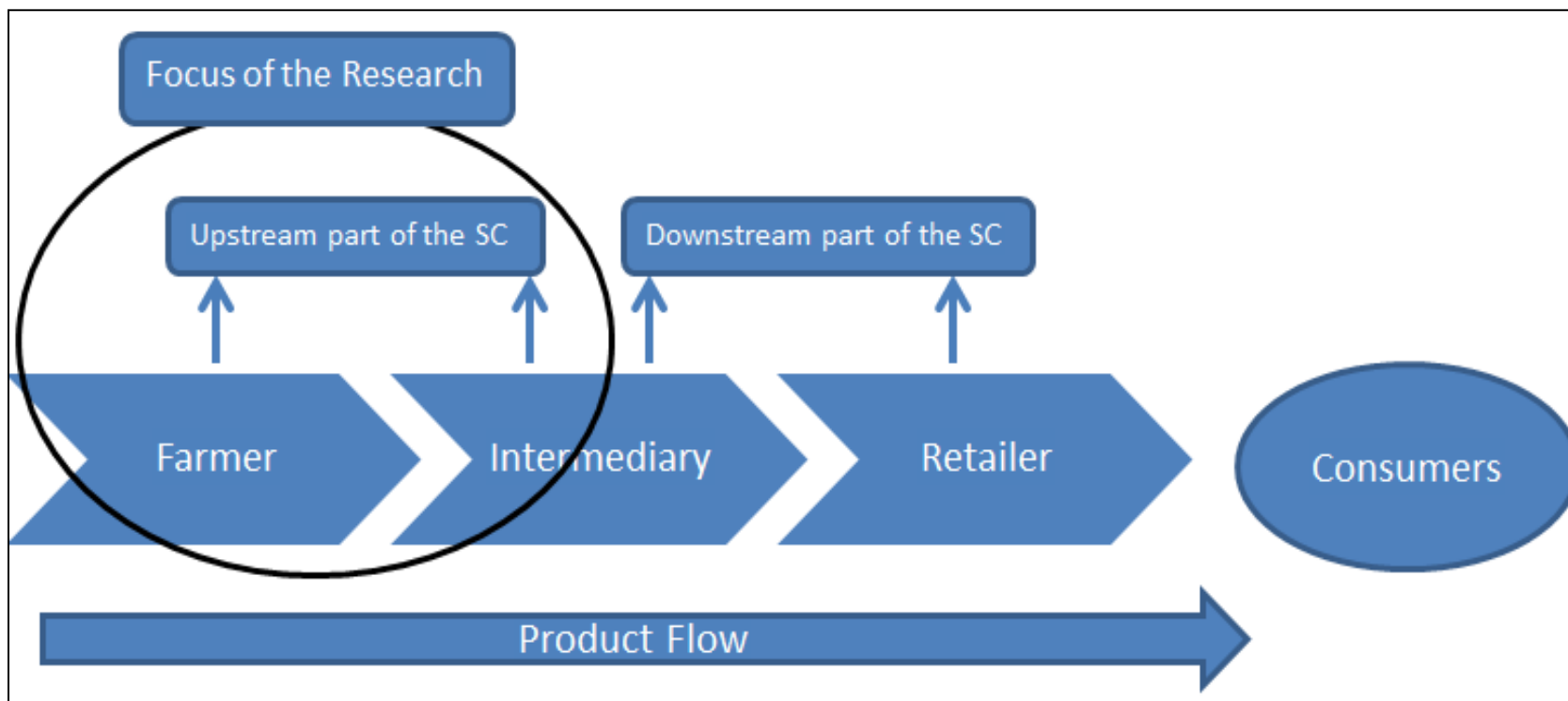
Transfers Excessive risks and costs

Performance of trading relationship



# Introduction

- There is little work done so far on power effects on contracting decision in agri-food supply chains.





# Greenhouse Tomatoes Sector in Albania

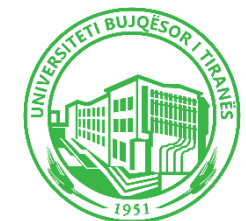




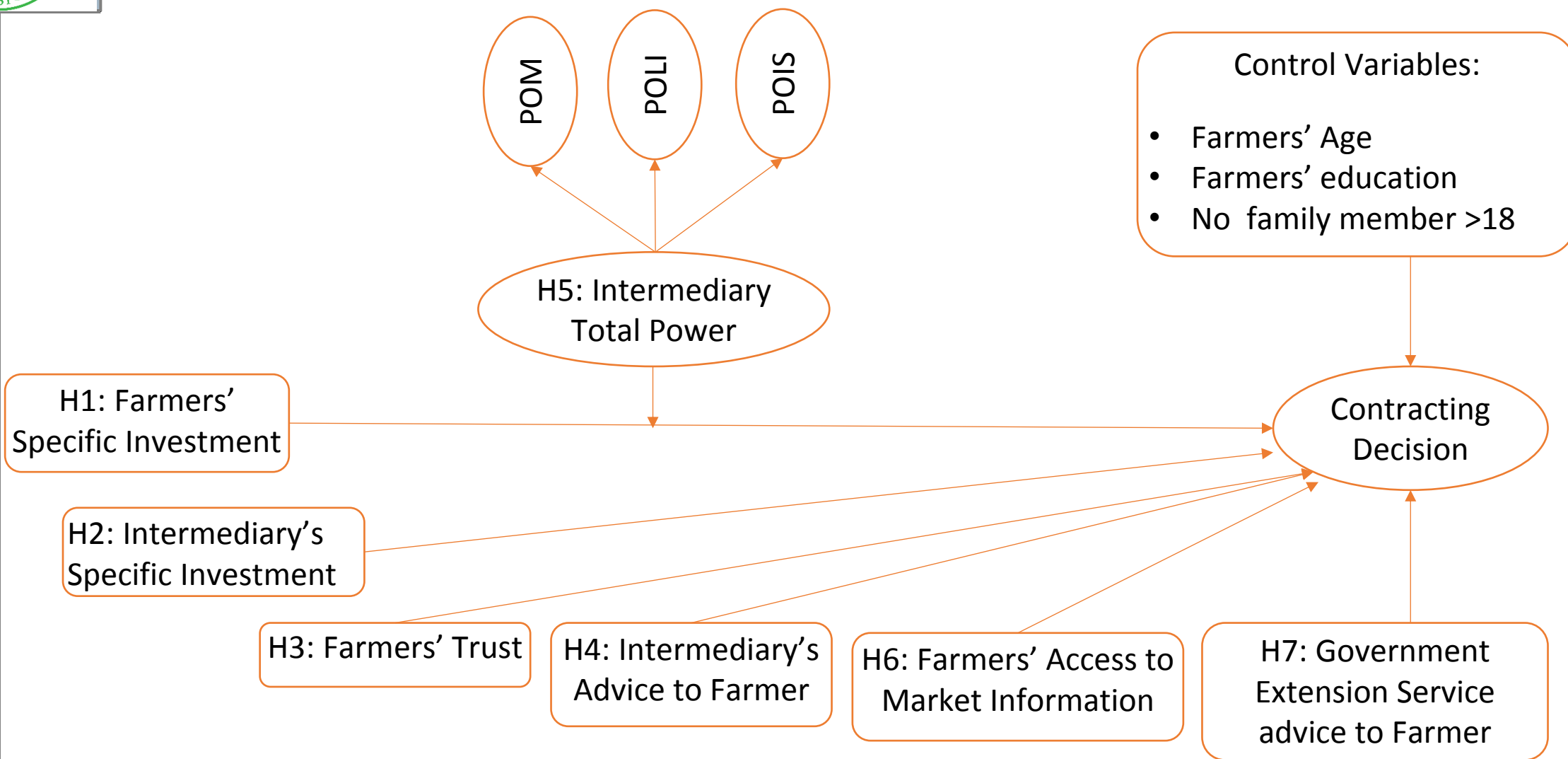
# Greenhouse Tomatoes Sector in Albania

**Table 1** Tomatoes Trade Balance (Mt)

	2000	2005	2010	2011	2012	2013	2014
Production	162,000	152,000	199,283	200,000	205,000	226,220	234,150
Exports	24	123	6,573	11,349	17,315	25,245	32,992
Imports	2,263	6,514	3,429	3,061	3,080	2,615	2,621
Domestic supply	164,239	158,391	196,139	191,712	190,765	203,590	203,779
Import/supply	1.38%	4.11%	1.75%	1.60%	1.61%	1.28%	1.29%
Export/production	0.01%	0.08%	3.30%	5.67%	8.45%	11.16%	14.09%



# The Model – Hypothesis







# Results – Logit regression

Variable	B	S.E.	Wald	df	Sig.	Exp(B)
Farmers' Age	-.029	.015	4.032	1	.045	.971
No family member >18	-.092	.120	.589	1	.443	.912
Farmers' education	.053	.170	.096	1	.757	1.054
<b>(H2)</b> Intermediary specific investment	.771	.431	3.202	1	.074	2.162
<b>(H1)</b> Farm size	.021	.017	1.467	1	.226	1.021
<b>(H3)</b> Farmers' trust on intermediary	.910	.181	25.280	1	.000	2.483
<b>(H4)</b> Intermediary' advice to farmer	.440	.163	7.284	1	.007	1.553
<b>(H6)</b> Farmers' access to information	.257	.166	2.402	1	.121	1.293
<b>(H7)</b> Gov Extension advice to farmer	.081	.196	.169	1	.681	1.084
Intermediary' total power	.956	.215	19.774	1	.000	2.601
<b>(H5)</b> Farm size * Intermediary total power	-.026	.011	5.622	1	.018	.974
Constant	.921	.891	1.068	1	.301	2.512



# Summary of variables in the logit model

	<b>Variables</b>	<b>Operationalization</b>	<b>Hyp</b>
DV	Contracting decision	Dummy – 0 spot market VS 1 verbal/written agreement	
CON	No family member >18	Continuous – number of family member > 18 years of age	-
CON	Farmers' Education	Continuous – number of years of education	-
CON	Farmers' Age	Continuous	-
IV	Farm size (farmer specific investment)	Farm surface area in dynyms (1/10 ha)	H1 x
IV	Intermediary specific investment	Dummy variable where 1 buyers with low specific investment (e.g. local trader) VS 2 intermediary with high specific investment (e.g. exporters)	H2 ✓
IV	Farmers' Trust on intermediary	EFA composite – from likert scale items	H3 ✓
IV	Intermediary' advice to farmer	EFA composite – from likert scale items	H4 ✓
IV	Farm size * Intermediary total power	Interaction effect	H5 ✓
IV	Farmers' access to information	EFA composite – from likert scale items	H6 x
IV	Intermediary' total power	EFA composite – from likert scale items	
IV	Gov Extension advice to farmer	EFA composite – from likert scale items	H7 x



# Conclusions

Results/Findings	Conclusions
Intermediary specific investment → Contracting <b>(POSITIVE)</b>	<b>Policy:</b> Promoting CF by starting with buyers with large specific investment
Intermediary Total Power <b>weakens</b> (moderates) the relationship between Farmers' specific Investment and Contracting	<b>Theoretical:</b> Further development of the TCE theory <b>Policy:</b> Farmers would be reluctant to contract with buyers that have high power because contracting with such buyer means that they can extort higher values from farmers' specific investments than buyers with low power
Farmers' Trust → Contracting <b>(POSITIVE)</b>	<b>Theoretical:</b> In countries where formal mechanism of arbitration are deficient – Trust serves as a mechanism to mitigate uncertainties <b>Policy:</b> Support trust building projects through PPP
Intermediary's advice to the farmer → Contracting <b>(POSITIVE)</b>	<b>Policy:</b> Service provision by buyers increases the likelihood to engage in CF