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CONTRACTING FARMING: INTERNATIONAL EXPERIENCE AND PERSPECTIVES FOR UKRAINE

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КОНТРАКТНЕ ФЕРМЕРСТВО: СВІТОВИЙ ДОСВІД ТА ПЕРСПЕКТИВИ ДЛЯ УКРАЇНИ

Contract farming has been influencing the agribusiness model in developed and developing countries since the 1950s. For developed countries, contract farming has become one of the recognized models for reducing market risks for farmers. In developing countries, this model has features mainly determined by the government's policy on international trade. India, China, Thailand, and Brazil were able to raise their agrarian economy, including through the implementation

of the contract model. The article examines and summarizes the goals, elements, and principles of contract farming in accordance with international experience, modern research, and prospects for implementation in Ukraine. The challenges and advantages of contract farming for small farmers were identified and systematized, and recommendations for the development of agrarian policy were offered.

In order to achieve the main goals and increase the indicators of income and means of livelihood for farmers, the model of contract farming must comply with the principles of voluntary participation, risk sharing, price determination, long-term relations of the parties, and legal framework.

The advantages of the contract model include increasing the productivity of agriculture in conditions of shortage of resources and challenges of martial law; integration into global markets in terms of logistics transformation; and empowering small farmers in times of crisis.

Smallholder farmers play a vital role in Ukraine's agricultural sector, and contract farming can enable them to improve their livelihoods. Access to credit, modern technology and market linkages provided through contract farming arrangements can be particularly transformative for these farmers.

By participating in contract farming, smallholder farmers can overcome resource constraints and adopt more efficient farming practices. The support they receive can help increase their incomes, improve their living standards, and contribute to rural development.

Contract farming agreements also provide smallholder farmers with stability and security as they have guaranteed markets for their produce. This reduces the risks associated with market fluctuations and crop failures, making agriculture more sustainable.

Challenges associated with the implementation of contract farming include fair and transparent contracts; protection of property rights; clear legislative procedures; training and information for farmers; risk management market access

and diversification. State support in overcoming these challenges is important for achieving the effectiveness of the contract farming model.

Контрактне фермерство впливає на модель агробізнесу в розвинутих країнах і країнах, що розвиваються, починаючи з 1950-х років. Для розвинених країн контрактне фермерство стало однією з визнаних моделей зниження ринкових ризиків для фермерів. У країнах, що розвиваються, ця модель має особливості, зумовлені в основному політикою уряду щодо міжнародної торгівлі. Індія, Китай, Таїланд і Бразилія змогли підняти свою аграрну економіку, в тому числі за рахунок впровадження контрактної моделі. В статті розглянуто та узагальнено цілі, елементи та принципи контрактного фермерства відповідно до міжнародного досвіду, сучасних досліджень та перспектив впровадження в Україні. Було визначено та систематизовано виклики та переваги контрактного фермерства для дрібних фермерів, а також запропоновано рекомендації щодо розвитку аграрної політики.

Для досягнення основних цілей і підвищення показників доходів і засобів існування для фермерів модель контрактного фермерства має відповідати принципам: добровільна участь, розподіл ризиків, визначення ціни, довгострокові відносини сторін, правова база.

До переваг контрактної моделі можна віднести: підвищення продуктивності сільського господарства в умовах дефіциту ресурсів та викликів воєнного стану; інтеграція в глобальні ринки в умовах логістичної трансформації; розширення можливостей дрібних фермерів під час кризи.

Дрібні фермери відіграють життєво важливу роль в сільськогосподарському секторі України, і контрактне фермерство може дати їм змогу покращити свої засоби до існування. Доступ до кредитів, сучасних технологій і ринкових зв'язків, які забезпечуються через

контрактні домовленості про ведення сільського господарства, може бути особливо трансформуючим для цих фермерів.

Беручи участь у контрактному фермерстві, дрібні фермери можуть подолати обмеження ресурсів і прийняти більш ефективні методи ведення сільського господарства. Підтримка, яку вони отримують, може допомогти збільшити їхні доходи, підвищити їхній рівень життя та сприяти розвитку сільської місцевості.

Контрактні фермерські угоди також забезпечують дрібним фермерам стабільність і безпеку, оскільки вони мають гарантовані ринки для своєї продукції. Це зменшує ризики, пов'язані з ринковими коливаннями та неврожайами, роблячи сільське господарство більш стійким.

До викликів, пов'язаних з впровадженням контрактного фермерства слід віднести: чесні і прозорі контракти; захист прав власності; чіткі законодавчі процедури; навчання та інформування для фермерів; управління ризиками та доступ до ринків та диверсифікація. Підтримка держави у подоланні зазначених викликів є важливою для досягнення ефективності моделі контрактного фермерства.

Key words: *contract farming, agriculture, small farmers, smallholders.*

Ключові слова: *контрактне фермерство, сільське господарство, малі ферми, домогосподарства.*

Statement of the problem in a general form and its connection with important scientific or practical tasks. Contract farming is a long-time recognized agricultural practice that has gained considerable attention due to its potential to enhance agricultural productivity, improve income for smallholder farmers, and facilitate the integration of agriculture into global value chains. This model of partnership between producers and buyers has place in developed countries and in the developing ones. Bringing to both sides of the agreement some benefits and

challenges, contracting farming seems to be renovate for extremal conditions of the martial law in Ukraine and recovery strategy.

In this comprehensive article, the concept of contract farming will be reviewed, exploring international experiences to assess the prospects and challenges that Ukraine may face in adopting and implementing this model in condition of the martial law and for the recovery perspectives.

Analysis of recent research and publications. Contract farming model has been in the focus of research since 1950s. The resent publications underline the importance of contracting farming for smallholders' higher productive efficiency, which is the stem to their income level increasing and ensuring the food security (Bi et al., 2022). For developed countries contract farming became the one of the recognized models to decrease the market risks for farmers. In developing countries, this model has particularities mainly conditioned by the government policy according to the international trade.

For instance, in China, contract farming began in the 1980s form the southeast region. There are two common organizational models for contract farming. The first model bases on the direct negotiation between firm and stallholder, another one includes an intermediary service. Moreover, the different types of contracts exist in this model. Farmers' participation in marketing contracts and production-management contract increased their income, and resource-providing contracts did not significantly enhance farmers' income level (Liang Y, Bi W and Zhang Y, 2023).

Nevertheless, in some developing countries small farmers are excluded from the market information channels and it makes the negative impact on their negotiation position with buyers, at the same time the real situation can be in favor of the producers not buyers. In this case, the government must become the part of contract farming model to ensure the win-win approach for small farms respectively to the gender issue (Melese, A.T., 2012).

There is also an opinion, that entire supply-chain network in contract farming is nothing but a form of social network that influences the agrarian structure in farming society (Behera et al., 2022). India's experience with contract farming has been a testament to how this model can enhance agricultural productivity and transform traditional farming practices.

Thailand's success in contract farming is prominently exemplified in its rice and poultry sectors. Farmers receive not only technical guidance but also inputs and market access through these contracts. As a result, Thailand has become a major player in global poultry and rice exports, highlighting the capacity of contract farming to transform entire agricultural industries (Suebponsang, P, 2021).

International experiences with contract farming demonstrate its adaptability across various crops, climates, and regions. Ukraine, with its fertile lands and diverse agricultural potential, can draw inspiration from these success stories as it explores the implementation of contract farming within its own agricultural landscape. By tailoring contract farming arrangements to its specific needs and conditions, Ukraine can unlock the full potential of its agriculture sector and enhance its contribution to the global food market.

The goals of the article. Contract farming, often referred to as out grower or supply chain farming, is a multifaceted agricultural system that plays a pivotal role in shaping the agricultural landscape of many countries worldwide. This chapter provides a comprehensive understanding of the contract farming model, delving into its core concepts, objectives, components, and key features. By exploring the fundamental aspects of contract farming, we can better appreciate its significance in modern agriculture and its potential implications for Ukraine's farming sector.

The main tasks of the articles are to clarify the objectives, elements and key features of contract farming at the global level and in countries where this model is most developed. The benefits and challenges of contract farming for empowering small farmers in Ukraine will be considered.

Presentation of the main research material. Contract farming operates on a set of clear objectives that benefit both farmers and agribusinesses. These objectives include enhancing agricultural productivity, providing market access and risk mitigation, ensuring quality assurance, enhancing income for farmers, and promoting sustainable agriculture.

Understanding the various components of contract farming is essential for both farmers and agribusinesses entering into such agreements. The core components include contractual agreements, technical support, inputs and credit provision, market access, and quality standards (Table 1)

Table 1. Elements of contract farming system

| Elements | Features of elements | Sub-elements |
|-----------------------------|---|---|
| Contractual Agreement | This contract outlines all terms and conditions, including crop or livestock specifications, pricing mechanisms, delivery schedules, and responsibilities of each party | <ul style="list-style-type: none"> • Production management contract • Marketing contract • Resource providing contract |
| Technical Support | This support helps farmers optimize their production processes and achieve the desired quality and quantity | <ul style="list-style-type: none"> • Technical assistance • Training • Guidance • Best Ag. practices |
| Inputs and Credit Provision | This can be considered as commodity loan or short-term investment according to the contract conditions | <ul style="list-style-type: none"> • Inputs (seeds, fertilizers, pesticides) • Machinery • Credit/Loan |
| Market Access | Agribusinesses commit to purchasing the agreed-upon quantity and quality of crops or livestock, thereby reducing post-harvest losses and market uncertainties. | <ul style="list-style-type: none"> • Direct contract • Contract with intermediary |
| Quality Standards | These standards ensure that the produce aligns with market requirements, enhancing its marketability. | <ul style="list-style-type: none"> • Internal market standards • International standards |

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To achieve the main goals and enhance the income and livelihood indicators for farmers the contract farming model has to meet the principles:

- Voluntary Participation: participation in contract farming is typically voluntary for farmers. They can choose whether to enter contracts based on their individual preferences and circumstances.
- Risk Sharing: contract farming arrangements often involve risk-sharing mechanisms, with both parties sharing the risks associated with factors like weather, pest infestations, and market fluctuations.
- Price Determination: contract farming agreements may have various pricing mechanisms, including fixed prices, cost-plus pricing, or price formulas linked to market prices. The chosen pricing mechanism is specified in the contract.
- Long-term Relationships: successful contract farming often involves building long-term relationships between farmers and agribusinesses. These relationships foster trust and collaboration, which are essential for achieving mutual goals.
- Legal Framework: an effective legal framework is critical for the enforcement of contract farming agreements and the resolution of disputes that may arise during the contract period.

As Ukraine contemplates the adoption of contract farming practices, it is essential to examine the prospects and potential benefits that this model can bring to the country's agriculture.

1. Boosting Agricultural Productivity in the conditions of resource deficit and martial law challenges.

Ukraine's vast expanses of fertile soil and favourable climate conditions offer significant potential for improving agricultural productivity. By embracing contract farming, the country can tap into this potential and experience substantial gains in crop yields and quality. Contract farming provides a framework for farmers to access modern farming techniques, quality inputs, and advanced technologies. This support translates into increased yields and better-quality produce, which can significantly contribute to Ukraine's food security and competitiveness in global markets. Moreover, the reduction in post-harvest losses

that often accompanies contract farming can further enhance productivity. By minimizing waste and optimizing supply chains, Ukraine can ensure that a more significant portion of its agricultural output reaches consumers, resulting in greater overall productivity and efficiency.

2. Integration into Global Markets in condition of logistic transformation

One of the primary benefits of contract farming is its potential to integrate agricultural products into global supply chains. Ukraine can capitalize on its agricultural strengths by utilizing contract farming to access international markets and increase exports. By adhering to quality standards specified in contracts, Ukrainian farmers can tap into high-value export markets for specialized crops and products. This not only diversifies the country's agricultural exports but also elevates its global standing as a reliable supplier of quality agricultural goods. Furthermore, contract farming provides a mechanism for ensuring market access and reducing the uncertainties associated with price volatility. This predictability can attract foreign investment and encourage agribusinesses to expand their operations in Ukraine, bolstering the country's position in the global agricultural trade arena.

3. Empowering Smallholder Farmers during the crisis

Small-scale farmers play a vital role in Ukraine's agricultural sector, and contract farming can empower them to improve their livelihoods. Access to credit, modern technology, and market linkages provided through contract farming arrangements can be particularly transformative for these farmers.

By participating in contract farming, smallholder farmers can overcome resource constraints and adopt more efficient farming practices. The support they receive can help increase their income, enhance their living standards, and contribute to rural development.

Contract farming agreements also provide small-scale farmers with stability and security, as they have guaranteed markets for their produce. This reduces the

risks associated with market fluctuations and crop failures, making farming a more sustainable and attractive livelihood option.

Discussion. Challenges and Considerations. While the prospects for contract farming in Ukraine are promising, several challenges and considerations must be addressed to ensure its successful implementation.

1. Fair and Transparent Contracts. It is essential to establish fair and transparent contract terms that protect the rights and interests of both farmers and agribusinesses. Ensuring equitable agreements is crucial to building trust within the sector.

2. Land Tenure and Property Rights. Ukrainian legislation and practice must address issues related to land ownership and tenure to provide secure land access for farmers. Clear land rights are fundamental to the success of contract farming.

3. Legal and Regulatory Framework. A robust legal and regulatory framework is necessary to govern contract farming agreements, enforce contract obligations, and resolve disputes effectively.

Key considerations in the legal and regulatory framework should include:

- Mechanisms for contract enforcement and dispute resolution to ensure that contracts are upheld, and disputes are resolved efficiently.

- Protection of farmers' rights, including safeguards against unfair practices or exploitation.

- Mechanisms for monitoring and regulating contract farming agreements to ensure compliance with quality standards, pricing mechanisms, and other contractual provisions.

- Provisions for ensuring that contract farming arrangements do not lead to land consolidation or displacement of smallholder farmers.

4. Capacity Building and Education. Contract farming often requires farmers to adopt new technologies and practices, which can be challenging without proper training and education. Ukraine should invest in capacity-building

programs that provide farmers with the knowledge and skills needed to meet the requirements of contract farming agreements.

Additionally, agribusinesses and contract farming operators should play a role in providing technical support and training to farmers. This can include assistance in implementing modern farming techniques, adhering to quality standards, and optimizing crop or livestock management.

5. Risk Management. Contract farming inherently involves shared risks between farmers and agribusinesses. However, risk management strategies should be in place to address potential challenges such as adverse weather conditions, pest infestations, or market fluctuations.

Insurance schemes and risk-sharing mechanisms can help mitigate some of these challenges. Ukraine should explore options for providing farmers with access to insurance products designed to protect them against crop losses or other unforeseen events.

6. Market Access and Diversification. While contract farming provides market access, it is crucial for Ukraine to ensure that farmers are not overly reliant on a single crop or product. Diversification of contract farming arrangements can reduce the vulnerability of farmers to market fluctuations or unforeseen disruptions.

By addressing these challenges through the development of equitable contract terms, secure land tenure, a robust legal framework, capacity-building programs, and risk management strategies, Ukraine can harness the full potential of contract farming to enhance agricultural productivity, market integration, and the livelihoods of its farmers. Effective implementation and ongoing monitoring of contract farming arrangements will be essential to ensure their success in Ukraine.

Conclusions and prospects of further investigations. The adoption and successful implementation of contract farming have the potential in Ukraine. This comprehensive exploration of contract farming, its international experiences,

prospects, challenges, and policy recommendations shed light on the transformative power of this agricultural model.

The experiences of countries like India, Thailand, China and Brazil demonstrate that contract farming can be a catalyst for enhancing agricultural productivity, improving product quality, and ensuring market access. These nations have harnessed the model to diversify their agricultural exports, integrate into global supply chains, and empower smallholder farmers.

Ukraine, with its vast fertile lands and diverse climate zones, stands at a pivotal juncture. By embracing contract farming, the country can unlock its agricultural potential. This model offers a pathway to boost productivity, integrate into global markets, and uplift the livelihoods of smallholder farmers, contributing to food security and economic development.

It is essential to acknowledge and address the challenges associated with contract farming, including the need for fair and transparent contracts, secure land tenure, a robust legal framework, capacity building, and risk management strategies. These considerations must be met to ensure the equitable and sustainable adoption of contract farming.

By developing comprehensive legal frameworks, promoting fair contracts, addressing land tenure issues, investing in capacity building, and fostering market diversification, Ukraine can pave the way for the successful implementation of contract farming.

In summary, contract farming offers Ukraine a unique opportunity to revitalize its agriculture sector, enhance global competitiveness, and improve the well-being of its farming communities. By embracing the lessons learned from international experiences and adopting forward-thinking policies, Ukraine can harness the full potential of contract farming to become a prominent player in the global agricultural arena.

However, success in contract farming will require commitment, collaboration, and continuous monitoring and adaptation. It will necessitate the

active involvement of government agencies, agribusinesses, financial institutions, research organizations, and, most importantly, the farmers themselves.

The journey towards a thriving contract farming ecosystem in Ukraine may be challenging, but the rewards are substantial. Through the adoption of sound policies, transparent practices, and a commitment to equitable partnerships, Ukraine can chart a course towards sustainable agricultural growth, economic development, and prosperity for its agricultural sector and the nation.

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