



POLICY BRIEF

A summary for decision making of key research findings



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Contract Farming: Preferences of Farmers in Oman

Summary

Oman is gifted with a seasonal and geographical comparative advantage that could be utilised for growing high cash value vegetables throughout the year, which provide an additional income for farmers and employment opportunities for the youth. However, farmers' market participation is constrained by many factors, such as limited marketing channels and membership to farmers' associations. Furthermore, imports of vegetables are almost duty-free creating high competition to local products, thus low income to local farmers. Despite all the constraints, farmers' potentiality of vegetables trading adoption would increase farmers' income. We use different contract options to examine the emerging agribusinesses in the vegetables industry and the suitable governance structure of contract farming that copes with the different farmers' preferences.

The Oman 2040 Sustainable Agriculture and Rural Development Strategy emphasises agricultural production's shift towards high value and low water demanding crops. The shift of the crop mix will have profound effects on the agricultural supply chain, the role of public policy and investment. Beyond the sustainability of groundwater resources, the shift is expected to create opportunities for smallholders as the high-value processed commodities augment income and generate employment opportunities in rural areas. Currently, the participation of Omani smallholder farmers in high-value markets is limited. Farmers' ability to grow high-value vegetables depends upon better access to the supply chain by participating in different types of contracts that are patronised by the partnership of different potential business models.

Key messages

- *Realizing the farmers' preferences and their features is crucial in improving farmers' participation in the vegetables' market and gearing policies towards food security.*
- *The product quality, price attributes, and farmers' socio-economic characteristics are powerful indicators that enable farmers and policy makers to set out a business model to address the specific farmer's needs.*
- *Most interviewed farmers (76%) prefer contracting with a private retailing firm or a farmers' organisation. Some farmers (24%), however, believe that a centralized contract model is their choice and that a processing firm supported by the government would be the best partner for them.*
- *In the favoured marketing contract, farmers prefer receiving technical assistance and other extension services from the private-contracted company instead of public services, which represents a shift in the extension paradigm.*
- *Some farmers (23%) prefer a short-duration contract of 9 months (compared to 12 months, and 24 months). This is supported by the threat that the partner does not adhere to the agreement and the terms of the contract.*
- *Finally, farmers prefer contracts in which the price is set at the market price (instead of a guaranteed price). For those farmers, a contract with a market price warrants the market for their production.*

Background

The Sultanate of Oman relies heavily on imports to secure its vegetables needs, as reported in 2019, growing at an average annual rate of 13.42%. The agricultural production and marketing practices for vegetables are sought to promote diversification, food security, and privatisation. The food security-oriented studies in Oman primarily focused on production, water use, and trade issues, but little on the marketing aspects. Hence, it is crucial to develop an efficient institutional arrangement capable of satisfying different operators with different market needs, such as local farmers, traders, and local and international markets. These models have emerged as a result of various measures that have been taken by the government to ensure food security by focusing on the potential of vegetable production within Oman. This has resulted in harnessing the private sector by establishing an agribusiness company that could act as an institutional solution to improve the efficiency of the sector. Moreover, small-scale farmers started to operate collectively through farmers' organizations

This research contributes to understanding the marketing problems and provides messages for improving small-scale farmers' market integration by considering contract farming. The main objective is to analyse the farmers' preferences towards different contract farming structures and to determine the policy implications for an efficient marketing system to safeguard the interests of smallholders and highlight investment priorities in the Sultanate of Oman.

Farmers in choosing a contract seek to lower the transaction costs associated with information, negotiation, and monitoring. Farmers' preferences for the type of contract depend on several attributes: the type of partner, cropping decision rights, quality specifications, technical assistance, length of the contract, and price. Based on farmer's behavioural analysis, different contract farming options were examined. The data were randomly collected by interviewing 160 vegetable producers in 8 wilayats of Al Dakiliah and Batinah Governorates in the Sultanate between May and July 2019, using a structured socio-economic questionnaire and choice experiment cards.

Key findings

The Choice-Experiment data were analysed using both latent classes and mixed logit models. Three groups of farmers were identified which the best capture the preferences of farmers in the sample.

The first group, representing 45% of farmers in the study sample, is composed of farmers who prefer the "**Multipartite Contract**" model.

The second group represents 31% of the sample, prefers the "**Informal Contract**" model.

The third group, which represents 23% of the respondents, favours the "**Centralised Contract**" model.

Results showed that the important attributes in the choice decision are the type of partner, technical assistance, duration of the contract, and the price. The results of the contract farming preferences and their characteristics are summarised in the following:

Multipartite Contract Model: grouping 45% of the entire respondents. Farmers in this class

- Prefer selling their entire production with an average quality.
- Prefer to contract with a private retailing firm (*super- and hyper-markets*).
- Willing to be guided by the marketing company in deciding upon the crop types.
- Seek technical assistance from the marketing company.
- Consider farming as their primary job, with low income (OMR100-600) and long marketing experience (*average of 27 years*)
- Own lands granted by the government or inherited.

Informal Contract Model: Represents 31 % of the respondents. Farmers in this class

- Have a preference for an informal contract type.
- Willing to work with the retailing firms (*super and hypermarkets*), farmers' organisation, and the processing firm.
- Pay little attention to quality and do not have a preference for the length of the contract.

- Prefer a contract based on market price.
- Have a high level of education (university degree or higher) but with no marketing experience (*average of 2 years*).
- Have large farms (*more than 20 feddans*) owned, rented or shared private land.

Centralised Contract Model: Comprising 23% of respondents. This group of farmers

- Has a strong preference for contracting a processing firm.
- Prefer high-quality standards.
- Request technical assistance from the partner company.
- Prefer short contracts of 9 months.
- Have low to intermediate education level, *average age of 61 years*, and medium-income (*RO 600-2000*) and own their land.

Conclusions

Contract farming is vital to solving farmers marketing problems in Oman. However, no "one size fits all" contract; farmers exhibited different partnership types and terms of the contract. This study shows that 76% of the farmers prefer contracting with retailing firms (super and hypermarkets) and farmer organisations; while, 23% of farmers believe that a centralised contract model is their choice and a processing firm supported by the government is the preferred partner for them. Policymakers shall ensure prospected policies match the farmers' preferences in setting contract farming.

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