

**FORWARD CONTRACTS AS PRE-HARVEST COMMODITY  
MARKETING: THE CASE OF MAIZE FORWARD CONTRACTS IN  
SRI LANKA**

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As an alternative to the conventional government intervention in agricultural marketing, the Central Bank of Sri Lanka (CBSL) introduced a market based instrument, Forward Sales Contracts (FSCs), under the *Govi Sahanaya* purchasing/pledge loan scheme in 1999. Companies such as Plenty Foods LTD, KST LTD and Ceylon Agro Industries were the pioneers of the programme. After completion of ten years' direct involvement in 2009 by the CBSL, the FSCs system was left to its own operation without further involvement of the CBSL. Since then there has been no comprehensive study undertaken to evaluate the present operation of the FSCs system between farmers and registered companies. Therefore, this study was focused on evaluating the critical success and failure factors of the FSCs in the selected area. Next, it assessed the factors affecting the adoption of FSCs by the farmers. Further, this research study was an attempt to fill the gaps in an effective future policy direction in the planning of FSCs as a strategy of market stabilization through public - private partnership.

This study applied the Maximum Likelihood Logistic Regression (*Logit*) method to analyze the factors affecting the adoption decision. The analysis indicated that variables, agricultural experience, agricultural income and total agricultural land holdings were positively and significantly related to farmer's decision making an adoption. However, land extent of the contracted crop had negatively affected the adoption of FSCs. Moreover, statistically significant higher yield by maize contract farmers over non - contract farmers were believed to be achieved due to efficient input delivery mechanism by the company. Regarding agricultural income, significant differences between adopters and non adopters were observed, since adopters had two times higher agricultural income than non adopters. Nearly 44% of the contract farmers were below 40 years of age and the participation of women was 20%. Over 85% of the contract farmers were satisfied about the extension services and quality of agricultural inputs delivered by the company.

The study revealed that following the whole contract farming model, instead of FSCs alone, vertically well integrated value chain management, mutual trust between farmers and buyers and existence of an assured market for buyers were the key factors for the success of long lasting FSCs. To ensure more participation of small scale farmers, the company had limited the quota for each farmer up to 2 acres. This has affected negatively in attracting more large scale farmers. Inability to sell the whole harvest to the company was the main obstacle faced by the contract farmers. High input prices, low access to agricultural credit and absence of a crop insurance scheme have been identified as major constraints to farmers who adopted FSCs. Evidence presented here indicates the sustainability of the contract farming schemes with specific design features, over FSCs approach in Sri Lankan context.