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Accepted Manuscript Version

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Publisher: Cogent OA

Journal: Cogent Food & Agriculture

DOI: http://dx.doi.org/10.1080/23311932.2019.1643518
Does contract farming improve rice yield in Ghana?

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Abstract

Contract farming has gained grounds in Ghana’s rice production sub-sector but there is no conclusive evidence on whether or not the model improves rice yield. This study sought to identify factors influencing farmers’ decision to participate in contract farming. Also, it estimated the effects of contract farming on rice yield. The study used a cross-sectional data. Heckman sample selection model was used to estimate the effects of contract farming on rice yield. The study showed that education, irrigation, extension contact and improved seed positively influenced contract farming engagement. Farming experience and farm size had negative relationship with contract farming engagement. Whilst fertilizer, capital, irrigation, improved seed and contract farming engagement highly increased rice yield, seed, labour and household size negatively affected yield. Conclusively, contract farming improves rice yield. It is recommended that farmers should be encouraged to go into contract farming. Extension service intensification and education are critical in this regard. The efforts of government in providing subsidized fertilizer and improved seeds to farmers through planting for food and jobs programme should be enhanced through contractual arrangement and the use of nucleus-farmer-out-grower model. The one-village-one-dam policy of government should include the establishment of irrigation facilities.

Key Words: Contract farming, Heckman sample selection model, rice and yield

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**Public Interest Statement**

Rice is one of the major staple crops in Ghana. Despite its importance in contributing to the livelihoods of smallholder farmers, its yield in Ghana is still low. Farmers, researchers, policy makers and development partners have worked tirelessly to increase rice yield yet the actual yield is still far below the potential yield. To capacitate smallholder farmers through input supply and assure them of the available market for the paddy, contract farming concept have now been rolled out by some development partners. It is therefore imperative to ascertain whether or not contract farming improves rice yield. Empirically, the study demonstrated that contract farming significantly improves rice yield in Ghana. It is therefore recommended that the efforts of government in providing subsidized fertilizer and improved seeds to farmers through planting for food and jobs programme should be enhanced through contractual arrangement and the use of nucleus-farmer-out-grower model.

1. **Introduction**

The importance of rice in Ghana cannot be underestimated. It is one of the staple food crops which is consumed widely by urban and rural dwellers whether Ghanaians or foreigners. The importance of rice is evidently discussed by policy makers and in many policy documents. After maize, rice is the second most important staple food crops in the country which has received considerable attention. According to Angelucci, Asante-Poku & Anaadumba (2013), several development projects have been implemented aimed at increasing rice productivity. In the recent Planting for Food and Jobs programme (PFJ), rice as a stable crop is one of the top priority crops of government. Ministry of Food and Agriculture (MoFA) (2017) stressed that rice was included in PFJ because Government of Ghana (GoG) is dedicated to promoting on-farm productivity of the crop through agricultural intensification. Rice is a food security crop which MoFA has been pursuing...
with the rolling out of many programmes and projects with some receiving support from non-governmental organizations (NGOs).

The efforts of government of Ghana through MoFA in achieving a game changer in rice production is evident in the strategic establishment of several irrigation projects including the Vea, Affie, Kpong, Tanoso, Ashaiman, Tono, Dawhenya, Weija, Botanga and Aveyime inter alia. Irrigation facilities alone is not a panacea to increasing rice productivity. Irrespective of this investment and availability of improved rice varieties, fertilizer, and the use of electronic extension, rice yield of 2.75Mt/ha recorded in 2015 is still far below the potential yield of 6.5-8Mt/ha.

To boost rice productivity, NGOs, traders, private organizations etc. support rice farmers with inputs and in turn purchase the produce under predetermined arrangements. This inventory financing or input financing model can be termed contract farming. Contract farming as defined by Ton, Desiere, Vellema, Weituschat & D’Haese (2017) is a commercial business model which establishes the relationship between a firm and a farmer or a group of farmers where farm products are bought in advance by a firm in exchange for certain services and benefits. Research institutions, nucleus farmers etc. also engage farmers on contract. Government through Export Development and Agricultural Investment Fund (EDAIF) and MoFA have also been supporting farmers through grants or input subsidization. Prowse (2012) opined that services of contract farming can be provided by private firms as well as facilitated by multi-actor partnerships between companies, governments and NGOs. Contract farming has gained ground in the country.

Typical of agricultural input financing, the targeted farmers are usually producing at a small-scale. They lack the requisite resources that can help them expand their production activities and maximized output. Some of these resources as noted by Chakrabarti (2015) are extension services, credit, inputs, guaranteed markets for their produce among others. Currently, contract farming and input subsidy is being implemented by both government and non-governmental organizations as a vital mechanism to minimize some of the constraints hindering requisite input acquisitions by smallholder farmers for efficiency production of rice.

Some farmers in Ghana are engaged in contract farming of rice while others are not. Research has revealed betterment in farmers’ yield and for that matter income emanating from participation in contract farming (Maertens & Vande Velde, 2017). It is important to note that Abdulai & Al-hassan (2016) indicated that “while some studies are of the view that contract farming improves access to ready markets by smallholder farmers, others opined that contract farming lowers the incomes of smallholder farmers because the contractors have greater market power over the farmers. As far back as 2002, Warning & Key (2002) stressed that contractual farming can be used to solve marketing problems as it guarantees farmers ready market for their produce. Ton et al. (2017) asserted that though contract farming is a commercial initiative, it can deal with the marketing of agricultural products by smallholder farmers. It can link farmers to output markets in exchange for inputs, credit and or agricultural extension service (Da Silva & Rankin, 2013, and World Bank, 2007).
A meta-analysis study by Ton et al. (2017) revealed that majority of the researchers are keen to looking at the effects of contract farming on ultimate outcomes especially welfare (income, expenditure) rather than intermediate outcome such as yield, price and labour use productivity. This study looks at the effects of contract farming in intermediate outcome this yield. Also, in Ghana, Bidzakin, Fialor & Yahaya (2018) used stochastic frontier analysis to estimate and test whether or not there is significant difference in rice production efficiencies of contract farmers and non-contract farmers. The results showed that contract farmers have higher efficiency scores than non-contract farmers. Meanwhile, they failed to correct for sample correction bias which is typical of observational cross-sectional data was. Previous studies such as Poku, Birner & Gupta (2018), Bidzakin, Fialor & Yahaya (2018) looked at effects of contract farming on outcome variables in Ghana did not correct for sample selection bias. Though Azumah, Donkoh & Ehiakpor (2016) and Abdulai, & Al-hassan (2016) used treatment effect models which has the ability to correct sample selection, they concentrated their research on the ultimate outcome variable, income rather than intermediate outcome variable, yield. In this study, we corrected for sample selection bias by using Heckman Sample Correction Model. We also used intermediate outcome variable yield.

Empirical evidence of the socioeconomic factors determining farmers’ engagement in contract farming and its effect on rice yield is very important. It will serve as a reliable document for policy makers, contractees and contractors to design and operationalize contractual models for the benefit of all the parties. Additionally, this paper will add to the scanty body of knowledge available on yield effects of contract using sample correction model especially in Ghana.

The hypothesis to be tested and validated in this study is that contract farming significantly increase rice yield in Ghana.

2. Meaning of Contract Farming

The use of contract farming in agricultural production is not a new thing. It is only that its popularity is gaining grounds in recent times. Contract farming is an old phenomenon which involves a farmer or a group of farmers coming to agreement with a private individual or organization or government to exchange farmer produce for certain services. These services include credit facility, inputs (fertilizer, pesticides, seeds), extension service, tractor services, technical skill training.

Contract farming according to Prowse (2012: 12) is "a contractual arrangement in which a farmer and a firm make a verbal or written agreement before production begins for the firm to provide material or financial resources to the farmer in exchange for farm produce over a specified period of time. The arrangement is such that the farmer makes undertaken to supply agreed quantities of farm produce to the firm based on the quality standards and delivery requirements (FAO, 2008). From the above explanation, it has the ability to provide a guaranteed market for farmers thereby eliminating the problem of surpluses after harvesting. As noted by (FAO, 2008), it has the ability to reduce weather failure, disease outbreak and facilitate certification which is a requirement at the advanced markets.
3. Empirics of Drivers and Effects of Contract Farming

Ton et al. (2017) grouped the incentives or motivation for contracting farmer into farmer characteristics, crop characteristics, producer organizations and socio-political structure.

Whilst firms providing support to the farmer or group of farmers look for farmers who have and own enough land to engage them in contract farming, smallholder farmers are quick to accept the arrangement because of the its potential to enable them increase their farm sizes (Da Silva & Rankin, 2013). The immediate benefit of contract farming is the assurance of market access and production supports.

The use of inferential such as t-test and probit regression to analyse factors influencing farmers’ participation in contract farming is common. As noted earlier, size of farms influences farmers’ decision to enter into contract farming. Better land endowed farmers have the higher likelihood for being contracted than less land endowed farmers. Studies by Trifković (2016), Sokchea & Culas (2015) and Narayanan (2014) confirmed the hypothesis that landholding increases farmers’ participation in contractual arrangement. Also, out of fifteen research studies by Ton et al. (2017), ten representing 66% reported that contracted farmers are wealthier suggesting they have larger farm sizes.

For farmers, the intermediate outcome of contract farming is increased productivity whilst the ultimate outcomes are improved incomes and food security (Ton et al., 2017). There are other development impacts (poverty alleviation, economic growth and empowerments) but this study focuses on the intermediate outcome thus increased land productivity (yield).

Awotide et al. (2015) examined the effect of contract farming rice yield using propensity score matching (PSM) and observed that it has the ability to increase yield of traditional rice by 55%. Using PSM, Setboonsarng, Leung & Stefan (2008) observed a 26% yield increase for organic rice. Bellemare & Novak (2016) used instrumental variables to establish that the arrangement has reduced hunger duration in Madagascar by participant compared with non-participants. Abdulai, & Al-hassan, (2016) and Azumah, Donkoh & Ehiakpor (2016) estimated the impact of contract farming on soya bean farmers’ income and farm income respectively. Both research concluded that contract farming has positive impact on farmers income.

In a study by Bellemare (2018) in Madagascar, contract farming was found to deprive participating households from gaining from non-agricultural related activities. This has serious implication for income diversification and structural transformation agenda being pursued by many developing countries including Ghana. Irrespective of the above, Bellemare and Bloem (2018) indicated there is still mixed conclusion on the impact of contract farming in developing countries because of extensive use of observational cross-sectional data. In using such data, one need to correct for sample selection bias. This is what this study has done.

In a randomized control trial (RCT) to determine the impact of contract farming on rice area, productivity, market participation, and rice income per capita, Arouna, Michler, & Lokossou (2019) concluded that once price uncertainty is resolved, farmers are able to, address issues of technical efficiency and capital constraints. What it mean is that with a
guaranteed price, farmers are able to increase productivity, participate in market and hence increase their farm household income.

4. Methodology
4.1 Analytical Framework
As noted by Ton et al. (2017), it is not possible to determine yield effect when the contracted crop or variety is only produced by the contract farmers in one season. One need to compare yield differentials using contract farmers and non-contract farmers working under the same conditions and time. In this case, it can be visualized as a quasi-laboratory experiment where contract farmers are the treated group and non-contract farmers are the untreated or the control group. This kind of analysis is an impact assessment or evaluation which uses observational or non-experimental data. Meanwhile, the challenge for such studies according to Shiferaw, Kassie, Jaleta & Yirga (2014) is how to select the counterfactual (control) group against which the impact can be measured without encountering self-selection problem. There was no solution to this econometric problem until 2000 Economics Nobel Prize winner, James Heckman came out with a model called Heckman Sample Correction Model (Heckman, 1979). This model has the ability to correct biases that are inherent in non-random selection of respondent. It does this by using two-step approach. Note that selection bias means the non-random selection respondents which results in the group so that two groups thus the treated and non-treated to have similar characteristics but only differ in participation.

In order to deal with this sample selection bias, this study adopted Heckman Sample Correction Model which is usually called Sample Selectivity Model. The first stage of the model is probit which specifies that the probability of farmers’ participation (P=1) or non-participation (P=0) in contract farming is determined by certain socio-economic factors.

\[
Prob(P = 1 \text{ or } 0 | Z) = f(Z \alpha) = \alpha_0 + \sum \alpha_j Z_{ji} + \mu_i \tag{1}
\]

Where Z denotes vector of explanatory variables (socioeconomic factors), f denotes \( \alpha \) standard normal cumulative distribution function, \( \alpha \) denotes a vector of unknown parameters, \( j \) denotes \( j^{th} \) socio-economic factor, \( \mu \) denotes the error term and \( i \) represents the \( i^{th} \) farmer.

Since the decision to participate in contract farming or not is self-selection, there are unobservable characteristics inherent in the respondents. These characteristics can also influence the yield farmers obtain. This implies that this factor can influence the decision variable (participation in contract farming) in the first stage as well as outcome variable (yield in the second stage) (Kassie, 2011). To solve this, Heckman (1979) proposed that probabilities of participation should be predicted from the first stage and used in the second stage to determine the impacts of participation on outcome variable herein the yield.

\[
E(Yield / X; P = 1 \text{ or } 0) = \beta_0 + \sum_{k=1}^{k=K} \beta_k X_{ki} + \rho \delta_{\mu} \lambda_i + \epsilon_i \tag{2}
\]
Where \( \rho \) is the correction between unobserved determinants of probability to participate; \( \delta_{\mu} \) is the standard deviation of \( \mu \) and \( E \); \( \lambda \) is the inverse Mills ratio which measures the impact of participation on yield. \( X \) denotes the explanatory variables that can affect welfare but not necessarily affecting participation and \( \beta \) denotes vector of those variables’ coefficients. To test whether or not sample selectivity bias exists, one needs to validate the null hypothesis that the coefficient of \( \lambda (\rho) \) is not zero (i.e. \( \rho=0 \)).

As shown in table 1, yield is a function of conventional inputs (labour, fertilizer, seed, pesticides and capital). Hence, these conventional inputs were included because the yield function is a production which shows the technical relationship that transforms inputs into output. These conventional inputs were used by Azumah, Donkoh & Ehiakpor (2016) and Abdulai, & Al-hassan, (2016). The socioeconomic factors such as household size, age, farming experience, education, FBO memberships, land ownership, extension contacts and locations have been used by many research as determinants of participation in contract farming and yield. For instance, Azumah, Donkoh & Ehiakpor (2016) used age, education, extension contact, experience, land ownership and farm size in the probit model which explains the determinants of participation in contract farming. Additionally, Wuepper & Sauer (2016) regressed an outcome variable, i.e. contract farming income on age, education and location.

Table 1: Definitions, Measurements and A Priori Expectations of Factors Influencing Farmers’ Participation and Rice Yield

| Variables | Definitions and Measurements | Participation Model | Yield Model |
|-----------|------------------------------|---------------------|-------------|
| \( Z_1 \) | Household side (count) | +/- | +/- |
| \( Z_2 \) | Age (years) | +/- | +/- |
| \( Z_3 \) | Rice farming experience (years) | + | + |
| \( Z_4 \) | Education (years) | + | + |
| \( Z_5 \) | FBO membership (1= member, 0 = otherwise) | + | + |
| \( Z_6 \) | Land ownership (1= owned, 0 = otherwise) | + | NA |
| \( Z_7 \) | Farming under irrigation | + | + |
| \( Z_8 \) | Extension contact (1= have contact, 0 = otherwise) | NA | + |
| \( Z_9 \) | Improved seeds (1=used improved seeds, 0=otherwise) | + | + |
| \( Z_{10} \) | Farm size | +/- | NA |
| \( Z_{11} \) | Region (1= Northern, 0 = Volta) | +/- | - |
| \( X_1 \) | Fertilizer (Kg) | NA | + |
| \( X_2 \) | Seed (Kg) | NA | + |
| \( X_3 \) | Labour (Man days) | NA | + |
| \( X_4 \) | Capital (Gh¢) | NA | + |
| \( X_5 \) | Pesticides (litres) | NA | + |
| \( X_6 \) | No of extension visits (count) | NA | + |

4.2 Study Area and Data Source
The study was conducted in two regions in Ghana. They are Northern and Volta Regions. The regions were grouped into six agro-ecological zones namely Sudan Savannah Zone, Guinea Savannah Zone, Forest Savannah Transition Zone, Semi-Deciduous Rain Forest Zone, High Deciduous Rain Forest Zone and Coastal Savannah Zone. With the help of stratified random sampling, Northern and Volta Regions were respectively selected from Guinea Savannah and Forest Savannah Transition Zones. Within the regions, five districts each were selected from the two regions using simple random sampling technique. The list of rice producing communities were obtained from the regional MoFA office and the communities were selected using simple random sampling technique. The houses were selected using systematic sampling technique whereas rice farmers were randomly selected from each house. With the help of Slovin’s formula used by Rivera (2007) and a total household of 333,504 production rice in Ghana (GSS, 2014), a sample size of 624 was supposed to be selected but the researcher increased it to 705. The distribution of the respondents is shown in figure 1 below. The study used primary cross-sectional data for 2015/16 cropping season and the data was collected using semi-structured questionnaire.

$$n = \frac{N}{1 + N(e)^2}$$

$$(3)$$

$$n = \frac{333504}{1 + 333504(0.04)^2} = 624$$

![Figure 1: Distribution of Respondents](image)

5. Results and Discussion
5.1 Summary Statistics of Continuous Variables

The summary statistics of continuous explanatory variables used in the Heckman Sample Correction model are evinced in Table 2. These variables were selected based on previous similar studies (Azumah, Donkoh & Ehiakpor, 2016 and Abdulai, & Al-hassan, 2016). The table shows an unequal variance paired t-test. It is clear that there are statistical significant differences between all the continuous variables for farmers engaged in contract farming and those that do not engage in contract farming except farm size. While contracted farmers obtained rice yield of 3.41 Mt/Ha, their counterparts obtained 1.9 Mt/Ha and the difference is statistically significant at 1%.

Similarly, contracted farmers significantly employed 4.85 mandays of labour than non-contracted farmers. These may be the fact that contracted farmers used inputs that are labour intensive than they counterparts who are not engaged in contract farming. With contract farming, they are able to get access to fertilizer, improved seeds etc whose application require more labour. With regards to quantity of seed used, non-contracted farmers used relatively 23.66 kg of seed more than their contracting counterparts. The is statistical significant difference between the quantity of seed used by contracting and non-contracting farmers.

In furtherance, the results indicate that contracted farmers applied larger quantity of fertilizer (295.65 kg) compared to that of the non-contracted farmers (98.98 Kg). The difference in the quantity of fertilizer applied was highly significant at 1%. This outcome could be ascribed to the fact that contract farmers have access to more fertilizers from the

Table 2: Summary Statistics of Continuous Variables

|                       | Contract Farmers (314) | Non-Contract Farmers (391) | Standard Error |
|-----------------------|------------------------|---------------------------|----------------|
| Yield (Mt/Ha)         | 3.41                   | 1.90                      | 0.08***        |
| Labour (Man days)     | 45.52                  | 40.67                     | 1.70***        |
| Farm size (Ha)        | 1.02                   | 1.00                      | 0.04           |
| Seed (Kg)             | 67.11                  | 90.77                     | 5.80***        |
| Fertilizer (Kg)       | 295.65                 | 98.98                     | 16.34***       |
| Pesticides (Lit)      | 3.96                   | 3.52                      | 0.34*          |
| Capital (GH¢)         | 856.83                 | 345.21                    | 55.44***       |
| Output (Mt)           | 3.45                   | 1.75                      | 0.13***        |
| Age (years)           | 41.44                  | 42.74                     | 0.74*          |
| Household size        | 7.35                   | 8.78                      | 0.30***        |
| Education (Years)     | 7.76                   | 4.47                      | -3.29***       |
| Extension contacts    | 3.46                   | 1.34                      | 0.15***        |
| Experience (Years)    | 12.19                  | 15.39                     | 0.61***        |

** and *** indicate significance level at 5% and 1% respectively.
contractual arrangement. It is essential to highlight that with respect to capital, contracted farmers employed GH¢511.62 more than their non-contracted counterparts.

The output differential between contracted and non-contracted farmers, showed that contract farmers obtain significantly 1.7Mt of rice higher than the non-contracted farmers and the difference is statistically significant at 1%. This outcome is justifiable since the contract farmers are better equipped with good agronomic practices and inputs which could boost the output levels. Also, the results reveal that non-contract farmers were 1.3years older than contracted farmers and the difference is statistically significant at 10%.

Whereas contract farmers recorded a household size of 7.35 members, non-contracted farmers registered a household size of 8.78 members showing approximately two members higher than that of the contract farmers. This guarantees the non-contract farmers the opportunity to employ capital saving production while the contract farmers employ a capital intensive production system. It is important to also highlight that contracted farmers attained comparatively more years in education relative to their non-contracted counterparts. The difference (3.29years) was statistically significant at 1%.

It is not surprise for the results to show that contract farmers had more extension contacts (3.46) than the non-contracted farmers (1.34). This implies a variance of 2.12 which is statistically significant at 1%. Conclusively, the results show that non-contracted farmers were more experienced (3.2years) relative to that of the contracted farmers and it is highly significant at 1%.

5.2 Summary Characteristics of Categorical Variables.

Table 3 shows the results that highlight categorically, the characteristics in terms of percentage frequencies of various discrete variables. The table shows that majority of the respondents were males representing 69.22% while the females constitute only 30.78%. This reveal that more males than females were engaged in rice-based contract farming in the study area. With respect to FBO membership, a greater fraction of the respondents belonged to FBOs denoting 58.58% and indicating a 17.16% more than the non-members. Majority of the respondents attained formal education representing 62.98% while 37.02% did not attain any formal education.

Similarly, 35.74% of the respondents owned land while the majority constituting 64.26% did not own land and thus rented or leased the land for farming. The results also point out that most of the farmers (61.26%) did not use improved seeds for farming. Out of 705 farmers interviewed, 35.46% farmed under irrigation, while 64.54% did not farm under irrigation. The percentage of farmers who had extension contacts is 67.38%. Considerably, the non-contract farmers out-numbered their counterparts. While 44.54% were under contract, 55.46% were not contracted. In terms of regional distribution of the respondents, most of the respondents came from the Northern region constituting 51.91% with 48.09% from the Volta region of Ghana. This follows the national trend were majority of households are engaged in farming up north.

Table 3: Percentage Frequency of Discrete Variables

| Variables | Frequency | Percentage (%) |
|-----------|-----------|----------------|
|           |           |                |

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5.3 Determinants of Contract Farming Participation

Table 4 shows the maximum likelihood estimation of the selection model explaining the determinants and probability of the determinants of contract farming engagement by smallholder farmers. From the table, education, farm size, farming under irrigation or not, extension contacts and improved seeds significantly influence the probability of farmers engaging in contract farming. The direction of the effects of all these factors on contract farming engagement meets the a priori expectation except farm size.

The results in table 4 reveal that rice farming experience was negative and significant at 1%. This implies that when the farming experience increases by one year, the probability that the farmer will participate in the contract farming decreases by 0.025 ceteris paribus. Years of education is statistically significant at 1% with positive direction of the effects on contract farming engagement. This implies that, as years of education increases by one, the probability that a farmer will participate in contract farming increases by 0.343. This may be ascribed to more comprehensive understanding of the contractual arrangements, as well as the gains of contract farming engagement as noted by Poku, Birner & Gupta (2018). Farming under irrigation is also a significant determinant of contract farming. Farmers who cultivate rice under irrigation have 100% probability of probability of being engaged in contract farming greater than their counterparts who are not.

Farm size per the results was revealed to be negative and significant at 1%. This shows that when the farm size of a farmer increases by one acre, probability that the farmer will engage in contract farming will decrease by 0.238 ceteris paribus. This outcome does not meet the a priori expectation. This is at variance with the findings of Trifković (2016), Sokchea & Culas (2015) and Narayanan (2014). Also, extension contacts from the results was positive and highly statistically significant at 1%. This implies that farmers who have contact with extension agents have 0.485 likelihood of participating in contract farming more than those who do not. This finding is plausible based on the fact that extension

|                  | Male | Female |
|------------------|------|--------|
| Sex:             | 488  | 217    |
| Female           | 69.22| 30.78  |
| FBO membership:  |      |        |
| Member           | 413  | 41.42  |
| Non-member       | 292  |        |
| Land ownership:  |      |        |
| Owned            | 252  | 35.74  |
| Not owned        | 453  | 64.26  |
| Improved seed:   |      |        |
| Users            | 274  | 38.87  |
| Non-users        | 431  | 61.13  |
| Education:       |      |        |
| Formal           | 444  | 62.98  |
| Non-Formal       | 261  | 37.02  |
| Irrigation:      |      |        |
| Yes              | 250  | 35.46  |
| No               | 455  | 64.54  |
| Extension Contacts: |    |        |
| Yes              | 475  | 67.38  |
| No               | 230  | 32.62  |
| CF Engagement:   |      |        |
| Contracted       | 314  | 44.54  |
| Non-contracted   | 391  | 55.46  |
| Regions:         |      |        |
| Northern         | 366  | 51.91  |
| Volta            | 339  | 48.09  |
services boost farmers’ understanding, efficacy and productivity as such they will be willing to engage in contract farming.

Similarly, the positive coefficient of improved seed indicates farmers who use improved seed are 0.609 more probable to participate in contract farming relative to those who do not *ceteris paribus* and this is statistically significant at 1%. The use of improved seeds leads to the attainment of higher yields margins compared to the conventional seeds. As such, farmers can make profit and are therefore more probable to engage in the contract farming.

Table 4: Maximum likelihood estimation of the determinants of contract farming engagement (Probit)

| Variable                  | Coefficient | Standard Error | P-value |
|---------------------------|-------------|----------------|---------|
| Household side            | 0.0020      | 0.0160         | 0.9010  |
| Age                       | 0.0047      | 0.0081         | 0.5570  |
| Rice farming experience   | -0.0251     | 0.0094***      | 0.0080  |
| Education                 | 0.3427      | 0.1352**       | 0.0110  |
| FBO membership            | 0.1322      | 0.1283         | 0.3030  |
| Land ownership            | 0.0777      | 0.1306         | 0.5520  |
| Farming under irrigation  | 1.0213      | 0.1231***      | 0.0000  |
| Extension contact         | 0.4852      | 0.1396***      | 0.0010  |
| Improved seeds            | 0.6091      | 0.1205***      | 0.0000  |
| Farm size                 | -0.2376     | 0.1052**       | 0.0240  |
| Region                    | -0.0848     | 0.1421         | 0.5500  |
| _cons                     | -1.0064     | 0.3665         | 0.0060  |

No of observations 705
Censored observations (Non-contract farmers) 391
Uncensored observations (contract farmers) 314
Wald chi²(14) 241.82***
Prob > chi² 0.0000
Lambda 0.5800 0.3479* 0.0960
Rho 0.6771
Sigma 0.8565

** and *** indicate significance level at 5% and 1% respectively.

5.4 Effects of Contract Farming on Rice Yield

Table 5 shows the results on the effects of contract farming on rice yield in Ghana. From the table, the lambda is 10% statistically significant suggesting that contract farming has significant effects on rice yield. The positive direction of the coefficient of contract farming suggest that contracted farmers have significantly higher rice yield than their counterparts who are not into contract farming. Farmers who engaged in contract farming realized rice yield of 0.58MT/Ha more than their non-contracted counterparts and this conforms the
initial hypothesis of this study. This confirmed the work of Bidzakin, Fialor & Yahaya (2018) that contract farmers are more productive efficient than non-contract farmers in rice production in Ghana. The plausibility of this is based on the fact that farmers under contract have access to productive resource such as fertilizers, seeds, weedicides, pesticides as well as technical support which can help optimise yield. Ragasa, Lambrech& Kufoalor (2018) reported that contract farming participation led to improvement in yield. The finding of this paper about the positive effects of contract farming also confirms the work of Wang, Wang & Delgado (2014) who posits that contract farming has a substantial influence on bettering farm competence, productivity and incomes. Wuepper & Sauer (2016) study revealed that contract farming provides social capital for smallholder pineapple in Ghana. With social capital, the farmers are able to acquire the necessary resources for improved yield.

The results in Table 5 evinced that fertilizer, capital, irrigation, extension contact and improved significantly and positively influence rice yield while labour, and seed correlate negatively with yield. The coefficient of labour is negative and significant at 10%. The negative significance implies that when labour increases by one man-day, yield will decrease by 0.005Mt/Ha. This outcome could be due to diminishing marginal productivity as more labour is employed culminating to reduction in yield. This finding is in line with that of Abdulai (2016) who postulated that increase in labour causes a decrease in income.

Correspondingly, seed was found to be negative and highly significant at 1%. This means that when the quantity of seed used increases by 1kg, rice yield will decrease by 0.007Mt/Ha ceteris paribus. This outcome could be as a result of the over use of the seed or low yield potential. However, improved seed was highly significant at 1% and positive. This shows that farmers who use improved seeds attain 0.489 more yields compared to those do not use improved seed. Ghimire, Wen-chi & Shrestha (2015) highlighted that the use of improved rice varieties (IRV) instead of the conventional seeds increases rice productivity. Also, Chandio & Yuansheng (2018) estimated that the use of improved rice varieties doubles the returns of the rice crop farmer.

From the results, fertilizer is positive and highly statistically significant at 1%. Essentially, when the quantity of fertilizer applied increases by 1kg, the yield level will increase by 0.001Mt/Ha ceteris paribus. This finding is consistent with that of Azumah, Donkoh & Ehiakpor (2016). From the table, capital positive and significant at 10%. This shows that an increases in capital by GH¢1.00 will result in an increase in rice yield by 0.002Mt/Ha holding all other factors constant.

The coefficient of household size is negative implying that when household size increases by one person, the yield level will decrease by -0.0272Mt/Ha. This could be due to high family expenses culminating to inability to optimally invest on the farm. The results also reveal that irrigation was highly significant at 1% and conforms to its expected positive sign. The positive significance indicates that farmers who farm under irrigation achieve 0.7923Mt/Ha more yield compared to farmers who do not, holding all other factors constant. This revelation is in conformity with the finding of Nonvide (2017) who concluded that adoption of irrigation contributes significantly to yield improvement by
57%. Studies by Huang, Rozelle, Lohmar, Huang & Wang (2006) and Domenech (2015) highlighted that irrigation adoption contributes to increase in crop productivity, yield and income. Donkoh, Ayambila, & Abdulai (2013) stated that irrigation enhances the full employment of the factors of agricultural production. Irrigation enables farmers to supply their crops with adequate amount of water to meet the optimum water requirement of the crop.

Extension contacts similarly met the a priori expectation and significant statistically at 1%. This implies that farmers who have contact with extension officers attain 0.183Mt/Ha yield more than those who do not ceteris paribus. Extension officers equip and educate farmers on good agronomic practices (Genius, Koundouri, Nauges & Tzouvelekas, 2014, and Azumah et al., 2016) which invariably intensifies farmers’ capability and hence are able to optimise productivity. This finding is also in agreement with that of Ajewole (2010) who postulated that extension contact significantly and positively affects adoption of improved technologies which can help farmers to maximise their productivity. Additionally, region was negative and statistically significant at 1% which means that respondents in the Volta region achieve rice yield 0.7284Mt/Ha higher than those in Northern Region. This finding is in line with MoFA, 2016 regional production estimates though the figure falls short of the recorded difference of 2.33Mt/ha.

Table 5: Maximum likelihood estimation of the effects contract farming on rice yield

| Variable                      | Coefficient | Standard Error | P-value |
|-------------------------------|-------------|----------------|---------|
| Labour                        | -0.0054     | 0.0032*        | 0.0940  |
| Seed                          | -0.0070     | 0.0015***      | 0.0000  |
| Fertilizer                    | 0.0013      | 0.0003***      | 0.0000  |
| Pesticides                    | -0.0012     | 0.0101         | 0.9100  |
| Capital                       | 0.0002      | 0.0001*        | 0.0820  |
| Household size                | -0.0272     | 0.0140*        | 0.0520  |
| Age                           | 0.0102      | 0.0071         | 0.1530  |
| Rice farming experience       | -0.0123     | 0.0102         | 0.2310  |
| Education                     | 0.0143      | 0.0126         | 0.2550  |
| FBO membership                | -0.0323     | 0.1270         | 0.7990  |
| Farming under irrigation      | 0.7923      | 0.2414***      | 0.0010  |
| Extension contact             | 0.1830      | 0.0271***      | 0.0000  |
| Improved seeds                | 0.4886      | 0.1611***      | 0.0020  |
| Region                        | -0.7284     | 0.1285***      | 0.0000  |
| Cons                          | 2.3092      | 0.5372         | 0.0000  |
| Lambda (Contract farming engagement) | 0.5800 | 0.3479*        | 0.0960  |
| Rho                           | 0.6771      |                |         |
| Sigma                         | 0.8565      |                |         |

** and *** indicate significance level at 5% and 1% respectively.

5.5 Conclusion
The study examined the determinants of contract farming engagement and its effect on rice yield in the Northern and Volta regions of Ghana. Participation in contract farming is positively and significantly influenced by education, irrigation, extension contact and
improved seed. Farming experience, and farm size however negatively influenced farmers’ participation in contract farming. It was realized that fertilizer, capital, improved seed and irrigation increase rice yield.

Farmers who participated in contract farming had higher rice yields than their non-participating counterparts. This theorizes that despite the subjective proofs that contracting farmers are often deprived, it is still relevant and should be intensified. It has the potential of increasing yield margins and farmers’ welfare in general. It is recommended that government should create more irrigation projects to capacitate farmers to increase rice production. Farmers should also be enticed to go into contract farming through education and adequate provision of extension services. In addition, for farmers to achieve higher yields, policy makers should design and implement policies that have the objective of making farmers to increase the usage of fertilizer and improved seeds.

**Funding**
The author received no funding for this research.

**Competing interests**
The author declares that there is no competing interest.

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