

Outgrower Schemes and Cooperatives: a Problem of Moral Hazard in Teams with Peer-Monitoring*

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Abstract

This paper examines the performance of contract farming and outgrower schemes when agents are groups of jointly-liable farmers who receive input credit from an agribusiness. We provide a theoretical framework where the group's farmers play a credit repayment game with peer-monitoring and moral hazard on production effort. According to effort levels, credit is repaid or not by the group who can be refunded in the future. We show that the principal takes into account not only price incentives on farmers' effort but also on peer-monitoring.

We compare the Principal-agent contract to the Nash-bargaining and Cournot solutions. Because of unenforceable contracts, the welfare analysis suggest that Nash-bargaining may be preferred to competition.

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