Smallholder contract farming in agro-food chains  Contractualisation par des petits producteurs dans les filières agro-alimentaires Pequeños agricultores y agricultura de contrato en las cadenas agroindustriales

Seminar & IFAP-DCC Technical Meeting, Brussels, April 21-22-23, 2004

Conclusions & Outline IFAP-DCC Program
Smallholder contract farming in agro-food chains  

Contractualisation par des petits producteurs dans les filières agro-alimentaires  

Pequeños agricultores y agricultura de contrato en las cadenas agroindustriales

with the support of  avec l'appui de  Con el apoyo de

Ministry of Foreign Affairs / Development Cooperation (DGIS) The Netherlands,  
Boerenbond, Ieder Voor Allen & COPA

Seminar & IFAP-DCC Technical Meeting, Brussels, April 21-22-23, 2004

Conclusions & Outline  IFAP-DCC Program
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Introduction

Ce document rassemble les études de cas, synthèses et conclusions d'une session de travail, qui a réuni pendant 3 jours des organisations professionnelles agricoles (OPA) de pays en développement à Bruxelles. L'objectif était de partir de leurs expériences en matière de contractualisation, et de fixer les priorités et les grandes lignes d'un programme d'appui. Ce programme fera partie de l'action menée par la FIPA pour le renforcement des OPA dans les pays en développement, et sera discuté et approfondi au sein du Comité de Coopération au Développement de la FIPA.

This document presents cases, experiences, summaries and conclusions of a 3-day working session of professional agricultural organisations (PAOs) from developing countries in Brussels. Starting from their own experiences in different sectors of contract farming, their objective was to formulate their priorities and the outline of a support programme. Such a programme will be part of IFAP's action in support of developing country PAOs, and will be further developed and discussed within the Development Cooperation Committee (DCC) of IFAP.

Ignace Coussement
DCC Coordinator
1. Invitation by the IFAP Secretary General to IFAP DCC members for participation in the seminar.

"David King" <DavidKING@ifap.org>
19/03/2004 18:22

Aan:
cc:
Onderwerp: IFAP DCC technical seminar on "smallholder contract farming", 21-23 April 2004, in Belgium

To: IFAP Member Organisations in Developing Countries
From: David King, Secretary General

As part of IFAP's Development Cooperation Program, AgriCord is organising a technical seminar on "smallholder contract farming", 21-23 April 2004, in Belgium.

Several IFAP member organisations have already indicated their interest in participating in this seminar. If your organisation has a specific interest or expertise in matters related to the subject of contract farming, please contact the organiser, Mr. Patrick Eeckloo at IVA, Belgium as soon as possible. His email address is: PATRICK_EECKLOO@Boerenbond.Be

An information note on the workshop is attached.

Agricord will cover the costs of participation of speakers, and of some representatives, from farmers' organisations from developing countries that are members of IFAP.

Speakers will be allocated 30 minutes for their presentations. Both success stories and failures can be interesting. The examples given should clearly illustrate the role of the farmers' organisations and the division of roles between individual farmers, farmers' organisations and agribusiness. Please use the forms at the end of the attached note to submit details on suggested participants.

We hope that this workshop will be of interest to your technical people, and that you will contact Mr. Eeckloo (with a copy to the IFAP Secretariat).

Best regards

<<MEMO27Feb04.doc>>

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International Federation of Agricultural Producers

60, rue St. Lazare, 75009 Paris, France

Tel: 33.1-4526 0553 Fax: 33.1-4874 7212
Internet: http://www.ifap.org
2. Memo from the DCC Coordinator to IFAP DCC members for participation in the seminar and technical DCC meeting.

MEMO

To: IFAP DCC members (all)
From: I. COUSSEMENT; DCC COORDINATOR
Date: 27 February 2004

Contact person: Patrick Eeckloo
Liaison Officer
IVA, Ieder Voor Allen
PO Box 247 - 3000 Leuven - Belgium
tel : +32 16 242155
fax : +32 16 242136
mail : patrick_eeckloo@boerenbond.be

Re : Request for identification of participants for a seminar on “Smallholder Contract Farming” and for the subsequent technical IFAP DCC meeting.

Background

The “Smallholder Contract Farming” issue has been raised simultaneously by different Farmers’ Organisations, within the Development Cooperation Committee (DCC) of IFAP and by different agri-agencies, members of AGRICORD.

The “Smallholder Contract Farming” programme is part of Agricord’s and IFAP DCC’s action plan on trade capacity development. The priorities of this action plan were defined during the 2001 meetings of the Regional Committees and the Development Cooperation Committee. More than 70 Farmers’ Organisations from developing countries participated in meetings for Africa (Cairo, Egypt), Latin America (San José, Costa Rica) and Asia (Tokyo, Japan).

In terms of their own capacity building, they decided to focus on the following issues:

1. Capacity and resources to organize farmer-to-farmer exchanges on technology of farming, biotechnology, development alternatives, quality of produce, success stories of farmers.
2. Capacity to lobby national governments and international institutions on food security, on production methods, on new marketing possibilities, on agricultural policy issues.
3. Capacity to develop and manage trade operations and other income generating activities.
4. Capacity to use information technology in all its applications - organization, management, accountancy, human resources.
5. Capacity to follow-up and monitor agricultural markets of specific commodities - prices, trading, quality standards.
6. Dynamic organizational development, federation building, profiling, membership and organizational strengthening, staff training.

In this regard, Agricord is currently implementing its programme on “Farmers’ Organisations and Trade Capacity Development”.

The “Smallholder Contract Farming” programme focuses on the priorities nr. 2 (lobby), nr. 3 (develop and manage trade operations) and nr. 5 (monitoring of agricultural markets).

Representatives of Farmers’ Organisations from Senegal (CNCR), Benin (FUPRO) and Kenya (KNFU), as well as the Ouest African ROPPA network, together with Mr. P. Rondot, World Bank, discussed the subject during the recent 35th World Farmers’ Congress of IFAP in Cairo, May 2002, and agreed upon some basic features of this programme.
Justification of programme

Smallholders are involved in contract farming in large numbers, all over the world. It is day-to-day business for tens of thousands of farmers, producers of cotton, tobacco, sugar, high value horticulture for export...

Contract farming has worldwide proven its usefulness in regulating the relation between farmers or their representative organisations and the agribusiness to whom they sell their produce. Contracts need to address the needs and problems of both farmers and agribusiness.

Contract farming is a useful concept for the development of markets within those sectors where continuous supply and quality of both the raw material and the processed product are required. A constructive partnership will allow farmers and agribusiness to take advantage of increased access to (export) markets.

On the other hand, contracts can be wrongly used for the exploitation of the smallholder contract farmer to the advantage of the agribusiness. It is Agricord’s aim to strengthen the bargaining power of smallholder contract farmers through strengthening of their organisations.

Agricord can, within the framework of this very concrete programme, come to a constructive exchange between Farmers’ Organisations, Cooperatives, agribusinesses, agri-agencies and relevant ngo’s.

Planned activities in view of programme formulation

On request of AgriCord, IVA organises a 2-day seminar on Smallholder Contract Farming on 21-23 of April in Belgium. The expected outcome of this seminar will be an inventory of 'lessons learned' from cases presented during the seminar.

In an ensuing 1-day technical IFAP DCC meeting, representatives of DCC members, farmers' organisations from developing countries, will identify their priorities based on the information obtained during the seminar.

IVA will then formulate a proposal for an IFAP DCC programme, based on the result of the technical DCC meeting.
AgriCord plans to submit this programme proposal to the DCC meeting in Washington end of May 2004.

Information on the SEMINAR

Theme
Efficient contract farming through strong Farmers' Organisations in a partnership with Agribusiness.

Objectives
- improve contract farming conditions through the strengthening of the Farmers’ Organisations and through improved relationship agribusiness – farmers as a long-term partnership beneficial to both partners;
- clarify roles and responsibilities of both Farmers’ Organisations and Agribusiness

Participants
1. Speakers: practitioners who will provide input to the seminar on different aspects of the subject (see above). They are preferably farmers or people working within Farmers’ Organisations, as well as representatives of relevant agri-businesses or ngo’s.
2. Representatives of IFAP DCC members. These people will preferably also be knowledgeable on contract farming. However, their main task will be to formulate priorities in the technical DCC meeting that will follow the seminar.
3. Additional participants: resource persons and staff members of
   - Agri-agencies
   - Ngo’s

Information on TECHNICAL IFAP DCC MEETING

Purpose
Outline and priorities for the IFAP DCC Contract Farming Programme based on ‘lessons learned’ from the seminar.

Participants
- IFAP DCC members
- Members of AgriCord

SEMINAR 21-22 APRIL, 2004

“CONTRACT FARMING IN AGRI-FOOD CHAINS”

Efficient contract farming through strong Farmers’ Organisations in a partnership with Agribusiness

Wednesday 21 April

8.30 Arrival and registration.

OPENING AND INTRODUCTION

9:00 Welcome: Ignace Coussement, Managing Director, AgriCord.
Opening Address: David King, Secretary General, IFAP (International Federation of Agricultural Producers)

9:15 Introduction by the facilitators
- Objectives and approach: Christian Gouët, Wageningen University.
- Introduction to the subject: Johan Stessens, HIVA.

FIRST ROUND OF CASES

9:45 Le contrat de livraison de betteraves en Belgique
Jozef Claes (CBB, Belgium)

10:15 Coffee Break

10:40 Ensuring Cane Supply Through Local Area Agreement (LAA): Sezela Mill Area Case
Neil Anderson, SACGA, RSAfrica.

11:10 Cotton Contract Farming with Farmer organisations in the Limpopo Province of South Africa.
Roland Charles (SACAU, Southern Africa)

11:40 Plenary session

12:30 Reception - Lunch (Walking Buffet)
Welcome Address by Noël Devisch, President of Boerenbond (Belgium)

SECOND ROUND OF CASES

14:30 Problématique de la contractualisation entre Producteurs et Exportateurs de haricots verts’ (cas du Burkina Faso)
Denise Ouedraogo Benon (GE-PREST, Burkina Faso).

15:00 Le contrat : Un engagement de bonne foi des contractants au respect de la parole donnée
Paul Ouedraogo P. (COOPAKE, Burkina Faso).

15:30 Coffee Break

16:00 Mise en marché de l’ananas export par l’UPS-BENIN
Bernard Dedjelenou (UPS-Bénin).

16:30 Innovative contract farming that empowers smallholder coffee farmers to market value added product.
Herment A. Mrema (NUCAFE, Uganda).

17:00 Coffee Break

17:15 Plenary session
<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
<th>Speaker and Location</th>
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<tbody>
<tr>
<td>9:00</td>
<td><strong>OPENING AND INTRODUCTION</strong></td>
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<tr>
<td></td>
<td><strong>Summary of the first day</strong></td>
<td>Johan Stessens, HIVA.</td>
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<td>9:20</td>
<td><strong>THIRD ROUND OF CASES</strong></td>
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<tr>
<td></td>
<td><em>La relación entre los productores y la industria cooperativa: el caso de Central Lanera</em></td>
<td>Santiago Cayota (CAF, Uruguay)</td>
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<td><em>Uruguaya</em>*</td>
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<td><em>Seeking mutual growth for industry and contract farmers: the construction of chain platforms</em></td>
<td>Lucian Peppelenbos (WUR, Netherlands)</td>
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<td>9:50</td>
<td><em>in Chile</em>*</td>
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<td></td>
<td><em>Seeking mutual growth for industry and contract farmers: the construction of chain platforms</em></td>
<td>Lucian Peppelenbos (WUR, Netherlands)</td>
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<td>10:20</td>
<td><strong>Coffee Break</strong></td>
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<tr>
<td>10:40</td>
<td><strong>Comercialización asociada de pequeños productores campesinos en Chile: el caso de</strong></td>
<td>Ricardo Danessi (COOPEUMO, Chile)</td>
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<td><em>Coopeumo y Frupeumo</em>*</td>
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<td>11:10</td>
<td><strong>Challenges facing farmers’ co-operatives in the modern retail and wholesale European</strong></td>
<td>Roger Manning, Inter-Trade International</td>
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<td><em>markets</em>*</td>
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<td>11:40</td>
<td><strong>Plenary session</strong></td>
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<td>12:30</td>
<td><strong>Lunch</strong></td>
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<td>14:00</td>
<td><strong>FOURTH ROUND OF CASES</strong></td>
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<td><strong>Small Scale Farmers’ Innovations towards Fresh Vegetables Contract Farming</strong></td>
<td>John Mutunga (KENFAP, Kenya)</td>
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<td>14:30</td>
<td><strong>Expérience de gestion d’une relation commerciale entre une organisation paysanne et une</strong></td>
<td>Kambale Kamale (SYDIP, RDC)</td>
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<td><em>société agro-industrielle: cas des producteurs des écorces de quinquina au Nord/Kivu</em>*</td>
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<td>15:00</td>
<td><strong>Coffee Break</strong></td>
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<tr>
<td>15:30</td>
<td><strong>Small Scale Outgrower Schemes, the case of Zambia.</strong></td>
<td>Ndambo E. M. Ndambo and Felix Chizhuka (ZNFU, Zambia)</td>
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<td>16:00</td>
<td><strong>Group activity</strong></td>
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<td>16:30</td>
<td><strong>Coffee Break</strong></td>
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<td>16:45</td>
<td><strong>Plenary session</strong></td>
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<tr>
<td>19:30</td>
<td><strong>Closing and dinner</strong></td>
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4. Program technical IFAP DCC meeting

IFAP DCC (DEVELOPMENT COOPERATION COMMITTEE)

TECHNICAL MEETING 23 APRIL, 2004

“CONTRACT FARMING IN AGRI-FOOD CHAINS”

Priorities for building capacity within farmers’ organisations

9:00 Opening
Chairperson of the meeting: Ignace Coussement, IFAP-DCC Coordinator.

9:15 Introduction by the facilitators
- Objectives and methodology (Christian Gouët, Wageningen University, the Netherlands).
- Comments on the seminar “CONTRACT FARMING IN AGRI-FOOD CHAINS” (Johan Stessens, HIVA, Belgium).

9:30 Formation of groups and instructions

9:45 First round of group discussions
Group discussion
Plenary brief presentations by groups

11:00 Coffee Break

11:15 Second round of group discussions
Group discussion
Plenary brief presentations by groups

12:15 Lunch

13:45 Third round of group discussions
Group discussion
Plenary brief presentations by groups

15:00 Plenary session:
formulation of conclusions (priorities for capacity building)
to be submitted to the IFAP DCC meeting in Washington (29th May, 2004)

17:00 Closing

19:30 Dinner.
5. List of participants

More detailed information on the participants and their organisations can be found on www.agricord.org.

<table>
<thead>
<tr>
<th>Participant</th>
<th>Organisation</th>
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<tbody>
<tr>
<td>Bernard Dedjelenou</td>
<td>IFAP-DCC member Union des Producteurs du Sud-Bénin, UPS-Bénin (FUPRO)</td>
</tr>
<tr>
<td>Félix Abotonou</td>
<td>IFAP-DCC member Union des Producteurs du Sud-Bénin, UPS-Bénin (FUPRO)</td>
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<tr>
<td>Santiago Cayota</td>
<td>IFAP member Cooperativas Agrarias Federadas, CAF</td>
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<tr>
<td>Dorcas W. Thiru</td>
<td>IFAP member Kenya National Federation of Agricultural Producers, KENFAP</td>
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<tr>
<td>John Mutunga</td>
<td>IFAP member Kenya National Federation of Agricultural Producers, KENFAP</td>
</tr>
<tr>
<td>Dolores Rou</td>
<td>IFAP member National Union of Farmers and Cattle Raisers, UNAG</td>
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<tr>
<td>Kambale Kamale</td>
<td>IFAP member Syndicat de Défense des Intérêts Paysans, SYDIP</td>
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<tr>
<td>Mivimba Paluku</td>
<td>IFAP member Syndicat de Défense des Intérêts Paysans, SYDIP</td>
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<tr>
<td>Caleb Gumisiriza</td>
<td>IFAP member Uganda National Farmers Federation, UNFFE</td>
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<tr>
<td>Felix Chizhuka</td>
<td>IFAP member Zambia National Farmers Union, ZNFU</td>
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<td>Ndambu E. M. Ndambu</td>
<td>IFAP member Zambia National Farmers Union, ZNFU</td>
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<tr>
<td>Ricardo Danesi</td>
<td>FO Coopertiva Campesina Intercomunal Peumo Ltd, COOPEUMO</td>
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<tr>
<td>Paul P. Ouedraogo</td>
<td>FO Cooperative Agricole du Kenedougou, COOPAKE</td>
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<tr>
<td>Denise Benon Ouedraogo</td>
<td>FO GE-PREST</td>
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<tr>
<td>Aaron Likupe</td>
<td>FO National Smallholder Farmers Association of Malawi, NASFAM</td>
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<tr>
<td>Hermen Mrema</td>
<td>FO National Union of Coffee Agribusiness and Farm Enterprises, NUCAFE</td>
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<tr>
<td>Neil Anderson</td>
<td>FO South African Canegrowers Association, SACGA</td>
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<td>Roland Charles</td>
<td>FO Southern African Confederation of Agricultural Unions, SACAU</td>
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<td>Jozef Claes</td>
<td>FO Federation of Belgian Beetgrowers, CBB</td>
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<td>Noël Devisch</td>
<td>IFAP member Boerenbond</td>
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<td>David King</td>
<td>IFAP member International Federation of Agricultural Producers, IFAP</td>
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<td>Ignace Coussment</td>
<td>AGRICORD AGRICORD</td>
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<tr>
<td>Samuel Dieval</td>
<td>agri-agency Agricteurs Français et Développement International, AFDI</td>
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<tr>
<td>Participant</td>
<td>Organisation</td>
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<tr>
<td>Steven Le Faou</td>
<td>agri-agency Agriculteurs Français et Développement International, AFDI</td>
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<td>Frans Vanhoof</td>
<td>agri-agency AGRITERRA</td>
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<td>Rik Delnoye</td>
<td>agri-agency AGRITERRA</td>
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<td>Johannes Østergaard</td>
<td>agri-agency Danish Agricultural Council, DAC</td>
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<tr>
<td>Hilde Timmerman</td>
<td>agri-agency Ieder Voor Allen, IVA</td>
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<tr>
<td>Kristof Volckaert</td>
<td>agri-agency Ieder Voor Allen, IVA</td>
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<tr>
<td>Patrick Eeckloo</td>
<td>agri-agency Ieder Voor Allen, IVA</td>
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<td>Walter Vandeputte</td>
<td>agri-agency Ieder Voor Allen, IVA</td>
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<tr>
<td>Göran Forsen</td>
<td>agri-agency Swedish Cooperative Centre - Regional Office Southern Africa, SCC-ROSA</td>
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<tr>
<td>Jan Borsheim</td>
<td>agri-agency The Royal Norwegian Society for Development, NORGES VEL</td>
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<tr>
<td>Normand Jacob</td>
<td>agri-agency Union des producteurs agricoles – Développement International, UPA DI</td>
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<tr>
<td>Johan Stessens</td>
<td>agri-agency Higher institute for labour studies, HIVA</td>
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<tr>
<td>Roger Manning</td>
<td>agri-agency Inter-Trade International</td>
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<tr>
<td>Aaltje De Roos</td>
<td>agri-agency Ministry of Foreign Affairs; Development Cooperation (DGIS)</td>
</tr>
<tr>
<td>Christian Gouët</td>
<td>agri-agency Wageningen University and Research Center, WUR</td>
</tr>
<tr>
<td>Lucian Peppelenbos</td>
<td>agri-agency Wageningen University and Research Center, WUR</td>
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6. Desk study on Contract Farming

History of contract farming (Runsten, 1996)

Contract farming has been used in the more developed countries for a long time. Perishable crops destined for processing, such as sugar beets or cling peaches, were contracted in the United States in the 19th Century. Problems of monopsony or oligopsony by food processors and marketers were also apparent by the late 19th century, and efforts were begun to organize farmers to provide a united bargaining front (Bunje, 1980). There was a need for a legal framework in which to resolve disputes over contracts, to bargain over prices and contract terms, or for the farmers themselves cooperatively to process the agricultural products.

As multinational food processors set up operations in Latin America behind Import Substitution Industrialization (ISI) regimes after World War II, they often adopted contract farming as the best raw product supply mechanism, particularly where there were controls on land ownership. In Mexico, for example, the strawberry freezers and fruit and vegetable canners in the Bajo had already adopted such practices in the 1940s and 1950s and some of the firms that had maintained plantations, such as the banana producers, adopted contracting as a means of defusing nationalistic criticism of their operations.

Huacuja (2001) points out that several case studies exemplify the evident expansion of contract farming on a worldwide scale over the last two decades. Structural adjustment programs imposed by World Bank and the International Monetary Fund had a strong positive influence on contract farming in the developing countries. They indirectly fostered contract farming, as governments needed to improve their balance of trade and stimulated exporting sectors. National agrarian policy often cancelled support and subsidies that the government granted for production, trading and services. Traditional producers in rural areas but also thousands of laid-off urban administrators were looking for alternative ways of survival. Contract farming has been promoted as one of the remedies to poverty (Clapp, 1994). This often resulted in the grower’s increasing dependence on the food industry and contract farming.

Definition of contract farming

The definition of contract farming is often confused because of the many different types of contracts. Contract farming appears in such diverse forms, that is it better to focus on the motives each participant has and the relationships of contracting parties, rather than trying to isolate a generic institution. There exist many different definitions of contract farming. The following three definitions give an idea of what contract farming can be:

Baumann (2001) defines contract farming as “a system where a central processing or exporting unit purchases the harvests of independent farmers and the terms of the purchase are arranged in advance through contracts”.

Runsten (1996) defines contract farming is “an organisational arrangement that allows firms to participate in and exert control over the production process without owning or operating the farms: cultivation is performed by independent growers.”

FAO (2001) defines contract farming as “being essentially an agreement between unequal parties: companies, government bodies or individual entrepreneurs on the one hand and economically weaker farmers on the other.”

Definitions can reflect a rather defensive, negative, a neutral, or a rather positive connotation according to the position the author is taking (e.g. unequal parties, economically weaker farmers, exert control over, terms of purchase arranged in advance through contracts).

However, three major observations need to be made when considering the constitution of contracts:

- contracts are a means by which risk is distributed among actors;
- contracts are a representation of a relationship rather than the relationship itself;
- contracts are embedded in the political and economic environment.

These observations make us realise the importance of the socio-political and economic environment where contract farming is taking place. Contracts are not standing on their own; it are means for risk distribution among actors in a specific environment.
Context in which contract farming can develop

Contract farming can be seen as a vector in the transition from traditional local market agriculture to highly commercial capitalist agriculture (Glover and Kusterer, 1990). The implementation of contract farming schemes takes place in specific social and political contexts since contract farming is an institutional response to market imperfections (credit, inputs, assurance, etc.). However, high transaction costs associated with contracting create an incentive for the firm to utilize markets (purchase on the free market) or to exclude markets by internalising the production process (vertical integration). The degree to which markets function determines whether contract farming can be useful or not. The relative dependencies of the contractor and farmer are extremely important in deciding how contracts are administered as contracts are rather a representation of a relationship than the relationship itself (White, 1997). Several actors can be involved in an contract farming scheme: farmer, cooperatives/farmers’ organization, private sector firm, public sector firm, parastatal, international aid agency / NGO, government, statutory body, ...

Little (1994) determined the most important pre-conditions for contract farming as follows: the commodity needs to have a high-value, there must be a need for consistent, reliable supplies on the part of the buyer and the supplier, a system of input and output markets that cannot be met through open market purchases and finally a labour intensive commodity.

Land tenure system often limits the financial capacities of the farmers. Land entitlement can increase access to credit since land can be used as collateral. On the other hand different land entitlement policies influence the power relations between actors and hence can induce different contract arrangements or different reactions towards equal external conditions. The comparison of the oil palm production in Ghana and Ivory Coast made by Dadieh (1994) is therefore a good illustration. The founding conditions where very similar but the major constraint in Ghana was land whilst land was no problem in Ivory Coast. As a consequence, land has been redistributed in Ghana and farmers could rent the land. Ivorian government wanted to expand oil palm production as much as possible by giving land titles to everyone who opened up new land for farming. This resulted in a wide range of small, intermediate and very large farmers delivering oil palm to the same factory. The different land tenure policies in both countries created a homogeneous group of farmers in Ghana and a strong heterogeneous group of farmers in Ivory Coast. Both groups reacted different towards deteriorating terms of trade; where Ghana producers developed successful collective action, Ivorian farmers reacted individually and were finally unsuccessful in countering the deteriorated terms of trade.

The contract

Few contract are perfectly contingent (should be), and vulnerable to interpretation. In theory, contracts should detail the rights and obligations between the farmers and the contactors, including the penalties for breach of contract by either side. Smallholders can barely read and often do not understand the closes of the contract. However, they sometimes have state, or farmers’ organisations, support to enforce their interpretation of the legislation.

Many different types of contract farming schemes exist under the label contract farming. FAO (2001) defined five models, which depend on the product, the resources of the contractor and the intensity of the relationship between farmer and contractor. The authors define the centralized, nucleus estate, multipartite, informal and the intermediary model. Rather than focusing on the different types of contracts, it may be more useful to concentrate on the following four aspects which need to be considered when drafting contracts:

- **The legal framework**: the formal law of contract in a particular country, as well as the manner in which that law is used and applied in common practice, enforcement mechanisms.
- **The formula**: The intensity of the contractual arrangement varies according to the depth and complexity of the provisions in each of the following four areas: market provision; resource provision; production management specifications; land ownership and land tenure specifications.
- **The format** of the contract: the manner in which the contract is presented (Formal agreement; Simple registration; Verbal agreement). most contract farming ventures in sub-Saharan Africa rarely use written contracts (Little, 1994).
- **The specifications**: the details of the implementation of the contract. (duration, quality standards, production quotas, cultivation practices, crop delivery arrangements, pricing arrangements, payment procedures, certification and insurance arrangements).
Farmers’ organisations / cooperatives and collective action

Farmers’ organisations can play a double role in facilitating contract farming schemes. They can first facilitate the organisation of production and primary collection of the commodities. Secondly, farmers’ organisations can play an advocacy role in negotiating favourable terms with the contractor, by lobbying at national and international level and by identifying possible opportunities for contract farming. These roles can be assured by being in the contract farming chain (contractor) or by being out of the chain (facilitator). Farmers’ organisations acting as a contractor can decide and act more effectively than those operating as a facilitator. On the other hand, they encounter all risks associated with contract farming and even risks of bankruptcy and hence endangering the future of the organisation itself. Facilitators are only indirectly exposed to the risks associated to contract farming.

Coulter et al. (1999) states that small farmer associations or cooperatives can tackle both contract default and the scale of farmer operations. When farmers are organized into groups or cooperatives, which can use economies of scale in bargaining, coordinating supply and accessing credit and other support services (control on quality, quantity, …) then their negotiating power increases and they will benefit from increasing commercialisation of agriculture (Agriculture 21, 2004).

The need for collective action increases as the potential problems farmers may face are: increased production risk, unsuitable technology and crop incompatibility, manipulation of quotas and quality specifications, corruption, indebtedness and over-reliance on advances. Even potential problems for contractors as extra-contractual marketing, input diversion, social and cultural constraints and land availability constraints can indirectly affect the farmers. However, collective action does not emerge spontaneously when these problems are present in a contract farming scheme, it’s emergence depends on a number of factors.

Glover (1987) has isolated those elements of the contract situation, which hinder a political response and those, which favour collective action. Contract farming does have some elements which it seems would encourage collective action; many smallholders characterised by homogeneity both in ethnic background and in economic status, a common adversary, a degree of interdependence and the contract, a tangible and common issue for negotiation, need for the state to demonstrate public support for small peasants, pre-existing grassroots groups, the church and farmers’ organisations. These pre-existing actors often negotiated acceptable terms for both sides (facilitator) and later served as a contracting agency (contractor). The record for collective action with contract farming is mixed although it does appear to hold potential for the development of farmers’ organisations. Most farmers’ organisations that have emerged within contract farming schemes are regulate smallholder production. Those who also fight for better conditions or more control over management are notable exceptions.

Elements hindering collective response from contract farmers: heterogeneity among growers either in ethnic or economic composition, conflict between simple producers and ones who have access to multiple markets (in spite of diverging interests, it is very difficult to exclude some producers from growers associations). The contracting relationship often encourages the cultivation of individual self-interest as no contract is perfectly contingent. Many contractors offer individual incentives to growers, which encourages them to cultivate cordial relations with the management.

Cooperatives should be the ideal institution for representing farmers in integrating all stages of production, primary collection and even processing. However, the experience of cooperatives, mainly due to poor farmer representation, bureaucratic inefficiency and political manipulation has not been very good (Baumann, 2000). Possible conflicts of interest in a commercial company between shareholders and producers can be minimised if there is a separate organisation, which protects producers’ interests. Governments can directly protect producers or producers can own a stake in the company.

Growers can significantly alter the firm’s contract design problem when negotiating contract terms collectively. An organisations bargaining power will depend on the reservation utility of the growers, the ability of the firm to circumvent the organisation, and the market structure of the processing industry. Opinions about the role of farmers’ organizations in contract farming diverge. Runsten (1996) argues that the potential for collective action on the part of growers provides an incentive for contractors to integrate vertically or to seek alternative sources of supply. He states that collective action may be harmful for the contract farming scheme. Coulter et al., (1999) totally disagree and state that contract farming and formal farmer’ cooperatives or...
farmer associations/groups often work best in tandem, with strong farmer groups linking to agri-business.

**Impact on rural development**

Let us first consider the different objectives related to contract farming before considering its potential impact on rural development. Objectives for contract farming can be divided into two groups, the ones fostering an economic logic and those fostering a development logic. Both can have an impact on rural development given that the contract farming scheme is sustainable and will hence last for a long period. Baumann (2000) argues that both development goals and the economic goals need to be met in a successful contract farming scheme. FAO (2001) does agree but emphasizes the importance of the economic motive to start with a contract farming scheme. Projects that are primarily motivated by political and social concerns rather than economic and technical realities will fail.

The intervening actors all have their specific objectives for entering a contract farming scheme. Public sector motives are often conflicting but mostly linked to the development objectives. (promotion of smallholder development, access of smallholders to commodities at favourable financial terms, transferring technology, building a smallholder political base, generating foreign exchange, moving populations to new settlements, redistributing land, …). Smallholder motives are food security, stable income through pre-determined prices, quantities and period of payment cash flow, market access, risk reduction, access to technology, credit and inputs, etc. Private / Public companies (contractors) motives: production reliability and shared risk, quality consistency, promotion of farm inputs, political (such as less investment so reduced risk of appropriation, smallholder friendly scheme is good for the image and can encourage the State or international aid agencies to provide credit, overcoming land constraints), contracts are politically more acceptable than plantations.

Contract farming can have direct and indirect effects on rural poverty and hence on rural development. Direct effects come from wage employment of the rural poor in procession units and from increased earnings to smallholders involved in the contract farming scheme. Indirect effects come primarily from wage earners and small farmers re-spending their earnings in the rural economy and hence stimulate economic growth in the region. Income distribution among actors in the contract farming scheme may be very unequal but in order to be sustainable, contract farming schemes must be profitable for both the contractor and the rural farmers (Benfica et. al, 2002).

**Social inclusion**

Public support for contract farming often leads to the concentration of public resources at the national and regional level. The impact of contract farming schemes should be addressed in a national and regional context as their effects on non-scheme farmers, towns and villages are important.

There is also considerable controversy about the food security of labourers on smallholder land as food prices in contract farming areas are frequently amongst the highest. The extent to which contract farming displaces food production and its effect on food and nutrition is a question that often emerges in the consideration of the welfare effects of contract farming.

Being able to participate in the contract farming scheme can be vital for the farmers but inclusion is not obvious for small-scale farmers. The involvement of the poorest of the poor is rare in contracting schemes and farmers taking part in contract farming constitute often the middle class peasantry (Baumann, 2000). Huacuja (2001) emphasizes the importance of transaction costs faced by the firms in establishing relationships with small-scale farmers. If these costs are lower for small-scale farmers than those involved in product acquisitions from mid-sized or large farmers, or lower than those associated to direct production, firms will opt for the inclusion of small scale farmers. However, if these conditions do not prevail, small-scale farmers will probably not be part of the contract farming scheme.

The risk of contract farming and the welfare of smallholders, has to be judged from a long-term perspective. Newly started contract farming schemes have the tendency of providing good conditions in order to encourage farmers to enter the scheme. Once supply is meeting demand for the procession unit, companies tend to revise the terms of the contract to less favourable conditions for the farmers (agri-business normalisation).
The way labour requirements and income are redistributed within the family is not always favourable to woman and children.

Contract farming schemes always provide a means for technology transfer for the specific crop under contract. However, a potential problem with transfer of monocrop technology is that it may not transfer knowledge on how to manage the entire farming system and may induce huge technical and ecological problems. Further, contractors find it difficult to coordinate production amongst smallholders and therefore insist on standardized inputs and production procedures. This can lead not only to less than optima productivity, but also it does not challenge and build on the farmers’ existing knowledge of their micro-environment. Participation in contracting schemes is usually one component of a farmers diversification strategy and should be evaluated as integral part of the entire livelihood and farming system.
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7. Preliminary analysis of case studies and interviews during the seminar “Contract Farming in Agri-Food Chains”, Brussels, 21-23 April, 2004. (by Dr. Johan Stessens, HIVA)

Context in which contract farming can develop

Several cases pointed out that the neo-liberal climate indirectly imposed by the Structural Adjustment Programs of the World Bank and the International Monetary Fund fostered the development of contract farming schemes. State intervention in production, extension, price stabilization, etc. rapidly reduced over the last twenty years and private actors were not prepared to takeover the different functions formally assured by the State (e.g. Burkina Faso, Kenya, RDC). As markets fail, producers have difficulties to access inputs and to market their commodities and purchasers or processors have difficulties obtaining sufficient, timely and qualitative supplies. This situation favoured the expansion of contract farming schemes where farmers and purchasers can reduce some of the above-mentioned market failure problems.

The importance of a functioning State as a minimal condition for contract farming being effective, has been highlighted through the different cases presented. The cases concerning the Belgian and South African sugar sector clearly indicated the important role of the institutional framework of laws, regulations and inter-professional agreements in which contract farming schemes are embedded. The negotiation of inter-professional agreements between farmers and agri-business are based on the regulatory framework created by the State. The respective sugar sectors in Belgium and South Africa have a long tradition, are well organized and involves every actor in the different negotiation levels (factory, region, country). The States’ juridical system hardly has to settle disputes between the actors as internal mechanisms for conflict regulation exist. However, if the internal procedures fail, the juridical system is sufficiently performing to enforce contracts.

Unfortunately, this is not always the case in other African or Latin-American countries. Many Sub-Saharan African countries do not have the tradition of written contracts. The traditionally applied verbal agreements and understandings are still commonly used and respected. Ownership of these agreements within local communities is high. This is in contrast to the low ownership at all organizational levels of externally introduced written contracts. When the juridical system is not performing according to objective standards, the prevailing power relations within the country prevail and contracts enforcement is not possible. Hence, one actor is winning in the short run but all will loose in the end as contracts, contract farming and its potential beneficial effects cannot sustain. The Chilean cases agreed with the importance of ownership when they underlined the difficulties of inducing cultural change. The historically build-up distrust between farmers, agri-business and the Chilean State which fostered a strong climate of individualism makes it difficult to setup a scheme where different actors have to negotiate and collaborate for the well-being of all. Different actors look for their short-term individual interest so that collective action is very hard to establish and to maintain.

Many contract farming schemes find one selves in a monopsonistic situation where one buyer is purchasing the products of many producers within a certain geographical area. This reduces heavily the bargaining power of the individual producers. Commodity characteristics may foster monopsonistic situations; sugarcane or sugar beets are bulky and expensive to transport over longer distances and marketing therefore depends on the purchaser operating in the geographical area. All other commodities without local market opportunities encounter the risk of a monopsonistic situation. The contract concluded between Sydip and Pharmakina in RDC illustrates how difficult such a situation can be for the farmer and its organisation. However, when local market outlet exists and competition between purchasers prevails, bargaining power and the degrees of freedom for commodity marketing increases. This is the case of the wool production sector in Uruguay as wool production provides farmers with a range of marketing opportunities. The physical characteristics of wool make that it can be stored for years so that farmers can speculate on volatile prices. The wool purchasers in Uruguay operate in a competitive market where they have to compete for the commodity. Purchasers obviously compete through purchasing prices but they also try to improve the services to their suppliers (advanced payments, cheap loans, good quality control, …).

Market failures lead to different degrees of integration. Administration of contracts and its enforcement becomes very difficult when the juridical system is not functioning properly. Therefore, exporters in Burkina Faso are inclined to control all phases from input delivery, extension, to production, conditioning and marketing. This tendency towards vertical integration has also been observed in Benin where the producers’ union of South Benin also tries to control the whole chain from production
to delivery in France. However, a vertical integration scheme needs a strong financing capacity of the promoter.

Only two cases mentioned land tenure problems as a constraint to contract farming. Black farmers in the SADEC-countries especially encounter land tenure problems. They are working on small and non-fertile plots and rarely own the land. South African farmers in homelands only benefit from the usufruct, because tribal authorities own the land. This situation has never been challenged, as it is politically sensitive, but it severely reduces black farmers’ access to credit and reduces their developing possibilities. Farmers in Benin also face vague land policies.

Sustainable contract farming schemes can only be established if all actors benefit from the scheme (win – win situation). The cotton scheme in Limpopo Province, South Africa is a good example where both processor and farmers need each other in setting up and succeeding the common contract farming scheme.

The contract

Contract farming schemes are always embedded in the social, political and economic environment, as it is a reaction to, or a way of dealing with, this environment. Therefore contracts modification will take place when the environment changes. When the environmental framework is favourable for establishing contracts, it can facilitate communication between actors. However, if enforcement mechanisms for contracts are lacking, communication can even become worse through contracting (e.g. fresh beans export, Burkina Faso). It is important to understand that contract farming is not always the right solution to all input or market outlet problems of small farmers. You need to have a functioning commercial environment, rules and regulations and a rule of law before engaging in contract farming business.

Some speakers addressed the need for sustainability of the contract farming scheme. Sustainability incorporates many aspects but the long-term profitability of all actors involved is a strong determining condition. Some contract farming schemes presented try to prolong the duration of the contract. Central Lanera (wool transformation in Uruguay) works with 1-year contracts but those who engage in longer-term contracts (3-year) can benefit from extra advantages. Sugarcane and cotton contracts in the presented South African cases covered periods up to 4 and even 10 years and had a strategy in handing over technology and even land entitlement during that period. Income stabilisation through crop diversification, or potential technical and financial problems of mono-cropping, have not been addressed during the seminar. However volatile prices and wrong crop management practices are important threats to long term sustainability of the contract farming scheme.

Verbal contracts cannot be used to progress with contract farming, especially in times where traceability of the commodity and the registration and control of correct production methods become more and more important.

The intensity of the contractual arrangements differs from one contract to another. However, quantity delivering periods and quality requirements always appear in contracts. Penalties and fines included in the contract discourage farmers and purchasers not complying with the contract conditions. Quantity control can be problematic in cases where individual and illiterate farmers directly market their commodity. Quality control however is a much more complex problem. Producers often do not have means of control in order to verify the declared quality by the processor or purchaser.

The intensity of the production management specifications in contracts increases when contractors have serious doubts about the production practices and the final quality of the commodity. Agri-business tries to control every aspect of the input and the production side when they do not trust farmers. This makes farmers financially and organisationally dependent, reduces their responsibility and finally places the production management decision at a non-optimal place (e.g. tomato production in Chile). Issues of land ownership and/or land utilisation are important for multi-annual crops or when considerable investments have to be made in land (e.g. irrigation perimeter in Limpopo). However, most of the presenters did not address land issues.

Contract specifications need to be as exhaustive as possible. If binding agreements and contract related laws exist, contract formulation can be simplified by referring to the existing framework. However, this is not the common situation, as the different actors need to be organised and can be represented by those having the mandate to conclude binding agreements. These conditions are rarely met in developing countries. Farmers need specialised services in order being able to conclude perfectly contingent contracts. SYDIP in RDC for example did not have the necessary capacities to negotiate a contingent contract with its processor. For the moment it faces huge problems related to
that contract: late payment, late collection, no means of verification of the quality, dependency on planting material, etc. It has been highlighted that the majority of the non-organised farmers (and even the organised farmers) are badly informed about their rights and obligations included in the contract. People often sign a contract as they see direct, short term benefits (training, input, credit, etc.) but are not aware of, or do not feel themselves bounded to, the other terms of the contract.

Free-rider problems appear when there is a local market for the commodity or when other purchasers operate in the region. Hence, commodity characteristics determine whether this can be a problem. The South African sugarcane sector has for example no free rider problem due to the high transportation costs of non-processed sugarcane. The Limpopo cotton scheme may risk free riding since several other ginneries started operating in the region. Tobacco marketing in Uganda faces huge free-rider problems due to multiple purchasers operating in the region. Pineapple exports from UPS-Benin faces free-rider problems in periods when prices on local markets are attractive.

**Farmers’ organisations / cooperatives and collective action**

In spite of the large number of farmers’ organisations, Belgian sugar beet and South African sugarcane producers are organised in one national organisation which negotiates on their behalf with the representatives of the processors/millers. Processors/millers are also organised and represented by one national institution having the mandate to negotiate bounding agreements. These national binding inter-professional agreements are concluded under the auspices of the State. These examples appeal for strong and representative farmers’ organisations. A proliferation of farmers’ organisations, as in Burkina Faso, should be avoided as it reduces its credibility and effectiveness.

**Advocacy / innovation**

Advocacy for the members is a major role of the farmers’ associations or their apex body. Farmers’ organisations should lobby at different levels. Lobbying can be done at the national level in order to induce a favourable institutional framework and its correct application. For example, Belgian sugar beet farmers tried to induce favourable policies by sending their representatives in the political scene. South African farmers’ associations lobby for a gentlemen’s agreement between the competing cotton ginneries in order not to destroy the institutional and financial investment of the others.

‘Fair trade, organic farming and small-holder’ can become brands and open up markets, which would remain closed when offering commonly produced commodities. Supermarkets who take over almost the entire retailer business in Europe do have a place for these products. There is a market for most of the commodities presented at the seminar but you need to get in contact with the right people in order to find these business opportunities. Farmer’ organisations can play a major supporting role in promoting these strengths towards purchasers on the one hand and informing themselves about the requirements imposed by the purchasers on the other.

**Training / organising**

Farmers’ organisations form their members in different aspects like technical skills (cultural practices, ecological sustainable production methods, product quality), elementary bookkeeping, rights and obligations as a farmer, the role and functioning of contracts, etc. They intervene in input purchase and marketing of the commodity in order to gain bargaining power. New market opportunities are looked for. However, farmers' organisations generally lack business management capacities to perform these roles. Farmers' organisations also need training for their own capacity building.

**Farmers’ organisations as contractors**

A Public – Private – Partnership (PPP) between the state, the private sector and the producers’ association can induce investments and open doors, which cannot be opened by an individual actor. For example, the Makuleke Water Users Association in South Africa created a joint venture with the ginnery (NSK). This joint venture made it possible to raise State funds for upgrading infrastructure and for asset finance (equipment, tractor, irrigation) and to motivate farmers. This could only be realised through the joint venture as the state is firstly not financing private companies and secondly does not
have confidence that the farmers will use the costly investments in infrastructure properly without having concrete commercial activities ahead.

Central Lanera, as a cooperative wool processor in Uruguay, operates in a competitive market where multiple purchasers compete for the commodity. Purchasers obviously compete through pricing policy but the existence of a cooperative enterprise within the market has broadened this field in favour of the farmers. The cooperative does not pay the highest, neither the lowest price but it competes with extra services provided to the farmers (advanced payments, stable prices, etc.). The author observed replication behaviour of the private operation companies, which also extended their services to the farmers. This example proves that a healthy, competitive cooperative contractor can play an important role in inducing favourable terms of trade for the small farmers and in extending services delivered to them.

Farmers’ organisations as service providers

Nucafe in Uganda is a farmers’ organisation who provides services to coffee growers. It assists farmers in creating value added to their primary product. By doing so, farmers obtain margins formerly captured by intermediaries and processors. Nucafe, and many other farmers’ organisations, empower farmers by:

- helping them to produce good quality (technical assistance);
- looking for asset finance (procession units financed by a State project);
- organising farmers around the procession unit;
- helping to be aware of the quality, own quality control;
- providing market information on prices and buyers;
- assisting during price negotiations.

Impact on rural development

Specific impact on rural development has often been lacking in the cases presented. This is not surprising, as impact studies of the contract farming scheme as such, are not easily established and not the primary concern of the farmers’ organisations. Some cases addressed the income redistribution issue between producers and the procession unit. Nobody addressed the impact on farmers’ labor organization within the farm or spoke about the risks of mono-cropping. Cases have not been precise on social inclusion/exclusion of certain farmers. Profitability of the contract farming enterprise for participating farmers has sporadically addressed (Limpopo case).

However, contract farming schemes make production possible in environments where production and marketing would otherwise be very difficult or impossible.

- The cotton ginnery did not function for 5 years in Limpopo and farmers had no means to irrigate their land during that period. Hence, the contract farming scheme started an economic activity, whereas no commercial farming activity existed in the region. Farmers received up till now a salary (3000 à 3500 Rand a hectare), whereas they gained no cash income before.
- The land under sugarcane production in South Africa is only suitable for sugarcane and timber. The production of sugarcane through contract farming provides the farmers and the region with an income, which could not be attained by any other agricultural commodity.
- Living standards of pineapple producers in Benin increased and the children of the farmers can go to school since contract farming benefits are used to pay school fees.

UPS in Benin, Pharmakina in RDC, the exporter of fresh beans in Burkina Faso, etc. opened up markets of inputs and commodities, which were not accessible for the farmers.

Contracts directly or indirectly give access to credit or inputs. UPS in Benin and the exporter of fresh beans in Burkina Faso directly provide farmers with inputs. The contracts established with Central Lanera in Uruguay serve as collateral for farmers’ financial loans. Contract farming schemes often smooth prices paid to farmers. Central Lanera is smoothing prices for the farmers and the industrial unit by paying an average market price over the season instead of the daily volatile prices.

Farmers’ organisations stressed the attention on the need for capacity building of both organisations and its members. Rural development can be fostered by strong organisations representing the rural people. Contract farming can create direct positive spin-off effects for rural development if local actors can provide inputs and services related to contract farming. If these inputs and services come from
outside the region, direct impact of contract farming is rather limited and only indirect effects through increased spending by farmers will influence rural development.

Not all contract farming impacts are positive. Deforestation increased in South Benin due to the expansion of land under (contract) cultivation. Land prices increased drastically due to the expansion of agricultural activities. This drives poorer farmers out of farming and reduces competitiveness of the agricultural enterprises.

**Main lessons learned from the cases**

Several cases highlighted the importance of a **strong farmers’ association**, which **lobbies and negotiates** on behalf of the farmers. Farmers’ organisations also have a comparative advantage over purchasers/processors in **organising local production** and in assisting small farmers to meet the imposed and stringent quality requirements. Strong, commercially successful farmers’ cooperatives are even the best brokers for improving farmers’ production and marketing conditions. However, if farmers’ organisations lack decent business capacity, they should be very cautious in becoming an actor in a contract farming scheme. Most farmers’ organisations will need further capacity building in order to take up the essential role they can play in contract farming.

Contracts are a response to the prevailing environment and need frequent modification according to the dynamics of the environment. The institutional framework under which inter-professional agreements can be concluded at national level between representatives of the farmers and the contractors can facilitate the final contractual arrangement at local level between farmers and contractors. Positive as well as negative cases provided evidence on the importance of a well functioning institutional framework for contract farming schemes to be successful. A sound and stable macro-economic situation (low inflation, stable exchange rates, etc.) is needed for agri-business in order to prosper and hence offer marketing opportunities for farmers and farmers’ organisations. Agribusinesses are not the farmers’ enemies, on the contrary, farmers should foster the market opportunities created through their existence.

Farming is business and farmers and their organisations need a sound business plan, which outlines the economic and financial forecasts of the activity. Contracts directly or indirectly give **access to credit or inputs**. Credit schemes often constitute an integral part of the contractual arrangement or contracts can serve as collateral for loans with commercial banks. Public-Private-Partnership (agribusiness, farmers’ organisation and government) can be an important leverage in tackling the multiple problems related to commercial farming in developing countries.

Contract farming schemes not only need economic and financial but also technical sustainability. Farmers’ organisations can play a role in providing **technical support** by facilitating technology transfer and technology adaptation to local conditions and practices. Crop diversification can optimise utilisation of investments, reduce price risks and avoid environmental problems related to monocropping. Environmental problems may not only compromise farmers’ natural resource base but may also compromise access to future markets as importers started asking for an environmental production plan.

Quality control and market information is essential for a performing marketing policy. Consequently, farmers’ organisations should generate and communicate **market intelligence** for its members since farmers are always the last people informed about prices and quality standards. It is essential to build up knowledge of the entire chain and the expectations of the final consumers. However being informed is not sufficient, you also need to be aware of the product quality as it is an essential element in correct commodity pricing and hence farmers’ profitability. The purchasers execute **quality control** but farmers need the ability to counter expertise in case of doubt.
8. Summaries of the presentations.
(by Dr. Johan Stessens, HIVA)

Supply contracts of Sugar beet in Belgium
Jozef Claes, Boerenbond, Belgium

Ensuring Cane Supply through Local Area Agreement (LAA): Sezela Mill Area Case
Neil Anderson, SACGA, RSAfrica

Cotton Contract Farming with Farmer organisations in the Limpopo Province of South Africa
Roland Charles, SACAU, RSAfrica

Contract related problems between producers and exporters of fresh beans
Denise Ouedraogo, Ge-Prest, Burkina-Faso

The contract: an engagement of trust and respect of the given word between contractors
Paul Ouedraogo, COOPAKE, Burkina-Faso

Exporting pineapple by UPS-Benin
Bernard Dedjelenou, UPS, Benin

Innovative contract farming that empowers smallholder coffee farmers to market value added product
Herment A. Mrema, Nucafe, Uganda

The relation between producers and industrial co-operatives, the case of Central Lanera
Santiago Cayota, CAF, Uruguay

Seeking mutual growth for industry and contract farmers: the construction of chain platforms in Chile
Lucian Peppelenbos, WUR, The Netherlands

Comercialización asociada de pequeños productores campesinosen Chile: el caso de Coopeumo y Frupeumo
Ricardo Danessi, COOPEUMO, Chile

Challenges facing farmers' co-operatives in the modern retail and wholesale European markets
Roger Manning, Inter-Trade International

Small Scale Farmers' Innovations towards Fresh Vegetables Contract Farming
John Mutunga, Kenfap, Kenya

Managing the commercial relationship between a farmers' organisation and an agro-industrial company: case of quinine bark producers in Nord Kivu
Kambale Kamale, SYDIP, Democratic Republic of Congo

Small Scale outgrower Schemes, the case of Zambia
Ndambo E. M. Ndambo and Felix Chizhuka, ZNFU, Zambia
The context

A European framework for the sugar sector regulates prices, quality and quota since 1968. The framework will be changed in 2006, which induces uncertainty in the sector. Based on the European sugar framework, national representatives of producers (CCB) and processors (SUBEL) negotiate inter-professional agreements, which are binding for all actors. Quotas are attributed to the processing units and not to the producers. 95% of the production is marketed at the internal European market.

Contracts

We observe a long history of contracts within the Belgian sugar sector. Contracts need constant modification according to changing situations. Contracts are just a tool to articulate inter-professional sugar agreement at the local level.

Role of farmers' organisations

In spite of the large number of farmers' organisations, Belgian sugar beet producers are organised in one national organisation which negotiates on their behalf with the processors. Processors are also organised in one national union. Farmers have a committee in every procession unit. They can monitor the quality of deliveries and execute a counter expertise in case of doubt.

Impact on rural development

CCB has been implicated in Belgian politics for more than 60 years. CCB improved quality control. CCB generates it’s funds by charging a supply levy.

Lessons learned

The case presented a historical overview of the Belgian sugar sector and its actual organisation within the European context. It highlighted the importance of a strong farmers association which negotiates on behalf of the farmers. It also demonstrated the facilitating role played by the institutional framework (the European sugar framework) under which inter-professional agreements are concluded at national level. These agreements facilitate the final contractual arrangement at local level between farmers and millers. Contracts are a response to the prevailing environment; it needs constant modification according to the dynamics of the environment. Quality control and the ability to counter expertise in case of doubt is essential in defending farmers rights.

Jozef Claes (Boerenbond, Belgium)

“In spite of the existence of several farmers’ organisations in Belgium, there is only one organisation of sugarbeetgrowers.”
### Ensuring Cane Supply through Local Area Agreement (LAA): Sezela Mill Area Case

**Neil Anderson**  
**SACGA**  
**RSAfrica**

| The context | National South African Sugar Act is the framework for the sugar sector in South Africa.  
National inter-professional Based on the South African Sugar Act, national representatives of producers (SACGA) and millers (SASMA) negotiate Sugar Industry Agreements, which are binding for all actors.  
Half of the production is marketed at the world market and the other half is marketed at the highly competitive internal market. |
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</thead>
<tbody>
<tr>
<td>Contracts</td>
<td>We observe a long history of contracts within the South African sugar sector. Contracts need constant modification according to changing situations. Contracts are just a tool to articulate inter-professional sugar agreement at the local level. The Local Area Agreements arrange the relationship between growers and millers at mill level. Specifications on quantity, quality, price and possible breach determine the contract. South African sugar sector has no free rider problem due to the high transportation costs. The industry tribunal internally arranges contract default.</td>
</tr>
</tbody>
</table>
| Role of farmers’ organisations | In spite of the large number of farmers’ organisations, sugar-producing farmers are organised in one national organisation, which negotiates on their behalf with the millers.  
Millers are also organised in one national union. Farmers have a committee in every procession unit.  
SACGA is well organised at different levels and represents over 50000 sugarcane growers. |
| Impact on rural development | The land under sugarcane production is only suitable for sugarcane and timber. The production of sugarcane through contract farming provides the farmers and the region with an income, which could not be attained by any other means. Through contracting, farmers benefit from services, improved logistics and economies of scale. |
| Lessons learned | The author situated the overall situation of the sugar sector in South Africa with special attention to the SACGA. This case also demonstrated the facilitating role played by the institutional framework (South African Sugar Act) under which sugar agreements are concluded at national level. These agreements facilitate the final contractual arrangement at mill level between the farmers and the millers. Environmental problems prevail, especially on the newly cleared lands, which may compromise future sugar sales to markets (e.g. Japan) asking for an environmental plan of the production. Especially small-scale farmers utilise non-sustainable agricultural practices. Crop diversification can optimise utilisation of investments (e.g. timber) and reduce price risks faced by relying on a single commodity. |

Additional information from interview with the speaker:  
**Anderson (SACGA)**  
The South Africa Sugar Act enables the millers and the sugar farmers’ representatives to negotiate a binding sugar agreement. This agreement is a complex document which needs specialised people (executive committee of SACGA) to understand and to imply the details of the agreement. The board of directors accounts 66 members, which is a too large number for efficient decision making. However, the composition is historically determined as every mill has 4 to 6 representatives, 2 of the large scale growers and 2 of the small scale growers.  
Growers need to forecast their monthly delivery over the year and the factory is reserving capacity according to these forecasts. Monthly reviewing of the forecasts is possible and can prevent penalties because a difference of 2-5% leads to penalties.  
As it is too costly to register yearly the area under sugarcane cultivation, it is hard to match the processing and production capacity. Individual farmers are obliged to declare their area expansion but individual farmers’ behaviour cannot be controlled. Contract default happens but is for more than 99% settled within the sugar framework and does not need the intervention of the general court of law.
Timber is complementary to sugarcane as it is one of the few crops suited to the specific agro-ecological conditions of the sugarcane region. Farmers can also use the same harvesting equipment for timber harvesting during the low season for sugarcane.

Neil Anderson (SACGA, South Africa),
“SACGA has a strong position because we represent all South African canefarmers with a unified voice.”
Cotton Contract Farming with Farmer organisations in the Limpopo Province of South Africa
Roland Charles
SACAU
RSAfrica

| The context | SADEC-countries have huge problems for black farmers working on small and non-fertile plots. NSK Cotton ginning plant did not function for 5 years and farmers did not commercially cultivate crops for that period. Both actors were in severe trouble before restarting the contract farming scheme for cotton production and processing. The factory is still not profitable for the moment as it still works on less than 20% of its capacity. Irrigation setting Tribal Authorities own the land in the homelands and black farmers do not get land entitlement, they only benefit from the usufruct. This situation has never been challenged, as it is politically not feasible. However, this reduces black farmers’ access to credit and reduces their possibilities. South African farmers are producing for the world market at world market equivalent prices (New-York). |
|Contracts | Long term vision with the 10-year contract. Contract with a detailed description of the rights and obligations of all partners involved. |
| Role of farmers’ organisations | Public – Private – Partnership (PPP) between the state, the ginnery and the producers’ association by the creation of a joint venture (50% ginnery- 50% farmers’ owned). This joint venture made it possible to raise funds and to motivate farmers. This could not be realised by the ginnery or the farmers’ association alone as the state is firstly not financing private companies and secondly does not have confidence that the farmers will use their investments in infrastructure properly without having concrete commercial activities ahead. The state provided funds for upgrading infrastructure and for asset finance (equipment, tractor, irrigation) through the joint venture. Farmer’ organisations have the duty to lobby for a gentlemen’s agreement between the competing ginneries in order not to destroy the institutional and financial investment of the others. |
| Impact on rural development | Commercial production of cotton where there was no commercial production in the region. Farmers received up till now just a salary (3000 à 3500 Rand a hectare) since the joint venture has not been profitable. If farmers can improve their productivity (actually only 30% of the potential productivity), farmers will receive profits according to the volume produced. |
| Lessons learned | Farming is business. Business skills are essential if you want to make profit and to keep on being part of the game. The setup of a Public – Private – Partnership (PPP) between the state, the private sector and the producers’ associations can be very productive in raising funds and in motivating farmers. Especially in developing countries where basic infrastructure is lacking, private sector needs the State for infrastructural investments as these investments are not profitable. On the other hand, the State also looks for the highest payback and is inclined to invest in regions where concrete commercial activities (contracts between producers and processors) will be setup. |
Additional information from interview with the speaker:

Roland Charles (SACAU)

IFAP-DCC’s program on contract farming needs to address the national and provincial level of farmers’ organisations. The effective implementation of the contract farming schemes are situated at local level but the program should not seek to engage in local level activities since the multiplier effect will be limited. When focussing on the intermediate levels of farmers’ organisations and building capacities of their leaders (policy level, elected representatives) and their executive staff (CEO’s, directors), IFAP-DCC could give a boost to the farmers’ organisations impact on contract farming schemes. He did not give any suggestion for a transversal theme to be treated but his interventions were always directed towards the improvement of business skills of the farmers and their organisations.

Farmers’ organisations lack knowledge about contracts, prices, business environment, etc. There is a need for a knowledge centre which can provide this knowledge or which can provide tools to obtain this knowledge. An interactive website with free access for all, and limited advanced access to IFAP-DCC members, can be a good tool. However, such a website needs a strong team of people keeping the knowledge up to date. The centre should not start too ambitious but carefully select certain commodities to work on.

Mr. Charles is a supporter of the farmers’ organisation being in the chain, playing an active role as a contractor instead of staying at the sideline and providing services (facilitator). However in nine cases out of ten, this position will be a challenge and will put (too) much pressure on the farmers’ organization. You need to have a functioning commercial environment, rules and regulations and a rule of law before engaging in commercial activities as a farmers’ organisation. The basic role of farmers’ organisations is the defence of their members’ rights and the improvement of their economic situation. This basic function should not be endangered by engaging in a commercial activity, which may fail. In other words, if there is no possibility for a limited liability regulation, farmers’ organisations should be extremely careful in becoming a contractor.

Farmers’ organisations also lobby with the private sector in order to play the game correctly and not to stimulate contract default by paying a higher price to farmers benefiting from the investments of the competing ginnery.

The Limpopo contract farming scheme provides also technical support to farmers.

Roland Charles (SACAU),

“Farmers and their organisations need a knowledge center that can give information on contracts, prices and marketing possibilities.”
**Contract related problems between producers and exporters of fresh beans**  
*Denise Ouedraogo*  
*Ge-Prest*  
*Burkina-Faso*

| The context | Burkina Faso hardly applies the existing laws concerning investments, export licences and farmers’ organisations. Consequently, exporters as well as producers often do not respect contracts, as the institutional context does not permit contract enforcement. People do not have a strong common bond, which weakens management of the organisations. Both exporters’ associations and farmers ‘organisations are weak and not capable of assuring its roles. |
| Contracts | The administration of contracts is very difficult; therefore, exporters are inclined to control all phases from input delivery and extension, to production, conditioning and marketing. However financing is a major constraint in a vertical integration setting. A tripartite contract between producer, exporter and financer could reduce the financing burden for the exporter as the financer provides the investment costs. This could also improve the seriousness of the farmers in respecting the financial engagements as financial institutions are functioning in Burkina Faso. Quality control is done at the airport and products are paid at FOB price, as exporters have no means of controlling and managing quality of the product during transportation to Europe. |
| Role of farmers’ organisations | A farmers’ association of fresh bean producers exists but is not functional. There has been a proliferation of farmers’ organisations during the last ten years, which reduced drastically the effectiveness of their actions. Two exporters’ associations exist but they are not functional. A general lack of management capacities characterises these organisations. |
| Impact on rural development | Farmers grow fresh beans in the dry season. This activity potentially provides cash in the lean season. |
| Lessons learned | The presentation was based on concrete experiences as a fresh beans exporter working in Burkina Faso. Exporters are buying the fresh beans directly with the farmers or their organisations. The lack of farmers’ organisations, which can organise local production, is very constraining for the purchaser. Unless disposing of abundant human, technical and financial capacities, exporters have no comparative advantage in monitoring production activities. Exporters encounter huge problems when farmers’ organisations are not taking the organisational role at production level. You need to build in quality control in a stage where you still have the possibility to check or to execute a counter expertise. The exporter is selling fresh beans FOB (Free on Board) at Ouagadougou airport since she has no means of control afterwards. |

Denise Benon Ouedraogo (Ge-Prest, Burkina Faso)  
“As an exporter, I am forced to take everything into my own hands (from production to sale) since I can rely neither on the farmers, nor on the farmers’ organisations, nor on the government.”
The contract: an engagement of trust and respect of the given word between contractors
Paul Ouedraogo
COOPAKE
Burkina-Faso

| The context | The population of Burkina Faso lived in a situation where the state was heavily involved in production activities. The state provided credit, extension to the farmers and guaranteed the marketing of the products. In the beginning of the nineties, the state retired from all economic activities and left a vacuum, which has up till now not been covered by the private sector nor by the farmers’ associations. We should not be surprised since the weak institutional framework of the country and its even weaker application does hardly permit enforcement of contracts. Uncertainty is slowing down private sector development and organisation development. Burkina Faso shows a weak application of the existing laws concerning investments, export licences and farmers’ organisations. Exporters as well as producers often do not respect the contracts. |
| Contracts | The institutional context is very constraining and does not permit the enforcement of written contracts. How can people proceed with contracts if it is impossible to get it enforced? Traditionally, population works with verbal contracts and everybody respected (respects) the terms of a verbal contract. The introduction of an externally perceived written contract in this society does not work, especially when there are no effective enforcement mechanisms available. People sign a contract as they see direct, short term benefits (training, input, credit, ...) but do not feel themselves bounded to the other terms of the contract. |
| Role of farmers’ organisations | Farmers’ associations are weak and need time and training to assume their role. |
| Impact on rural development | |
| Lessons learned | This presentation remained general and did not provide information on concrete cases. However, it stressed our attention to the negative effect of an insecure institutional framework on private sector and farmers’ organisations’ development. |

Paul Ouedraogo (COOPAKE, Burkina Faso)

“Poverty and ignorance limit de liberty to negotiate: the weaker party cannot resist the temptation and agrees to unreasonable conditions.”
Exporting pineapple by UPS-Benin  
Bernard Dedjelenou  
UPS  
Benin

| The context | Benin still does not have a clear law on land entitlement. Air transport to Europe or neighbouring countries is very expensive due to the monopolistic position of Air France. |
| Contracts | The different functions in the pineapple chain are assured by UPS, and arranged by written contracts with the respective actors (farmers, transporters, clients). |
| Role of farmers' organisations | UPS plays several roles in the exportation of pineapple:  
• Production extension  
• Input provision  
• Looking for buyers  
• Negotiating prices  
• Assuring quality and traceability up till field level  
• Exploiting economies of scale  
• Assuring transport from the field to Paris (Charles de Gaulle)  
• Monitoring quality through a sister organisation (AFDI) in France.  
• Controlling the free-rider problem when local market prices are attractive. |
| Impact on rural development | Living standards of pineapple producers increased. Their children can go to school as school fees can be paid.  
Deforestation increases due to the expansion of land under cultivation.  
Land prices increased drastically in Southern Benin due to the expansion of agricultural activities. This reduces competitiveness of the pineapple and other agricultural productions. |
| Lessons learned | The author presented the organisation of the Producers’ Union of South Benin and its pineapple exporting activities. The union engages itself as a contractor in the pineapple chain and assures all functions from input delivery over extension and production support to commercialisation and quality control in Europe.  
The weak link in the chain is the monopolistic position of Air France for airfreight.  
Costs are high in comparison to neighbouring countries and losses due unannounced strikes are not compensated.  
Payment delays need to be negotiated in detail because purchasers’ late payments harm the unions’ liquidity status. |

Bernard Dedjelenou (UPS - Bénin),  
"To export pineapple to France is very expensive because of the monopoly of Air France on airfreight. However, airfreight to Dakar, which is close by, is even more expensive."
Innovative contract farming that empowers smallholder coffee farmers to market value added product
Herment A. Mrema
Nucafe
Uganda

| The context | Most coffee farmers are not aware of the quality, quantity and value of their coffee, which makes coffee marketing a problem for them. On top of that, farmers often have short term financial obligations, which reduce even more their bargaining power. Consequently, intermediaries do not pay ‘fair’ prices to the coffee growers. |
| Contracts | Nucafe is a service provider who assists farmers in creating value added to their primary product. Nucafe tries to empower farmers by helping them to produce good quality coffee (technical assistance), to do the first processing (two wet processing units), to grade coffee before it leaves the farm, to provide market information on prices and buyers and even assists during price negotiations. Farmers are organised around the central processing unit and sell their products together. By doing so, farmers obtain margins formerly captured by intermediaries and processors. |
| Role of farmers’ organisations | As the program just started, no concrete impact on rural development has been observed. However, if the processing units in the region will function properly, it will create extra wealth in the region. |
| Impact on rural development | The presentation focused on the creation of value added to the farmer owned product for the coffee sector. Consequently, it did not show direct links with contract farming and could not share concrete experiences since the programme just started. One of the activities of Nucafe is the facilitation of coffee production and coffee marketing. However, the farmers’ organisation itself lacks human capital and needs capacity building for business training at organisational level and technical training for the extension staff at local level in order to fulfil its mission. Nucafe believes that quality control and market information is essential for a performing marketing policy. Consequently, it provides market information and even negotiates prices for its members. |

Additional information from interview with the speaker:
Nucafe believes that it can increase coffee farmers’ revenues by helping them to produce high quality coffee, supporting primary processing and making them aware of the value of their product. Three coffee selling methods actually prevail in Uganda: farmers sell the field at flowering stage, farmers sell the field at ripening stage, farmers sell “parchment coffee” after harvesting and dry pulping. In all these stages, farmers don’t control quality. They even don’t control quantity with the first two selling methods. The above mentioned activities should increase farm revenues with 60% and even more once purchasers have confidence in the quality offered by the farmers groups supported by Nucafe. Even when coffee prices are low, quality coffee still gets a good price.
Large exporting companies even look for farmers’ organisations to help them in organising production since farmers’ organisations have a comparative advantage over exporters concerning production. Nucafe acts as a facilitator for the coffee farmer groups. They do not sell or by but deliver services to its participants.

Herment A. Mrema (Nucafe, Uganda)
The relation between producers and industrial co-operatives the case of Central Lanera
Santiago Cayota
CAF
Uruguay

| The context | Wool production provides farmers with a range of marketing opportunities. Wool prices are very volatile and wool can be stored for years so that it can be used for speculation. The wool purchasers in Uruguay operate in a competitive market. Prices, wool production and the average size of the herds dropped over the last years. The juridical system is functioning properly so that contract default can be settled by the states tribunal. |
| Contracts | Central Lanera works with 1-year contracts but those who engage in longer term contracts can benefit from extra advantages as extra payments (not more than 3%) and advanced payments at interest rates lower than the commercial interest rates. The contracts specify the quantity and the period of delivery. Penalties and fines discourage farmers not complying with the contract conditions. Quality standards are not specified in the contract since quality depends on the sheep’s genetic material. However, payments depend on quality. Quality control is not determined in the contract but a series of objective tests assure a transparent quality judgement. |
| Role of farmers’ organisations | The co-operative processing unit accepts wool from all producers. Once you supply wool to the co-operative, you automatically become a member. Central Lanera provides market information on prices and quality. Central Lanera tries to innovate in delivering services to the producers in order to stay competitive. |
| Impact on rural development | The contracts farmers establish with Central Lanera serve as collateral for financial loans. Central Lanera is smoothing prices for the farmers and the industrial unit by paying an average market price over the last season. Farmer will never obtain premium prices but will never obtain the lowest prices either. |
| Lessons learned | The paper provides a concrete case on wool production and marketing where the farmers’ cooperative operates as a commercial actor in the chain. Strong farmers’ organisations are the best brokers for improving farmers’ production and marketing conditions. Central Lanera is innovative in the services provided to its members and other private buyers start to copy its services. As a cooperative, you do not need to pay the best prices as long as the total package of services and prices is attractive to farmers. Price stabilisation is an important issue for producers in the developing world. Farmers do not need to look for market information since all farmers receive the same average year price. |

Santiago Cayota, (CAF/CLU, Uruguay)

“The CLU introduced a new contract system in the wool market at the beginning of the 70’s. The introduction of a system of average prices contributed to the ordering of the market and accelerated the disappearance of informal companies that applied bad commercial practices to farmers.”
**Seeking mutual growth for industry and contract farmers: the construction of chain platforms in Chile**

**Lucian Peppelenbos**  
**WUR**  
**The Netherlands**

<table>
<thead>
<tr>
<th>The context</th>
<th>Thirty years of neo-liberal policy fostered an individual behaviour. The historically build-up distrust between farmers, agri-business and the State makes it difficult to setup a scheme where actors have to negotiate and collaborate for the well-being of all. Different actors expose a strong individual interest without branch interests and collective action among the same actors is very hard to establish and to maintain. This case underlined that cultural change it hard to induce.</th>
</tr>
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<tbody>
<tr>
<td>Contracts</td>
<td>Written contracts detail every product management specification and agri-business tries to control every aspect as they do not trust farmers. Farmers are financially and organisationally dependent.</td>
</tr>
<tr>
<td>Role of farmers' organisations</td>
<td>Contracts are negotiated at an individual base, there is no collective negotiation as we have seen in the sugar sector. Farmers are not well organised.</td>
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<tr>
<td>Impact on rural development</td>
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| Lessons learned | The author presented an analysis of the prevailing context with the illustration of the vicious circle of distrust in Chile. He also provided a theoretical framework 'from paternalism to partnering' in order to move from the individual oriented framework to a more participatory one. However, the partnership model of the chain platform for tomatoes failed. Which lessons could we learn?  
  - you need to have a shared problem across the chain;  
  - farmers need to be organised so that they can develop long term branch plans, build-up intelligence on markets, commodities, … and raise funds to take initiatives (e.g. external control);  
  - a chain mediator is crucial;  
  - cultural change is slow and expensive but farmers need short term results to stay motivated. |
Comercialización asociada de pequeños productores campesinos en Chile: el caso de Coopeumo y Frupuemo
Ricardo Danessi
COOPEUMO
Chile

Coopeumo was founded in 1969, its mission is to improve the lives of its members. They could reduce the imbalance between agri-business and farmers in negotiating contracts in the maize, wheat, and the fruit sector. Frupuemo is trading fruits in the domestic and export markets.

| The context | Chilean small-scale farmers benefited from a good technical support over the last 20 years. Yields increased but profitability declined. The agricultural sector is characterised by a low organisational level, a lack of trust between the actors and high tax evasion behaviour. |
| Contracts | Coopeumo does not work with supply contracts for the producers but has delivering contracts with the importers. Written contracts are of no value in Chile. |
| Role of farmers’ organisations | The role of Coopeumo has been broadly defined; their membership is limited to a number of 400 since their financial possibilities of the organisation limit the services provided to a larger group. Frupuemo is forming their members in discovering market opportunities, the use of land property rights, cultural practices, ecological sustainable production methods and quality control |
| Impact on rural development | |
| Lessons learned | A sound economic base is needed in order to reach a large group of people. |
Challenges facing farmers’ co-operatives in the modern retail and wholesale European markets
Roger Manning
Inter-Trade International
United Kingdom

| The context | Farming is business; farmers need a business plan, which outlines a profit making farming activity with average prices. All kinds of regulations and food safety requirements become compulsory. ‘Value engineering’ is becoming an important issue for European supermarkets. Every intermediary has to prove its role and value added in order to stay in the chain. |
| Contracts | Contracts are not, and will never be equitable. Contracts are just a way of communication. |
| Role of farmers’ organisations | Farmer’ organisations can play a major supporting role to producers in meeting the requirements of the purchasers. Supermarkets, who are the most powerful and dominant retailers in Europe, do have a place for smallholders. There is a market for most of the cases presented at the seminar but you need to find these business opportunities. It is important to get in contact with the right people. Labelling can open doors, which remain closed when offering commonly produced commodities. Produced by a ‘Small holder’, ‘Fair trade’ and ‘organic farming’ can become strong labels in future. Farmers need an intelligence centre, which provides them with the latest information on prices, changing regulations, changing demands, … For the moment they are the latest to know price information. ‘Fair trade’ and ‘small farmer’ can become brands, which open opportunities for IFAP-DCC members. |
| Impact on rural development | The author stressed the attention on the importance of building up knowledge of the entire chain and the expectations of the final consumers. The existence of a knowledge centre, which follows the latest evolutions on the markets and the regulatory environment, is crucial according to him. E.g. within a few months, no retailer will buy products if you can not trace its origin and prove its compliance to the environmental, social, and other obligations. If you do not comply with the regulations, you will be treated ‘unfair’ and smallholders have a comparative disadvantage in meeting all these requirements. However, farmers’ organisations can play a major supporting role in meeting these requirements. On the other hand, being a ‘smallholder’ has also advantages as it can become a brand. Farming is business and farmers and their organisations need a business plan. Contracts are not, and will never be equitable. |

Additional information from interview with the speaker:
M. Roger Manning (Inter-trade):
M. Manning congratulated the organisers of the meeting but warned them, and the authors of the programme proposal, not being too academic. He slightly missed a commercial, industrial reality in the presentations he attended. Farmers’ organisations role is often limited in the entire commodity chain. He stressed the attention on the fact that it is crucial to have knowledge of the entire chain and the expectations of the final consumers. These expectations are translated through the retailers, wholesalers and finally the purchasers of the commodities. Producers should therefore listen carefully to what these intermediate actors are saying, what requirements they have, etc. Their voice could have been very enriching during the seminar and might have been different from those expressed by the farmer’ organisations representatives. So take care of limiting yourself to the voice (choice) of one group of people.
Small Scale Farmers’ Innovations towards Fresh Vegetables Contract Farming  
John Mutunga  
Kenfap  
Kenya

| The context | State withdrawal from production support and price guarantee led to a vacuum where intermediaries could exploit farmers. |
| Contracts | No specific information provided |
| Role of farmers’ organisations | Advocacy for the member associations is the major role of the apex body. Training of, and service provision to, member associations is secondary but indispensable in satisfying the farmers. Otherwise, farmers do not have the impression you being useful. |
| Impact on rural development | The impact of Kenfap is mainly indirect through strengthening existing farmers’ groups. |
| Lessons learned | The presentation gives a good overview of the importance of horticulture in Kenya and the different functions of Kenfap, but remained general concerning concrete contract farming experiences. Kenfap illustrated the importance of a strong farmers’ organisation/apex body at national level and its potential influence:  
• The farmers’ bank revived due to Kenfap’s activities. Since then, interest rates have dropped with 50%.  
• The new Kenyan government promised a lot to the farmers during elections (Kenfap represents 3 million members). Consequently, Kenfap finds itself in a strong lobbying position and is actually associated to all important agricultural policy measures taken by the government.  
• Kenfap is even participating in the elaboration, execution and evaluation of international agreements (Poverty Reduction Strategy Plans and EU-ACP-Cotonou agreement) through their participation in the ‘Kenya Private Sector Alliance’ and the ‘Civil Society Forum’.  
• Major agricultural support programs and projects for Kenyan farmers are negotiated with Kenfap (12 year Agricultural productivity Program with the World Bank, other programs with IFAD, IFAP, FAO, DFID, AGRITERRA, …) |

Farmers look for stable prices and secure markets rather than premium prices. Kenyan vegetable producers conclude contracts with Kenyan supermarkets at prices lower than the average local market prices.

Additional information from interview with the speaker:  
John Mutunga (KENFAP)  
Kenfap is an apex body representing all Kenyan farmers’ organisations commonly known as commodity organisations. Individual farmers can also become members of Kenfap. Kenfap tries to setup information centres in every region, which will become regional offices in future. The organisation has no means and people to have an own and permanent representation at district level but it will work together with an administrator of the Ministry of Agriculture. Contract farming is booming in Kenya. Thee production under contract does not encounter much problems thanks to the well performing thee board. The coffee sector is facing too much problems. Flower exporters principally face product rejection in Europe. The second problem is the royalties linked with non-transparent intellectual property rights on planting material. Vegetable exports have better control over the quality judgement as quality control happens at farm gate.

John Mutunga (KENFAP, Kenya)  
“It is always difficult for smallholder farmers to obtain credit. Contract farming gives an additional guarantee that can be used to obtain loans.”
Managing the commercial relationship between a farmers’ organisation and an agro-industrial company: case of quinine bark producers in Nord Kivu

Kambale Kamale  
SYDIP  
Democratic Republic of Congo

<table>
<thead>
<tr>
<th>The context</th>
<th>Very difficult institutional situation in North-Kivu. Monopsonistic situation where farmers totally depend on one buyer (Pharmakina) who is even the only provider of phytophthora resistant planting material.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracts</td>
<td>SYDIP did not have the necessary capacities to negotiate perfectly contingent contracts: no payment delays were defined, quality control is totally in the hands of Pharmakina without any means of objective counter expertise. Free-rider problems as independent buyers operate in the region.</td>
</tr>
<tr>
<td>Role of farmers’ organisations</td>
<td>The farmers’ organisation is weak and finds itself in a powerless position. Other producers are paid cash at delivery and Sydip has to wait for months before being paid.</td>
</tr>
<tr>
<td>Impact on rural development</td>
<td>No input provided</td>
</tr>
<tr>
<td>Lessons learned</td>
<td>The author provided evidence on the importance of a well functioning institutional framework by presenting a case where these conditions are totally lacking. Farmers’ organisations, which do not have the capacity to negotiate good contracts, should be very cautious in engaging themselves in a contract farming scheme. Quality control is an essential element in correct commodity pricing and hence farmers' profitability.</td>
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</tbody>
</table>

Kambale Kamale (Sydip, RDC)  
“The industry is afraid that our Federation gets well organised, because that would put us in a stronger position to negotiate.”
**The context**
Zambia experienced rapid privatisation of state enterprises during the early nineties. Production became market and private sector driven:
- the market led economy opened opportunities for contract farming;
- most of the production under these contract farmer arrangements is sold on international markets.

**Contracts**
In almost all cases, some kind of contracts (the author did not explore the different types of contracts) have been signed between agents and farmers.

**Role of farmers’ organisations**
All contract farming schemes work through farmer groups, most of which are weakly organized. They need to tackle the following problems related to contract farming:
- problem of late delivery of inputs are widespread;
- side selling and buying common, particularly where there is more than one major market;
- lack of an authority to ensure “Fair Trade”;
- lack of investment in processing in order to increase value addition.

**Impact on rural development**
No input provided

**Lessons learned**
The author gave an overview of the advantages of contract farming based on several contract farming schemes in Zambia. A sound and stable macro-economic situation (low inflation, stable exchange rates, …) is needed for agri-business in order to prosper and hence offer marketing opportunities for farmers and farmers’ organisations.
Aaltje De Roos (Ministry of Foreign Affairs, Development Cooperation, the Netherlands)
“Governments must be stimulated to create the appropriate economical and juridical environment that supports and stimulates entrepreneurship.”

Noël Devisch (Chairman of the Belgian Farmers Union (Boerenbond))
“We have to build a strong position for negotiation. I strongly believe that the best way to realise this is a constructive work relation with the industry, traders and other actors in the marketing chain. Our international federation IFAP needs to play an important role in realising this.”
9. Presentation of program to standing committee on agricultural cooperatives.

International Federation of Agricultural Producers

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Document AC 6/04

STANDING COMMITTEE ON AGRICULTURAL COOPERATIVES

Washington D.C., USA, Monday 31 May 2004

Coops, agri-food chains and contract farming, opportunities for strengthening the capacities of agricultural cooperatives, outline of a new IFAP DCC programme

by

Ing Agr. Gastón Rico, Gerente,
Cooperativas Agrarias Federadas (CAF) - Uruguay
and
Hilde Timmerman, Head,
Ieder Voor Allen (IVA), Belgium

I. Background

II. Program formulation – methodology

III. Input from the Seminar: Contract Farming in Agri-Food Chains

III.A. Main lessons learned from the case studies

III.B. Possible roles and function of FOs according to the lessons learned from the cases.

IV. Input from the IFAP-DCC technical meeting

IV.A. Opportunities and possible threats in contract farming

IV.B. Possible roles of and action needed by Farmers’ Organisations to make use of the opportunities in contract farming.

IV.C. Capacities needed by Farmers’ Organisations to make use of the opportunities in contract farming.

V. Translation of priorities into a program framework
I. Background

The “Smallholder Contract Farming” issue has been raised simultaneously by different Farmers’ Organisations, within the Development Cooperation Committee (DCC) of IFAP and by different agri-agencies, members of AGRICORD.

The “Smallholder Contract Farming” program is part of Agricord’s and IFAP DCC’s action plan on trade capacity development. The priorities of this action plan were defined during the 2001 meetings of the Regional Committees and the Development Cooperation Committee.

In terms of their own capacity building, they decided to focus on the following issues:

1. Capacity and resources to organize farmer-to-farmer exchanges on technology of farming, biotechnology, development alternatives, quality of produce, success stories of farmers.
2. Capacity to lobby national governments and international institutions on food security, on production methods, on new marketing possibilities, on agricultural policy issues.
3. Capacity to develop and manage trade operations and other income generating activities.
4. Capacity to use information technology in all its applications - organization, management, accountancy, human resources.
5. Capacity to follow-up and monitor agricultural markets of specific commodities - prices, trading, quality standards.
6. Dynamic organizational development, federation building, profiling, membership and organizational strengthening, staff training.

In this regard, Agricord is currently implementing its program on “Farmers’ Organisations and Trade Capacity Development”.

The “Smallholder Contract Farming” program focuses on the priorities nr. 2 (lobby), nr. 3 (develop and manage trade operations) and nr. 5 (monitoring of agricultural markets).

Agricord can, within the framework of this very concrete program, come to a constructive exchange between Farmers’ Organisations, Cooperatives, agribusinesses, public sector, agri-agencies and relevant ngo’s.

An important element will be to build alliances between farmers’ organisations South-South and South-North, on the vulnerability of contract farmers in agro-food chains, and on the role of farmers’ organisations. The agri-agencies will be able to use their relations with the agro-industry to build constructive relations between farmers’ organisations and the agro-businesses they are working with, in a long term working perspective.

Farmers’ organisations from developing countries can join forces with their colleagues from industrialized countries, exchange experiences and build operational working relations. Agri-agencies will facilitate such developments, and will broaden awareness within rural people’s organisations in the North. Relevant external partners will be mobilised for lessons learned and best practices, and for support on legal, commercial, technical… aspects, etc.

Smallholders are involved in contract farming in large numbers, all over the world. It is day-to-day business for tens of thousands of farmers, producers of cotton, tobacco, sugar, high value horticulture for export… It is a useful strategy for the development of markets within those sectors where continuous supply and quality of both the raw material and the processed product are required. A constructive partnership will allow farmers and agribusiness to take advantage of increased access to (export) markets. Contract farming has worldwide proven its usefulness in regulating the relation between farmers or their representative organisations and the agribusiness to whom they sell their produce. Contracts need to address the needs and problems of both farmers and agribusiness.

The motives for the promotion of contract farming can be very diverse depending on the intervening actor. Public sector motives are mostly linked to development objectives (promotion of smallholder development, access of smallholders to commodities at favourable financial terms, transferring technology, building a smallholder political base, generating foreign exchange, moving populations to new settlements, redistributing land…). Smallholder motives are food security, stable income through pre-determined prices, quantities and period of payment cash flow, market access, risk reduction,
access to technology, credit and inputs, etc. Agro-industry seeks production reliability and shared risk, quality consistency, and might even have political motives... contracts are politically more acceptable than plantations

FAO defines contract farming as "being essentially an agreement between unequal parties: companies, government bodies or individual entrepreneurs on the one hand and economically weaker farmers on the other.
It is our aim to strengthen the bargaining power of smallholder contract farmers through strengthening of their organisations. Farmers organisations can use economies of scale in bargaining, coordinating supply ad accessing credit and other support services. Their negotiating power will increase and they will be able to benefit from the increasing commercialisation of agriculture."
II. Program formulation – methodology

The formulation of the program is based on the priorities defined by Farmers’ Organisations (FOs), members of IFAP-DCC, concerning the roles they can play in using contract farming as a useful tool for rural development.

The methodological approach used to formulate the program is summarised in the figure below. It includes the following steps:
1. A desk study in preparation of the different cases presented at the seminar.
2. A two-day seminar on Smallholder Contract Farming, in which main lessons from a range of cases from were presented and discussed. This seminar was followed by:
3. A one day DCC technical meeting (workshop), in which DCC members defined their priorities concerning contract farming.
4. The programme was then formulated according to the outputs of the desk study, the seminar and the meeting.
III. Input from the Seminar: Contract Farming in Agri-Food Chains

The two-day seminar on contract farming (Brussels, 21-23/04) was open to all IFAP-DCC members and agri-agencies. Representatives from IFAP-DCC and IFAP members (Uruguay, Kenya, Democratic Republic of Congo, Nicaragua, Uganda, Benin, Zambia, Burkina Faso, Chile, South Africa, Malawi, Zimbabwe, Belgium) and seven agri-agencies (IVA-Belgium, AFDI-France, Agriterra-Netherlands, DAC-Denmark, Norges Vel-Norway, SCC-Sweden and UPA-DI-Canada) took part in the seminar. Important was also the presence of a representative of the Dutch government. Most of the cases were brought by members of IFAP-DCC, partners of agri-agencies. Additional speakers were brought in to represent the industry’s point of view.

Based on a Desk study, core aspects of contract farming involving smallholder farmers were identified. The speakers on the seminar were asked to develop their cases around the specific function of the farmers’ groups within the contract, the advantages of operating as a group, the institutional framework (socio-political and economic context), the intervening actors, the contract specifications, the impact on rural development and the mechanisms towards sustainability of the obtained benefits. During the seminar an inventory was made of lessons learned from the presented cases.

Supply contracts of Sugar Beet in Belgium,
Jozef Claes, Boerenbond, Belgium.

Ensuring Cane Supply through Local Area Agreement (LAA): Sezela Mill Area Case,
Neil Anderson, SACGA, RSAfrica.

Cotton Contract Farming with Farmer organisations in the Limpopo Province of South Africa,
Roland Charles, SACAU, RSAfrica.

Contract related problems between producers and exporters of fresh beans,
Denise Ouedraogo, exporter, Burkina-Faso.

The contract: an engagement of trust and respect of the given word between contractors,
Paul Ouedraogo, COOPAKE, Burkina-Faso.

Exporting pineapple by UPS-Benin,
Bernard Dedjelenou, UPS, Benin.

Innovative contract farming that empowers smallholder coffee farmers to market value added product,
Herment A. Mrema, Nucafe, Uganda.

The relation between producers and industrial co-operatives, the case of Central Lanera,
Santiago Cayota, CAF, Uruguay.

Seeking mutual growth for industry and contract farmers: the construction of chain platforms in Chile,
Lucian Peppelenbos, WUR, Netherlands.

Comercialización asociada de pequeños productores campesinos en Chile: el caso de Coopeumo y Frupeumo,
Ricardo Danessi, COOPEUMO, Chile.

Challenges facing farmers’ co-operatives in the modern retail and wholesale European markets,
Roger Manning, Inter.-Trade International, United Kingdom.

Small Scale Farmers’ Innovations towards Fresh Vegetables Contract Farming,
John Mutunga, Kenfap.

Managing the commercial relationship between a farmers’ organisation and an agro-industrial company: case of quinine bark producers in Nord Kivu,
Kambale Kamale, SYDIP, Democratic Republic of Congo.

Small Scale Outgrower Schemes, the case of Zambia,
Ndambo E. M. Ndambo and Felix Chizhuka, ZNFU, Zambia.
III.A. Main lessons learned from the case studies

(A summary of the different cases with lessons learned per case can be found in part 8 of this document.
The full presentations of the cases are available on www.agricord.org)

Several cases highlighted the importance of a strong farmers’ association, which lobbies and negotiates on behalf of the farmers. Farmers’ organisations also have a comparative advantage over purchasersprocessors in organising local production and in assisting small farmers to meet the imposed and stringent quality requirements. Strong, commercially successful farmers’ cooperatives are even the best brokers for improving farmers’ production and marketing conditions. However, if farmers’ organisations lack decent business capacity, they should be very cautious in becoming an actor in a contract farming scheme. Most farmers’ organisations will need further capacity building in order to take up the essential role they can play in contract farming.

Contracts are a response to the prevailing environment and need frequent modification according to the dynamics of the environment. The institutional framework under which inter-professional agreements can be concluded at national level between representatives of the farmers and the contractors can facilitate the final contractual arrangement at local level between farmers and contractors. Positive as well as negative cases provided evidence on the importance of a well functioning institutional framework for successful contract farming. A sound and stable macro-economic situation (low inflation, stable exchange rates, etc.) is needed for agri-business in order to prosper and hence offer marketing opportunities for farmers and farmers’ organisations. Agri-businesses are not the farmers’ enemies, on the contrary, farmers should foster the market opportunities created through their existence.

Farming is business and farmers and their organisations need a sound business plan, which outlines the economic and financial forecasts of the activity. Contracts directly or indirectly give access to credit or inputs. Credit schemes often constitute an integral part of the contractual arrangement. Contracts can also serve as collateral for loans with commercial banks. Public-Private-Partnership (agri-business, farmers’ organisation and government) can be an important leverage in tackling the multiple problems related to commercial farming in developing countries.

Contract farming schemes not only need economic and financial but also technical sustainability. Farmers’ organisations can play a role in providing technical support by facilitating technology transfer and technology adaptation to local conditions and practices. Crop diversification can optimise utilisation of investments, reduce price risks and avoid environmental problems related to monocropping. Environmental problems may not only compromise farmers’ natural resource base but may also compromise access to future markets as importers started asking for an environmental production plan.

Quality control and market information is essential for a good marketing policy. Consequently, farmers’ organisations should generate and communicate market intelligence for its members since farmers are very often inadequately informed about prices and quality standards. It is essential to build up knowledge of the entire chain and of the expectations of the final consumers. However being informed is not sufficient, you also need to be aware of the product quality as it is an essential element in correct commodity pricing and hence farmers’ profitability. The purchasers execute quality control but farmers need the ability to counter expertise in case of doubt.
III.B. Possible roles and function of FOs according to the lessons learned from the cases.

The FO can be an actor in the agri-food chain, acting as a contractor (C), or outside the chain, acting as a service provider/facilitator (F). The FO can play different roles according their position in or outside the chain. Some functions of FOs are not specific to the position of the organisation.

1. Representation of farmers
   - Advocacy and Lobby on behalf of farmers (F)
   - Negotiation on behalf of farmers
     - General contracts' conditions (F)
     - Price and other specifications (F&C)

2. Production support (access to knowledge related to improvements in productivity and quality)
   - Training (F&C)
   - Technical advice (extension services) (F&C)

3. Marketing and related problems
   - Market information (F&C)
   - Commercialisation
     - Processing and commercialisation with added value (C)
     - Commercialisation of production factors according to needs (F&C)
     - Range of services associated to commercialisation (F&C)
   - Quality control
     - As part of commercialisation (C)
     - On behalf of farmers (monitoring quality control done by contractor - counter expertise) (F)
   - Transport (F&C)

4. Accessing financial resources
   - Fund raising (F&C)
   - Credit systems for farmers (F&C)
IV. Input from the IFAP-DCC technical meeting

In the technical IFAP DCC meeting that followed the seminar, representatives of DCC members formulated priorities based on their experience and on the information obtained during the seminar.

IV.A. Opportunities and possible threats in contract farming

The consequences of contract farming are not always positive to all parties involved. It is a challenge for FOs to try and use the opportunities created through a contract farming arrangement. It will however also be equally important to avoid the possible hidden threats in order to minimise the harmful effects of for example a badly negotiated contract.

The participants were asked to list opportunities and threats in contract farming.

<table>
<thead>
<tr>
<th>Reported</th>
<th>Implied issues</th>
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<tbody>
<tr>
<td></td>
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<tr>
<td><strong>OPPORTUNITIES</strong></td>
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<tr>
<td>Open access to a range of services.</td>
<td>access to services (knowledge and resources)</td>
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<tr>
<td>Guarantee/assurance of market</td>
<td>access to markets</td>
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<tr>
<td>Increase the chain competitiveness</td>
<td>access to markets</td>
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<tr>
<td>Financial resources and other inputs.</td>
<td>access to resources</td>
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<tr>
<td>Income to rural areas.</td>
<td>economic growth (more income)</td>
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<tr>
<td>Increase production through innovation.</td>
<td>economic growth (through innovation)</td>
</tr>
<tr>
<td>Improvement of the benefits (profit) for the both farmer and FO</td>
<td>economic growth (more profitability)</td>
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<tr>
<td>Technology transfer and skills.</td>
<td>access knowledge (technical)</td>
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<tr>
<td>Strengthening (financial, technical, institutional) of the FO.</td>
<td>organisational strengthening</td>
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<tr>
<td>Reduces farmers’ uncertainty.</td>
<td>reduction uncertainty</td>
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<tr>
<td><strong>THREATS TO BE AVOIDED</strong></td>
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<tr>
<td>Legal consequences of not respecting the contract</td>
<td>dependency</td>
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<tr>
<td>Limited choices: markets, enterprises, pricing, crops, etc.</td>
<td>dependency (limited choices)</td>
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<tr>
<td>Dependency on only one buyer (loss of freedom).</td>
<td>dependency (one buyer)</td>
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<td>One-sided contract, therefore dependency, lack of transparency, vagueness and unfair pricing.</td>
<td>dependency (one-sided contract)</td>
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<tr>
<td>Induces mono-crop production system.</td>
<td>non-sustainability</td>
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<tr>
<td>Threat to de internal unity of the FO</td>
<td>organisational weakness</td>
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<tr>
<td>Threat from outside to break the organisation</td>
<td>organisational weakness</td>
</tr>
<tr>
<td>Slow down farmers’ creativity and inventiveness.</td>
<td>production inefficiency</td>
</tr>
<tr>
<td>Unfair pricing, vagueness: uncertainty, lack of transparency due to one sided contract</td>
<td>unfair pricing (one-sided contract)</td>
</tr>
</tbody>
</table>
IV.B. Possible roles of FOs and action needed by FOs to make use of the opportunities in contract farming.

Against their background, the participants defined the roles that FOs need to play in order to promote farmers’ access to the opportunities and to avoid the threats of contract farming. Four categories of roles are to be distinguished.

1. **Representation**
   - Negotiation
   - Advocacy and lobby
   - Broaden contract opportunities
   - Fair contract enforcement (honor contracts fairly)

2. **Marketing and market intelligence**
   - Product marketing as an actor of the chain
   - Marketing and transport (organized)
   - Market oriented innovation
   - Opening contract opportunities
   - Information management

3. **Services**
   - Business Development Services (BDS)
   - Advise (business and legal)
   - Provider of production factors
   - Credit (provision and negotiation)
   - Technical (production) advise
   - Training in business development and contracts
   - Monitoring and evaluation
   - Services’ mediation/negotiation (technical, legal, management)

IV.C. Capacities needed by FOs to make use of the opportunities in contract farming.

Finally, the capacities needed to play this role were listed and categorised.

1. **Communication**
   - for management and accountability purposes
   - for information management purposes
   - for commercial relations
   - for public relations

   **Lobby and advocacy**
   - regarding the contract context (legal, rules, taxes, etc)
   - with focus on members’ commercial benefits

2. **Marketing**
   - focus on facilitating the relation from farmer to buyer
   - market research

3. **Technical skills for production**

4. **Management skills:**
   - business management / business analysis
   - marketing management
   - administration systems
   - human resources management
   - information management (collect, ‘package’ and disseminate information)
   - financial management
V. Translation of priorities into a program framework

Program aim

To promote rural development through creating the necessary conditions that allow smallholders FOs to effectively participate in remunerative contract farming.

Enable FOs to make use of the opportunities and to minimise the harmful effects of contractual agreements.

Specific objectives

1. To improve the way in which legal and regulatory framework influences the opportunities of contract farming for FOs.

2. To improve FO’s abilities and create the conditions to negotiate in the scope of contract farming.

3. To improve productive performance (quality and quantity) in order to meet contractual standards.

4. To improve marketing performance.

5. FOs with a professional attitude and a business oriented culture through good management practices.

Specificity of the activities with regard to Contract Farming

The capacities needed and the possible fields of action mentioned in the following logframes are not necessarily specific for a contract farming context. Contract farming is a component of Agri-Food marketing and projects must be seen within that broader context. FOs will need to clearly define why the capacities or activities that they are looking for are relevant and add value to the FO’s role in a contract farming situation.

For example, quality control as such does not directly refer to a contractual situation. However, it can be used as an asset in negotiating a contract or it can be part of the contractual obligations.

The list of possible activities is not exhaustive.
Framework program “Smallholder contract farming in agro-food chains.”

<table>
<thead>
<tr>
<th>Specific objectives</th>
<th>Expected results (outputs)</th>
<th>Possible activities</th>
<th>Practical examples from cases</th>
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<tbody>
<tr>
<td>To improve the way in which legal and regulatory framework influences the opportunities of contract farming for FOs.</td>
<td>To use and influence the existing legal and regulatory framework in an efficient way (national and international level).</td>
<td>Acknowledge and analyse the existing legal and regulatory framework on national and international level (e.g. export – import regulations, government subsidies...).</td>
<td>The Farmers’ organisation in the Limpopo Province of South Africa seized the opportunity to establish a joint venture with the private sector and hence benefited from supplementary government investment in infrastructure and asset finance.</td>
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<td>Lobby and advocacy for application of the existing legal and regulatory arrangements in a fair way.</td>
<td>South African Canegrowers Association (SACGA) together with the South African Sugar Millers Association Ltd. (SASMAL) established own internal procedures to enforce contracts. Nucafe (Uganda) won a lawsuit against a purchaser. This reinforced the FO’s position and commercial agents now hesitate to cheat the associated farmers.</td>
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<td>Lobby and advocacy for the necessary changes.</td>
<td>Belgian sugar farmers’ union (CCB) actively infiltrated the political world in order to push favourable legislation for the sugar sector.</td>
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<tr>
<td>To improve FO’s abilities and create the conditions to negotiate in the scope of contract farming.</td>
<td>FO enabled to efficiently negotiate contract specifications (price, services, ...) according to what is realistically possible (taking into account legal, technical and market conditions).</td>
<td>Access to up to date information (legal, regulatory, technical and market information)</td>
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<td>Make the chain transparent to the FO.</td>
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<td>Any project that makes the FO less dependent from the contractor</td>
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<td>- financial independence</td>
<td>Sydip (DRC) is dependent on the contractor that buys their produce, because this company is the only possible supplier of the necessary disease resistant clones.</td>
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<td>- provision of services formerly rendered by the contractor</td>
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<td>- broader marketing possibilities</td>
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<td></td>
<td>Improvement of negotiation, communication, lobby and advocacy skills</td>
<td>In spite of the services of a local lawyer, Sydip (DRC) did not have sufficient negotiation power nor information when it concluded its contract with the contractor, and thus settled for unfavourable contract stipulations.</td>
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<tr>
<td>Specific objectives</td>
<td>Expected results (outputs)</td>
<td>Possible activities</td>
<td>Practical examples from cases</td>
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<tr>
<td>To improve productive performance (quality and quantity) in order to meet contractual standards.</td>
<td>Qualitative and quantitative increase of production.</td>
<td>Collaboration with knowledge centers steering the information needs (universities, research centers, industry, agri-agencies) in order to obtain up to date technical knowledge</td>
<td>An expert in fresh fruit imports into the European Union (Inter-trade International) emphasised the need for up to date market information intelligence. Farmers’ organisations need information of the whole chain and especially the consumer’s need, in order to produce efficiently.</td>
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<td>Extension service (FOs’ staff and/or external consultants).</td>
<td>Several cases presented extension service activities (Ge-Prest Burkina Faso, UPS Benin, Nucafe, Sydip DRC, …)</td>
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<td>Training programs and horizontal exchange programs (farmer to farmer and FO to FO).</td>
<td>Nucafe (Uganda) wants to add value to the harvested coffee through processing. The cooperative enterprise Central Lanera processes wool and indirectly forces other processors to provide better services (credit, clear quality control).</td>
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<td>Infrastructure and/or equipment for innovative production improvement (quality and quantity), quality control and value adding through processing.</td>
<td>Some canegrowers established ‘section 21 companies (non-profit companies)’ in South Africa and can now benefit from cheaper inputs (and credit).</td>
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<tr>
<td>Access to the appropriate production inputs in fair commercial conditions.</td>
<td>Identification of the needs according to standards and contract specification.</td>
<td>Systems of input provision through FO (FO as commercial actor)</td>
<td>Negotiation with providers (FO as facilitators)</td>
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<tr>
<td>Access to financial resources for technical (scaling-up) investments.</td>
<td>Credit systems managed by the FO</td>
<td>Facilitation of access to financial institutions / funds.</td>
<td>The joint venture between NSK (cotton ginnery) and the Makuleke Water Users Association made government investment possible in the Limpopo Province of South Africa.</td>
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<td>Provision of collateral to farmers in order to obtain loans.</td>
<td>A supply contract with Central Lanera (Uruguay) is sufficient (and necessary) collateral for herders to benefit from commercial loans.</td>
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<tr>
<td>Specific objectives</td>
<td>Expected results (outputs)</td>
<td>Possible activities</td>
<td>Practical examples from cases</td>
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<td>To improve marketing performance.</td>
<td>Appropriate services supporting marketing.</td>
<td>Quality control systems (as part of own commercialisation process or acting on behalf of farmers).</td>
<td>UPS (Benin) and Central Lanera (Uruguay) installed an objective quality control system for their own commercialisation process. CCB (Belgium) and SACGA (RSA) can perform counter expertise on behalf of the farmers.</td>
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<td>Transport (as part of own commercialisation process, as service provider or as facilitator of service by third parties).</td>
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<tr>
<td>Up to date and appropriate market information available.</td>
<td>Market information systems (prices, market conditions, alternative buyers or markets,...) on national and international level.</td>
<td>The farmers supplying wool to Central Lanera (CAF, Uruguay) receive objective market information over the whole marketing season. Nucafe (Uganda) provides market information to the farmers and makes farmers aware of the quality of their produce. UPS Benin gets direct information through its French partner (AFDI) .</td>
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<td>Provision of contacts, networking to and negotiation on behalf of farmers.</td>
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<td>Business analysis.</td>
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<tr>
<td>FOs with a professional attitude and a business oriented culture</td>
<td>Adequate management</td>
<td>Improvement of management skills: - Business planning - Marketing management - Entrepreneurship - Financial management (organisation and business) - Financial management for administrating credit schemes - Administration systems - Human resources management - Information / knowledge management</td>
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</table>