How can Contract Farming work for poor farmers?

The UN’s hyperactive (how often do you see those words in the same sentence?) special rapporteur on the right to food, Olivier De Schutter, has a new report out on contract farming. At first sight, contract farming (expanding fast, apparently) looks a lot more promising than the parallel boom in ‘large scale land acquisitions’ (aka land grabs). Farmers keep their land rights, get access to markets and value chains, and support with finance, training, seeds, fertilizers etc. The reality is less rosy, with both good and bad contracts in operation.

“The developing world is a buyer’s market. Even when food prices are high, farmers are struggling to reap the benefits because they lack negotiating power. Entering into a contract is a private choice, but how much choice do farmers really have if their only access to markets is via a single dominant buyer? And how much benefit can this arrangement bring the farmer if the buyer can dictate the terms of that contract? If they are not careful, farmers end up as disempowered laborers on their own land.”

An example from a study conducted for Oxfam: a company in Lao contracted former rice farmers to produce chilli. Chilli has an intense cultivation pattern and demands constant attention. The company agreed a price and quantity of chillies they would buy, and provided training, plus inputs (fertilizers and pesticides). But the quality and quantity produced did not meet the expectations of either company or farmers. The company claimed that supervision and follow-up of farmers was a problem, and suspected that poor quantity was due to the fact that farmers sold the best chillies to other traders. Some of the farmers paid their employees in kind with chillies, since the payment of the company came too late. The farmers also complained that fertilizer provision came too late, forcing them to improvise and causing crop failure and accused the company of overcharging for fertilizers. They also expressed doubts on the purchasing price due to the lack of competition.
According to De Schutter, a fair contract should include minimum price guarantees, visual demonstration of quality standards (presumably to avoid the possibility of confusion or deception of illiterate farmers), the provision of inputs at or below commercial rates, tailored dispute settlement mechanisms, and the possibility to set aside a portion of land for food crops to meet the needs of the family and the community. Since decision-making is also proven to shift to men where cash crops are produced instead of food crops, De Schutter emphasizes the need to pay greater attention to the gender impacts of contract farming.

I would add a couple of things – what responsibility do contracting companies have for the wages and conditions of labourers on the contract farms (e.g. the Lao chili story)? And companies should also share risks with the farmers, eg by helping to pay insurance premia against crop failure.

Back to De Schutter, “Without these checks and balances, the door is left open for produce to be summarily rejected, for farm debt to spiral, for labour to be sub-contracted without regulatory oversight, and for a region’s food security to be undermined by production of export-oriented cash crops at the expense of all else.”

He lays the onus on governments to ensure that contracts are fair, but also thinks the imbalance of power can be righted if farmers organize into producer organizations and cooperatives before then negotiating better deals with buyers. He cites MaliBiocarburant SA – where farmers are represented on the Board of Trustees and produce jatropha for locally-consumed biodiesel — as an example of a best practice in the area.

The Divine Chocolate brand, a London-based enterprise (which I highly recommend, especially the fruit and nut one), is another source of inspiration for more equitable value chains. Jointly owned by 68,000 Ghanaian cocoa farmers and other backers, it has brought farmers the benefits of fixed prices, a fair-trade premium, ownership dividends, and a large support program.

Meanwhile the experiences of Belo Horizonte in Brazil and Durban in South Africa have proven the benefits of improving the links between local producers and urban consumers (see this recent example from Colombia).

One example of pro-poor contract farming from Oxfam’s own experience is Plenty Foods from Sri Lanka, which has contractual relationships with 9,000 farmers across the country. Most of these are direct contracts, with the company also providing inputs, training, and extension services to farmers. Outcomes include: improved enabling environment, with land titling and the granting of permits being carried out proactively by the Government and new opportunities to access export markets being explored; better and more extension and support services; increase in farmers’ power to negotiate prices and secure contracts with new buyers, and access to new markets such as fruit juice and dried vegetables; emergence of a number of farmers’ groups and enterprises led by women, e.g. processing fruit and vegetables, leading to an increase in women’s incomes.
Engaging with the market is always messy and difficult (so much easier to be a purist and just criticise them, unless you happen to be a farmer desperate to sell your crop at a decent price), but get it right, and an awful lot of people benefit.

Tags: contract farming, De Schutter October 26th, 2011 Posted in Technology, Trade, food and agriculture

2 Responses to “How can Contract Farming work for poor farmers?”

1. Amanda Says:

   October 26th, 2011 at 10:15 am

   Hi – good post though I found the last line surprisingly petty. Everyone now agrees about market engagement for the poor, so who does Oxfam see as still being the “purist criticsizers”?

2. J. George Says:

   November 2nd, 2011 at 7:15 am

   The Con element in the farm Tract is very prominent. Looked at from the principle-agent conundrum this vertical integration has operationalised local capture at the producing end while maintaining the concentrated stranglehold at the top. These companies do make necessary noises about the corporate social responsibilities (CSR) provided one of the state agencies supports them with some incentive mechanism. Take the case of the Ethiopian Commodity Exchange or the Indian Warehousing Development Regulation Act. Poverty is certainly proving to be the route to power! The UN special rapporteur has indeed made a significant contribution to the growing literature on agrarian crises that is on a high growth trajectory. The point that is sorely missed in the set of recommendations is some acceptable non-exploitative level of operating protocol for these Con-artists that will respect the right to food.
About this blog

This blog is written and maintained by Duncan Green, Head of Research for Oxfam GB and author of 'From Poverty to Power'. More information on Duncan and the book is available on the [From Poverty to Power official website](http://www.oxfamblogs.org/fp2p/?p=7298).

It is a personal reflection by the author. It is intended to provoke debate and conversations about development, not as a comprehensive statement of Oxfam's agreed policies - for those, please take a deep breath and read the [Oxfam International strategic plan](http://www.oxfamblogs.org/fp2p/?p=7298) or consult [policy papers](http://www.oxfamblogs.org/fp2p/?p=7298) on a range of development issues.

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