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Contract Farming Experiences in Developing Countries

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Large-scale agricultural investments and inclusion of smallholder farmers

Part I

Large-scale agricultural investments and inclusion of smallholder farmers: lessons of experiences in 7 southern countries

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OBJECTIVES OF THE STUDY

- ③ Describe the effects of contract farming schemes
- ③ Characterize the factors limiting or promoting these various impacts
- ③ Identify key findings to promote the emergence of positive synergies
- ③ Check and promote the existence of positive synergies between private companies and rural households



CHOICES

- ⊙ Desk study based on literature review.
- ⊙ Case studies approach: 9 cases
- ⊙ Focus on:
 - ⊙ long term analysis
 - ⊙ changes in farming, production systems, access to markets and governance patterns of value chains.
- ⊙ This allows to capture direct and indirect (unforeseen) effects of changes brought by contract farming.

CASE STUDIES

Country	Crop	Period
Côte d'Ivoire	Pineapple	1955-2009
	Rubber tree	1967-2008
	Oil palm	1963-2010
Ghana	Oil palm	1975-2011
South-Africa	Fruit, sugarcane	1990-2010
Kenya	Vegetables, flowers	1980-2000
Burkina Faso	Cotton	1970-2005
Indonesia	Oil palm	1980-2005
Laos	Rubber tree, corn, cassava, sugarcane	2000s



WHY DO COMPANIES CHOOSE CONTRACT FARMING?

- ⊙ Setting up CF stems from a willingness of the State to promote the agricultural sector and rural development.
- ⊙ Contract farming enables companies:
 - ⊙ to develop a production up to then absent in farmers' production systems,
 - ⊙ to reduce supply costs (labor & supervision),
 - ⊙ because they cannot extend their land hold,
 - ⊙ to promote more inclusive and equitable models of production and improve their image.

MAIN EFFECTS IDENTIFIED / ANALYZED

- ◎ Inclusion vs. Exclusion ★
- ◎ Household Food Security ★
- ◎ Land Rights and Land Markets ★
- ◎ Increase in Income? ★
- ◎ Rural Labor Markets ★
- ◎ Technical Innovation
- ◎ Intensification
- ◎ Dependence or room for maneuver ★
- ◎ Dynamics of farmers' organizations



MAJOR FINDINGS (SELECTED)

- ◎ Inclusion vs. exclusion: evolution in time
 - ◎ First phase inclusion according to public policy
 - ◎ Evolution linked to economic dynamics
 - ◎ Capacity to include migrants, but youth and women are often excluded.
- ◎ Food security
 - ◎ CF does not harm food security.
 - ◎ Contract crops developed in a strategy of crop systems diversification rather than specialization.
 - ◎ Access to inputs improves farmers' food crop production and incomes from the contract crop enable to buy foodstuff on local markets.



MAJOR FINDINGS (SELECTED)

- ◎ Land management and access to land
 - ◎ Agro-investment is likely to influence local land redistribution.
 - ◎ Mitigating factors: national investment promotion and land policies; organization of production; land market activity.
 - The rental market favors inclusion without changing land distribution.
 - Land purchases/sales favor better-off populations and progressively alter land distribution patterns, namely in urban and peri-urban areas.



MAJOR FINDINGS (SELECTED)

⊙ Income effects

- ⊙ Increase in smallholders' incomes (≠systematic).
- ⊙ Better access to credit. Although access to credit may be too high or too expensive (source of debt for fragile smallholders), it often improves the farmers' incomes and the farms' investment capacities.

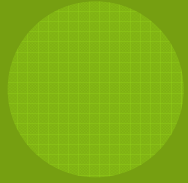
⊙ Effects on rural labor markets

- ⊙ Job opportunities increase, both for local populations, and for migrants (already involved in the local labor market, or as newcomers).
- ⊙ The pay rates follow the local labor market, but the working and pay conditions seldom comply with the legislations in force in the countries.



POLICY LESSONS

- ⊙ Contract farming needs institutions to work
- ⊙ Public policies play a major role in setting these « conditions »
 - ⊙ Legal framework to favor investment,
 - ⊙ Land rights recognition,
 - ⊙ Infrastructures (inclusion),
 - ⊙ Capacity development,
 - ⊙ Agricultural research,...
- ⊙ Private enterprises as service providers to strengthen farmers' skills and their organizations
- ⊙ Role of development agencies



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CONTRACT FARMING IN LAO PDR

Part II



INTRODUCTION

- ◎ FDI has increased tremendously in Laos:
 - ◎ Agriculture: 18.6 millions USD in 2001 → 665 million USD in 2007 [11% of total FDI] (Voladet, 2009).
 - ◎ Main crops:
 - rubber (Luang Namtha, Champassak) ;
 - cassava (Luang Namtha, Bolikhamxay) ;
 - sugarcane (Luang Namtha) ;
 - maize (Oudomxay).
 - ...



CONTRACTS

- ◎ 1990: law on contracts.
- ◎ In practice, variety of contracts (oral/written), very few of which are legally registered. Very little conflicts are settled at the tribunal.
- ◎ Terms of the contract are often vague and unfair towards the farmers (many obligations, few rights).
- ◎ Limited enforcement of contracts (obscure regulations, farmers ignore the law, land titling).
- ◎ No legal enforcement mechanisms → production agreements (Fullbrook, 2011)

CONTRACTS

Types	Land	Labor	Capital	Market	Technol.	Profit
1+4	P	P	I	I	I	60-70%
2+3	P	P/I	I	I	I	30%

Notes : P = producteur ; E = entreprise.

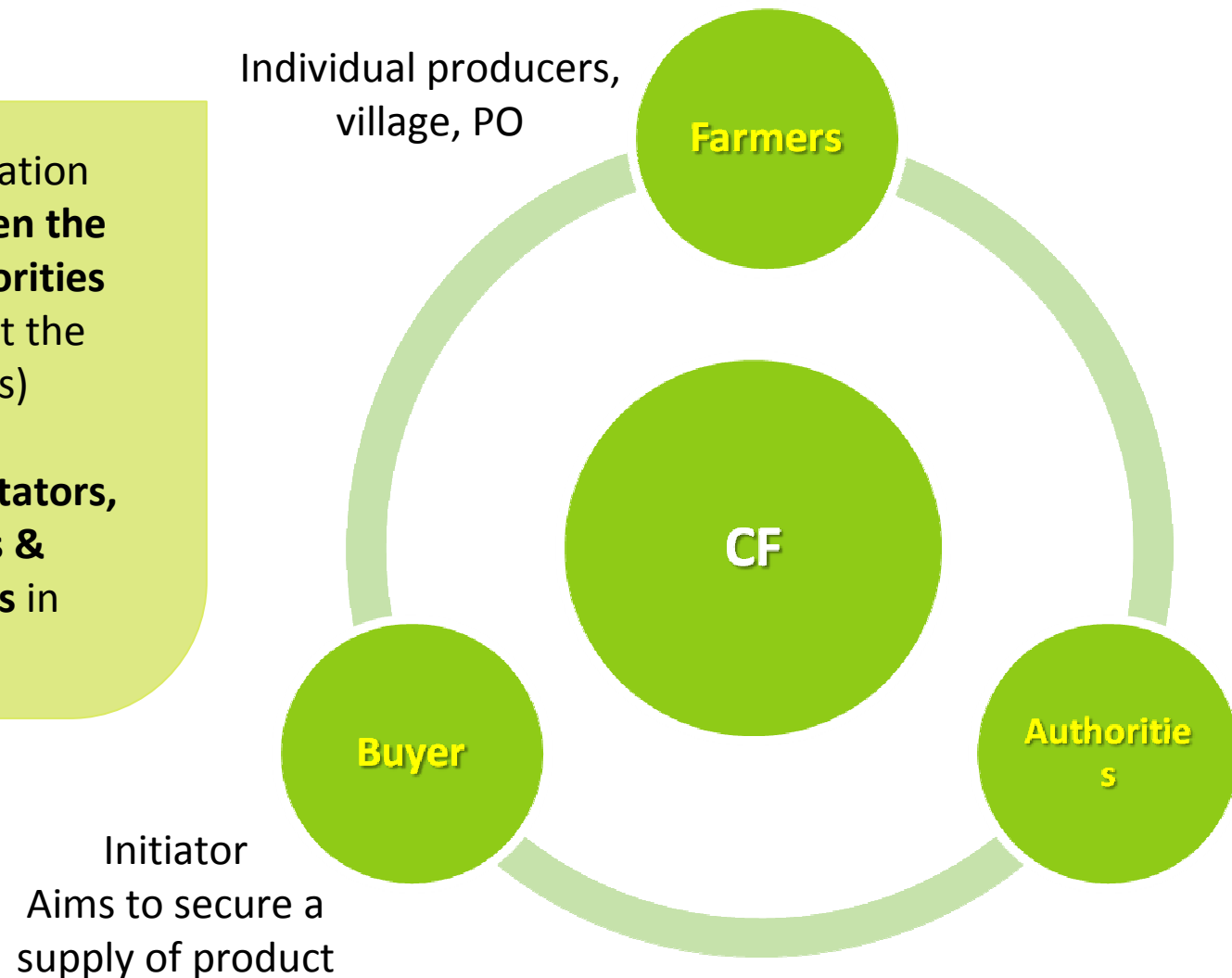
Source: Kenney-Lazar, 2008; Castella *et al.*, 2009 ; Wright, 2009

- © **'1+4'**: the farmer brings land and works for a salary (wage worker on his own land). Investors pays for all activities before the sharing of the rubber (7-8 years). Afterwards, the land or the trees are shared with the farmers. Farmer must sell his rubber to the investor at market prices.
- © **'2+3'**: the farmer supplies the land and the labor, the investor supplies the capital (seeds, fertilizers, equipment), technology and market access. Farmer must sell all his production to the buyer and receives 50-70% of profits. Contracts may last up to 30-35 ans.

CONTRACT FARMING IN LAOS

Most of the negotiation takes place **between the investor, the authorities and the village** (not the farmers → conflicts)

Authorities = facilitators, contract managers & technical assistants in isolated areas.



IMPACTS OF CF IN LAO PDR

- ◎ Land access and land rights
 - ◎ Better than concessions in terms of land use.
 - ◎ However, CF, is likely to limit the access to community land (grazing) if productive community land is converted to commercial farming → inequalities (cf. access to land, labor, road).
- ◎ Income and livelihoods
 - ◎ Mixed results due to vague contracts and to the lack of official documents between the parties.
 - ◎ Well-respected contracts bring higher incomes, while non sustainable agricultural practices lower yields and incomes.



IMPACTS OF CF IN LAO PDR

- ◎ Risk
 - ◎ Profits are sometimes very unequally shared.
 - ◎ Trade-off between price risk (direct sales on markets) and risk of indebtedness (contracts), especially for new crops.
- ◎ Access to services.
 - ◎ CF improves the farmers' access to market information, training, technical advice, credit , seeds, and sometimes quality control.
 - ◎ Most of these services are not supplied locally.



VULNERABLE FARMERS

- ⊙ Limited access to credit
 - ⊙ CF offers and unique access to credit (advance payment, inputs), but danger of locking the farmers in the relationship, means of accessing land).
- ⊙ Isolated farmers
 - ⊙ High transportation costs, taxes and control limit competitiveness.
 - ⊙ CF has developed along borders (traditional trade zones) and is embedded in social and ethnic ties with China and Vietnam. CF is hence a means to formalize informal trade.



VULNERABLE FARMERS

- ⊙ Limited farmer knowledge
 - ⊙ Little access to input
 - ⊙ Many crops are new, some are not adapted.
 - ⊙ Low understanding of markets and low level of education.
- ⊙ CF enables farmers to overcome barriers to entry onto markets, to gain new experience and to intensify their activities. (launch pad)
- ⊙ Low bargaining power with investors, some of which take advantage of farmer ignorance to implement unequal contracts.



RECOMMENDATIONS

- ◎ Develop relations based on trust
 - ◎ Improve contract enforcement through trust/stable relationships.
- ◎ Improve farmers' understanding of markets
 - ◎ Market trends and actors – Quality – Regularity.
- ◎ Improve the design of contracts
 - ◎ Include the farmers – Role of POs – Facilitators – More flexible contracts.



STRONG PRODUCER ORG.

- ◎ Advantages of POs:
 - ◎ Access to inputs, credit, and markets – Improve bargaining power – Large volumes – Limit time spent to find buyers – Cost reduction – Pool marketing capacities – Reputation effects...
- ◎ Bolovens Plateau / AGPC
 - ◎ POs accumulated experience and knowledge, increased the quality, prices and volumes of coffee.



STRONG PRODUCER ORG.

- ⊙ Disparities remain between the groups:
 - unequal distribution of geographic, human, institutional & financial resources between groups.
 - Poorly defined strategies, lack of coordination, farmers poorly informed of the advantages of belonging to the group.
- ⊙ Successful Pos
 - ⊙ Farmers organize for simple technical tasks (extension) and decide alone what will be the objective of their organization
 - ⊙ Receive strong organizational, financial and technical support.



THANK YOU ! MERCI !