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Farmers' integration in the value chain: Fair terms need Fair contracts

Limited to the livestock production of industrialized countries until some time ago, the practice of producing under contract is now used for a wide range of agricultural commodities in many countries of the world. Growing population and higher standards of living have increased the demand for agricultural products, at the same time as consumer sensitivity to environmental issues and food quality lead to ever more sophisticated food markets. In this context, contract farming is expanding as a tool to organize and link production capabilities and market needs, to increase and diversify the availability of products on local and global markets, and to improve value chain efficiency. Most of today's agribusiness is organized in value chains and more and more farmers produce under contract with big corporations.

From a rural and social policy perspective, contract farming may offer farmers the opportunity of a secure revenue stream through guaranteed market access, including access to specialized high-price segments. Generally, contracts work as a credit vehicle when inputs are provided by the Buyer or the contract proceeds may serve as collateral to obtain funding from a banking institution. Higher yields and better quality may derive, in fact, from the extension services and technology provided by the Buyer. These, among other potential benefits, explain the interest of many national policy makers and international organizations to promote sustainable contract farming models as a means for increasing agricultural production and improving the livelihood of the rural poor, thus helping to achieve food security worldwide and fight the rural exodus.

The United Nations Food and Agriculture Organization (FAO), for instance, devotes considerable resources to contract farming by implementing national or regional development programs, issuing publications and

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running a Contract-Farming Resource Centre. The International Fund for Agricultural Development (IFAD), in turn, support programs that promote the inclusion of smallholder farmers in agricultural value chains and access to markets as one of the priority objectives to which contract farming can contribute significantly.

While the success or importance of contract farming may depend on many elements, a key element is the ability of the parties to build stable, commercially sound and fair relationships, based on clear commitments and mutual compliance. The cornerstone of the relationship is the agreement. Ensuring clear and fair allocation of risks, liabilities and economic returns at the time of the conclusion of the contract and predictable conditions regarding both performance of the contract and possible non-performance events is essential to ensure sustainable relationships and financial benefits in the long term. In this respect, the legal framework is essential to recognize legal effect to parties' stipulations

and to supplement them as the case may be. Also, depending on each legal system, legal provisions may apply mandatorily to certain aspects of the contractual relationship, excluding the parties' ability to derogate from such legal provisions. The legal framework regulate a vast number of aspects relevant to the contract farming relationship, such as the legal capacity of the parties, third party's rights, tort liability, regulatory prescriptions regarding for example labor and food safety matters etc. Contract farming terms should reflect good practices and internationally accepted standards of transparency and fairness. This is crucial to ensure that farmers truly gain from more predictable marketing and access to better technology and know-how.

This is why both FAO and IFAD, together with the World Food Program (WFP) and the World Farmer's Organisation (WFO) have joined efforts with the International Institute for the Unification of Private Law (UNIDROIT) to develop a legal guide on contract farming. The purpose of the Guide, which will be co-authored by FAO, is to identify problem areas and possible solutions in light of current trade usages and legislation. The future guide could serve as a "good practice" reference by providing guidance for parties engaged in contract farming operations during the negotiation and drafting of contracts. The guide could also provide information for legislators and policy makers dealing with contract farming, in particular in the context of law reform.

UNIDROIT brings to this project nearly 80 years of expertise in developing international standards to unify and harmonize private law among nations, with particular attention to contract law. Indeed, the UNIDROIT Principles of International Commercial Contracts have become a benchmark for assessing the quality of recent contract law reform in several countries, and are frequently used in international arbitration practice.

The working group set up by UNIDROIT to formulate legal guidance on contract farming, which is comprised of scholars, practitioners, international organizations, farmers and agribusiness representatives, had held two sessions since January 2013 and is expected to substantially conclude its work in the first quarter of 2014. Thereafter UNIDROIT and the WFO will organize a series of consultation meetings to seek the input of farmers' organizations from all over the world to make sure that the legal guide adequately addresses the needs and concerns of farmers in various countries and market segments.

It is hoped that the future guide will represent an additional tool for policy advocacy and capacity building which international organizations and bilateral cooperation agencies as well as nongovernmental organizations, such as the WFO, may use in their strategies and programs in support of contract farming in developing countries.

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INSTITUTION**





THE PROS AND CONS OF CONTRACT FARMING

Carlos A. da Silva,
*Senior Agribusiness
Economist - FAO*

Agricultural production under contract is a well known modality to link farmers to markets. Agri-food chains for products such as

poultry, hogs, cotton, tobacco, sugar beets, and fruits and vegetables for processing are some of the chains for which contracts are traditionally used to regulate the commercial relations between producers and their buyers. Under contract farming, producers typically commit to the future delivery of farm products to a buyer under pre-set specifications that can include prices, production technologies, quality characteristics and

production delivery dates, among other mutually agreed conditions. This practice is not recent, having been used throughout the world for many decades. Yet, the interest in contracts to coordinate production and sales transactions in agri-food chains has grown significantly in recent years. Numerous publications, international events and web sites dedicated to the topic of contract farming have been launched in recent years.

Development agencies such as the Food and Agriculture Organization of the United Nations (FAO) and others have been paying greater attention to contracts in their work and a range of governments has enacted public policies to promote agricultural contracting.

This renewed and intensified interest in the contracting issue has been attributed to the sweeping transformations taking place in agri-food systems globally. These changes are challenging the traditional ways of conducting business in agriculture that fail to respond to the new demands of consumer markets and to the new competitive environment. Competition in agri-food markets today is global and far more fierce. Consumers are better informed; more and more they want to know not only the origin of what they are buying, but also how it was produced. Compared to their forebears, they are also more affluent and thus demand higher quality and diversity of options for the foods and agricultural products they buy. Food safety and quality standards are also becoming more stringent. This changing environment is leading to a rediscovery of contracts as a means to better coordinate agri-food supply chains, promoting efficiency in production and marketing and making chains more competitive in domestic and international markets.

The need to adapt to the changing agri-food systems' environment is challenging both farmers and those who depend on their output to meet their business needs –such as agro-processors, exporters and modern supermarkets , among others. A fruit processing company, for example, needs raw materials that are ideally standardized with respect to quality characteristics and which are provided regularly around the year. Uniformity in fruit properties such as sweetness and solid contents, among others,

facilitates processing, favors the quality of the processed product and reduces processing costs, promoting competitiveness and enhancing consumer response. Regularity in raw material supply, on the other hand, ensures that processing companies can better plan production and sales, avoiding idleness of facilities and manpower and strengthening their capacity to produce at a low cost. If these companies rely solely on traditional wholesale markets of fruits to source their raw materials, or if they have to send buyers to farms to directly purchase raw materials, they will most likely find it difficult to ensure the desired uniformity and consistency of delivery schedules. If, instead, they use contracts with producers, these difficulties can be overcome. In addition, companies that use contracts can better predict their raw material costs, as they will have agreed on a final price to be paid to producers well before the time they begin processing. Similar arguments can be made for other buyers of agricultural products, such as supermarkets, restaurant chains or exporters: all of these can benefit from the greater predictability of supply provided by engaging in agricultural contracts.

This example suggests that there are several advantages in the use of contracts for firms that buy farm products, but are there advantages for the producers? The answer to this question will depend largely on the type of contract they sign. While there are contracts that only set prices and quantities to be delivered, there are others that specify in detail the production technology to be used, the precise delivery dates, etc. There is also the possibility that the buyer provides farm inputs such as feed or fertilizers, deducting the costs from the sales proceeds. To summarize, there are many types of contracts, for which the potential benefits for producers and buyers alike are well known, as set out in the box below .



Farmer

- Can be provided with inputs such as fertilizers, seed, feeds, veterinary products, etc. by the acquiring company, thus avoiding the need to use own funds for these purchases

- Can receive technical assistance from buyers and improve farming skills

- Has a guaranteed market for their production, often under pre-determined prices

- Can facilitate access to credit for investment or working capital, as many banks accept contracts as a form of collateral guarantee

- Can have greater income stability, especially in cases of long-term contracts

- Can make use of by-products or waste products from the product under contract. The use of manure as fertilizer in agricultural production is a typical example of this kind of advantage in the case of poultry producers farming under contracts

There are also potential disadvantages for both partners who sign an agricultural contract, but judging from the growing use of

contracts in various countries and in different supply chains in the recent past, the balance seems to be on the positive side. The main potential

Buyer

- By buying large quantities of farm inputs at lower prices than those paid by individual farmers, firms can help reduce farm production costs and thus negotiate lower prices for the agricultural product they purchase

- Can exert technological control over the production process, ensuring product quality and better servicing of consumer demands

- Promotes regularity in procurement and delivery schedules

- Can increase access to credit by lowering production through a guaranteed supply of raw materials

- Can reduce administrative costs, especially those related to procurement

- Has access to fixed agricultural assets such as land and farming facilities without needing to tie up capital on them.

Farmer

- The company can refuse to comply with the pre-set price, especially in cases when prices in the open market become comparatively favorable

- The control over production technology by the buyer can allow manipulations to reduce the final price that a producer will be paid for his or her output

- The buyer may establish delivery schedules that are unfavorable to producers, anticipating or delaying delivery as a means of reducing the final prices to be paid

- The buyer can create complex formulas to establish the final price to be paid to the producer, hindering their understanding and facilitating unfair pricing practices

- The producer gives up its flexibility to change farm enterprises in response to changing markets during the duration of the contract

- Producers may lose the link with their traditional customers, which can cause difficulties if the new buyer goes out of business or decides to no longer work under contracts.

Buyer

- The company can refuse to comply with the pre-set price

- The producer may refuse to deliver the contracted product, selling to other buyers instead

- The administrative costs of dealing with a large number of farmers may be higher than in the purchases with traditional suppliers in open markets

- Producers can divert the inputs provided, using them in other agricultural activities and not those for which they were intended

- The corporate image may be negatively affected if producers have disagreements with the buying firm that are perceived by consumers as a result of unfair commercial practices

- A company loses the flexibility to seek alternative suppliers when market conditions are adverse to the contractual terms



As in any other commercial transaction, partners who consider engaging in contract farming should consider the pros and cons and seek to ensure that the balance between risks and opportunities is favorable to them. It is necessary that a relationship of trust and confidence among farmer and buyer is developed and that contracts are defined whose terms are clearly understood by all involved, facilitating legal protection in the event of contractual breaches by either party. It is also important to seek ways to counter the usually uneven balance of power that exists when a large buyer contracts with many partners, who individually have low bargaining clout. Producer organizations are a strategy of choice to countervail the uneven balance of power in contrac-

tual relationships in agri-food systems.

In summary, to the extent that agri-food systems globally follow the on-going transformation path, the need for better coordination in supply chains will remain present and contract farming is likely to continue to be increasingly adopted as a mechanism to promote coordination. Producers and others players in agri-food chains interested in improving their business relationships will benefit by expanding their knowledge about agricultural contracts. FAO has developed a Contract Farming Resource Center, where information on this modality of supply chain coordination is freely available (www.fao.org/ag/ags/contract-farming). Information articles, technical docu-

ments, legal briefs and a collection with dozens of sample contracts practiced around the world can be easily accessed from this web site.

There are many successful experiences of contract farming in developed and developing countries. There are also cases that were not successful. To the extent that the risks of failure can be well assessed and properly managed, and to the extent that trust among farmers and their buyers can be developed, contracts can constitute an important driver of efficiency and competitiveness for food and agricultural systems.

They can also facilitate access to markets for disadvantaged farmers, in this way contributing to food security and rural development.



GUIDELINES OF THE EUROPEAN AND ITALIAN REGULATIONS ON FARMING CONTRACTS

Paola Grossi, *Chief of Legislative Affairs of COLDIRETTI*

A strong and viable agricultural sector is essential to ensure a stable supply for the world's population, food safety and continuity of economic growth and employment in both national economies and farming communities.

WFO's position on trade policy, adopted at the 2013 General Assembly, underlines that trade can contribute to help farmers address the most relevant challenges, such as food safety, access to knowledge and new technologies, infrastructure renovation, lack of access to credit and renewal of generations.

Volatility of prices for agricultural products has increased, crises caused by weather damage, animal and

plant diseases can severely destabilize markets and devastate agriculture: this situation can affect food availability, food safety, food prices, with negative socio-economic repercussions on the population in terms of growth and employment, not only for farmers. It is in the interest of all citizens to maintain a viable, competitive, and high quality agricultural sector. WFO works closely with FAO and other relevant International Organizations to achieve this objective and in particular with UNIDROIT in the area of Contract Farming, to improve balanced bargaining in the food chain. The result of this effort has been useful in many countries, in particular taking into account the situation in the European Union (EU), where often public bodies, Governments and Parliaments have highlighted problems in the supply chain of food and agricultural products.

In May 2012, the European Competition Network (ECN) published a report showing that active enforcement of competition law in the food sector across Europe, in particular at the processing and manufacturing levels, benefitted farmers, suppliers and consumers.

In their market monitoring activities, competition authorities have analyzed how food markets work. Much of this work has shown that there are various explanations for unfavorable market developments other than a lack of competition among market players.

The market monitoring investigations carried out by the ENC in May 2012 have identified structural or regulatory factors which may have a negative impact on the overall functioning and competitiveness of the food sector, such as the fragmented and atomistic structure of farmers in some Member States or the exi-

stence of unnecessary intermediary stages in the supply chain. When this has been the case, competition authorities have issued policy recommendations and provided stakeholders and public authorities with guidance on the most suitable regulatory tools to address these factors as further detailed below.

Many competition Authorities have also identified conflicts concerning allegedly unfair trading practices in situations where an imbalance of bargaining power exists between the parties in the supply chain: a few authorities have proposed to address this problem through laws on unfair trading practices or codes of good practice with effective enforcement mechanisms. A few other Authorities have also expressed concerns about the potential anticompetitive effects that some of these practices may have in the long term, as they could ultimately negatively affect the competitive process in the supply chain or consumer welfare by reducing investment and innovation and limiting consumer choice.

Competition Authorities have found out that the high concentration of retail markets, in particular at local level, is often coupled with the existence of significant entry barriers to such markets, resulting from private arrangements, abuses of dominant positions, such as exclusivity obligations or imposing minimum purchasing quantities. Many competition Authorities have also identified conflicts concerning allegedly unfair trading practices in situations where an imbalance of bargaining power exists between the parties in the supply chain. A few Authorities have proposed to address this problem through laws on unfair trading practices or codes of good practice with effective enforcement mechanisms. The initiative of UNIDROIT jointly with FAO and in cooperation with stakeholders' representatives, in particular WFO, to develop a Legal Guide On Contract Farming, is welcomed in order to improve commercial

relations in the food supply chain based on a set of principles that will guarantee business sustainability by ensuring competitiveness, trust and continuity.

European legislation and Members' State laws have often recently focused on these commercial relations. In Reg. (EU) No 261/2012 concerning the milk sector, highlights the fact that there is not a widespread use of formalized, written contracts that contain basic elements in advance of delivery. The obligation to write contracts could increase awareness and reinforce the responsibility of the operators in the dairy chain to better take into account the market signals, improve price transmission and adapt supply to demand, as well as help avoid certain unfair commercial practices. In order to ensure appropriate minimum standards for such contracts and to ensure that the internal market and the common market organization function well, some basic conditions for the use of such contracts should be laid down by farmers' organizations. All such basic conditions should, however, be freely negotiated.

Therefore, the Regulation provides that producer organizations in the milk and milk products sector may negotiate contracts on behalf of their farmer members for the delivery of fresh milk by farmers to processors with clauses that ensure minimum standards.

This trend is strengthened in the proposal for the reform of Common Market Organization, currently before the European Parliament and the European Council.

The European Commission has established a High Level Forum for a Better Functioning Food Supply Chain, in order to assist them with the development of industrial policy in the agro-food sector and inwith the implementation of the initiatives proposed by the Commission in its Communication 'A better functioning food supply chain in Europe'. In Italy, new legislation has recently in-

troduced a mandatory written form for Contract Farming and in general for food delivery contracts. The legislation punishes unfair practices imposed by a contractor on the other party, with less power to bargain stipulation clauses, similar to those included in the list drawn up by the European High Level Forum.

WFO could, therefore, contribute by participating in the drafting of a Legal Guide on Contract Farming with other International Organizations such UNIDROIT, so as to develop a much better functioning supply chain and legal practices on contract farming.

WFO'S POSITION ON TRADE POLICY, ADOPTED AT THE 2013 GENERAL ASSEMBLY, UNDERLINES THAT TRADE CAN CONTRIBUTE TO HELP FARMERS ADDRESS THE MOST RELEVANT CHALLENGES, SUCH AS FOOD SAFETY, ACCESS TO KNOWLEDGE AND NEW TECHNOLOGIES, INFRASTRUCTURE RENOVATION, LACK OF ACCESS TO CREDIT AND RENEWAL OF GENERATIONS.



WFO AND CONTRACT FARMING

Dave Velde, Senior Partner, Law Firm Velde Moore, Alexandria Minnesota

The World Farmers' Organisation (WFO) is taking part in a major effort that is being conducted by UNIDROIT to develop a 'Legal Guide on Contract Farming' (hereafter referred to as the 'Guide'). Producing agricultural products under the terms of an Agricultural Production Contract is becoming a far more frequently used method of farm production and marketing. Farmers typically are not adequately resourced or prepared to enter into production contracts. They need information on what factors to consider before entering into such a contract, how they work and understanding the benefits and risks involved. Under a production

contract, farmers are obligated to produce grains, vegetables, livestock or any other farm production in a manner that meets certain standards set by the buyer/contractor. At the same time, the buyer is committed to purchase the production from the farmer at a set price at a certain time.

This approach is far different from the traditional production/marketing process. Under the traditional method, farmers present their produce at a market place and seek the best price available at that time. For many farmers this situation creates uncertainty in developing a farm financial management plan and limits their ability to diversify their production into potentially more profitable commodity production.

Agricultural Production Contracts provide certainty to farmers as to the price to be received for their production and

the buyers have the ability to establish a solid source of supply of products that meets their needs in the food chain. While there are clear benefits for both the farmer and the buyer, it is also true that both parties are responsible for certain obligations that are not a part of a traditional farm production and marketing system.

The Agricultural Production Contract creates a far greater engagement between farmers and buyers than in the traditional production/marketing model. The Agricultural Production Contract will define the product to be produced and the production method. The commodity may be produced under very precise production practices such as compliance with organic standards. The contract may also call upon the buyer to supply a certain variety of seed or livestock variety. The buyer may also be obligated



farming are less significant in Australia than the UK or USA due to less seasonal reliability and greater commodity price uncertainty (absence of subsidies) resulting in greater risk. The counter argument to this is that land values themselves correct for that. An argument of greater persuasion is the fact that the principles behind leasing and share farming are sound and that changes to current practice and expectations need to occur to ensure wider adoption.

The 'Guide' is intended to be used by both farmers and buyers to assist them in creating balanced and productive arrangements between farmers and buyers. However, the 'Guide' will also be a useful tool for governments to assist them in developing laws and regulations that facilitate the effective and fair use of production contacts.

Furthermore, the 'Guide' will be very useful for farm organizations as a substantive source of information to educate their members in the wide variety of issues that are a part of negotiating and fulfilling the terms of a production contract.

In addition to WFO, this effort has the support and participation from other entities including FAO and IFAD. Also participating in the working group are law professors, a processing representative and others involved in the food chain.

"The participation of WFO in this effort is further evidence of the recognition of WFO as the voice for farmers in worldwide forums affecting agriculture", stated Robert Carlson, WFO President.

UNIDROIT is an independent intergovernmental organization, located in Rome, and its purpose is to study needs and methods for modernizing, harmonizing and coordinating private and commercial law between states and groups of states.

It is planned that the final draft of the 'Guide' will be prepared in time to present to the WFO members at the next General Assembly. The purpose of this presentation will be to obtain direct input from farmers as to the content and utility of the Guide. Upon review of these comments, the final draft will be prepared for publication thereafter.

¹ Ashby, RG. *Successful land leasing in Australia: A guide for farmers and their advisers*. RIRDC (2003).

to provide various inputs to the farmer such as feed manufactured in a certain manner or with a specific content. The buyer may also be obligated to provide technical assistance to the farmers on the desired production practices.

Farmers who have an established market for their production, including a pre-established price, under the provisions of a production contract can use this contract to secure production financing for their farming operation.

The Guide will provide the user with a wide variety of contract considerations. The specific topics to be addressed are:

1. The Parties to the Contract
2. Contract Form and Formation
3. Parties' Obligations
4. Contract Terms and Practices
5. Non Performance and Remedies
6. Duration and Renewal Provisions
7. Applicable Law Review
8. Dispute Resolution

WFO has appointed three individuals to work on this project. The three representatives are David Velde, General Counsel to the National Farmers Union in the United States; Brian Duggan, Manager, Workplace Relations & Legal Affairs, National Farmers' Federation of Australia and Paola Grossi, Chief of Legislative Affairs of COLDIRETTI in Italy.

AUSTRALIAN EXAMPLE

Australian agricultural enterprises are undergoing change in response to glo-

bal and domestic pressures. Inevitably, enterprises must increase their scale, continually adopt a more technical approach to production and focus on profit and risk management. The recent period of dry years is not responsible for these changes but has magnified their need - Accompanying change is opportunity.

Clearly, in order for businesses to increase their scale others must move on to pursue other interests. Historically, this has meant a change of land ownership. Purchasing land represents a large capital cost. Not all businesses who wish or need to initiate growth can sustain this cost. Conversely, for those moving on from farming, relinquishing ownership of the land asset may not be the best option either. Alternatives to ownership changes do exist and must be considered. The two obvious models being leasing and share farming.

The attraction of leasing or share farming for a farm business is that, as the proportion of investment shifts from the capital cost of land ownership to operational expenses, it creates leverage. Provided the new venture is profitable, leverage will magnify the gains.

Leverage does, however, increase the risk profile of a business and if things don't go according to plan then leverage will also magnify the losses. Clearly, leasing and share farming are not new concepts but, in Australian agriculture, they play a minor role with only 6% of total farm land area being under such arrangements compared to 35% in the United Kingdom and almost 50% in the USA¹.

It can be argued that leasing and share



CONTRACT FARMING: LEGAL ISSUES IN THE DRAFTING AND IMPLEMENTATION OF AGREEMENTS

A. Bryan Endres, *an Associate Professor of Agricultural Law at the University of Illinois, Urbana-Champaign, USA*

The drafting and implementation of production contracts in the agricultural context raises a variety of novel legal issues for farmers to consider. Although a full discussion could fill several newsletters, this article briefly identifies and discusses a few key issues—from the farmers’ perspective—when deciding whether to enter into a contract farming situation. In ideal arrangements, production contracts provide the foundation for a win-win scenario in which farmers

generate increased revenue and buyers receive an adequate return on their investment through a stable supply of goods that meet product specifications.

As a starting point, one should consider the time perspective of not only the specific contract, but the relationship between the parties and expectations for future business arrangements. Is this a contract for a single growing season, multiple harvests, or the foundational agreement intended to serve as the baseline for a multi-year contract farming relationship? Determining the initial perspective (short or long-term) may facilitate resolution of many of the issues identified below.

It may seem strange to give thought

on how to end the business relationship at a time when parties are initially seeking to enter into a new contract and there is shared optimism for success. But circumstances change and the contract farming relationship may have to end prematurely due to market conditions or business interests of the parties. For a single-season contract, early termination may not be a major consideration. But for long-term relationships, especially those requiring substantial up-front investment by the farmer, a premature end to the contract farming relationship upsets returns on investment expectations and may generate severe financial difficulties. Despite this financial risk, in many situations termination of even long-term contracts may be



at the sole discretion of one party - usually not the farmer. Accordingly, awareness of the termination provisions in the contract are of paramount importance at the negotiation stage of the contract, where the farmer may have more leverage to bargain for some form of early-termination protection.

One mitigating factor may be the ability of the contract farmer to access other markets for the product. In this commodity-type scenario, the financial blow from early termination of an exclusive buying arrangement may be tempered by the farmer's entry into a new supply chain. However, many production contract scenarios involve particular production practices and specific inputs. Thus, by their nature,

they usually are not commodity production arrangements with access to multiple buyers. Moreover, financing agreements may be tied to the farm inputs, further limiting the farmer's flexibility in finding alternative markets.

Issues of input specificity and production practices are concerns that cross all aspects of contract farming and deserve careful consideration during initial contract formation and implementation. Mandating the use of specific inputs, often sourced directly from one party to the agreement, may raise production costs. Similarly, contracts that specify certain production practices may limit the farmer's ability to implement cultural practices to mitigate particular

agronomic challenges such as pest pressure or weather variability. On the other hand, the mandated inputs or production practices may present an opportunity to access the latest technology or research-based growing methods to improve yields and minimize product variability. In sum, input and production practice specificity may either benefit or unduly restrict the farmer, depending on the particular situation, and full disclosure is necessary during contract formation and implementation—especially if required inputs and practices may change throughout the course of a multi-season contract farming arrangement.

Similar to mandating use of specific inputs and/or practices, contract

farming may require the producer to implement traceability or other documentation procedures, potentially including internal or external audits. Again, these measures may benefit the farmer by improving the knowledge base through cooperative education and performance improvement tutoring, or may impose a substantial cost (e.g., third party audits) to be borne solely by the farmer and, in a worst case scenario, serve as a pre-textual means to impose contract penalties or early termination. Accordingly, documentation and inspection requirements warrant careful consideration and attention in contract negotiation and throughout the course of the relationship.

Risk sharing, both in price and crop production, is another key area for farmers to consider in contract farming relationships. In some areas, farmers may be able to take advantage of market mechanisms (or government support programs) such as crop insurance or futures markets to mitigate risk. But in other scenarios, especially when dealing with specialty crops or operations in lesser developed areas, these risk mitigation strategies may be unavailable. In turn, the production contract may be a means to establish some shared risk principles.

Although many production contracts may be take-it-or-leave-it offers in which the farmer has little influence or no ability to negotiate specific terms, at the very least the technical terms used in the contract should be thoroughly explained and in a language accessible to the farmer. Documents that are incorporated by reference into the primary contract also need explanation. This is part of building the trust and mutual cooperation needed by both parties

in the relationship. In the optimal scenario, proposed contract farming arrangements, whether ad hoc or standard form contracts, should be reviewed by third party professionals representing the farmer, such as an attorney or financial advisor. Unfortunately, access to these professionals may not be possible in many contract farming scenarios, especially in lesser developed nations. In those situations, it is important to discuss potential contract farming agreements with neutral third-parties. But many contracts, especially in developed areas, include confidentiality terms that prohibit discussion of the contract with third parties. Confidentiality clauses may pose substantial problems for farmers

entering into their first contract farming relationship or when dealing with new buyers. In order to execute a valid contract, there must be full understanding of contract terms -in legal parlance a meeting of the minds based on free and informed consent - and thus farmers should demand, and buyers provide, upfront education on the implications of these important agreements.

In sum, transparency, fairness, good faith and mutual cooperation that inspires confidence among both parties should be paramount considerations in contract formation and implementation in order to create a balanced and successful contract farming arrangement.





MARKETING BOARDS AND PRODUCTION CONTRACTS IN CANADA: A GLANCE AT QUÉBEC

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Contracts are increasingly used in agriculture, for many reasons. In a context of increased competition, contracts allow, among others, to stabilize buyers' supply of agricultural materials, convey better quality incentives, better transmit consumer preferences and facilitate technology transfer along agri-food chains. The result is a better overall vertical coordination that facilitates the development of new value-added products and improves compliance to customers' requirements. Moreover, fair contracts can provide producers with better access to markets and credit, as well as a means to share market risks with chain partners. Contracts can be great opportunities for producers but can also generate new legal and financial risks. Given that the structure of agricultural markets is often oligopsonistic, farmers may find themselves at a disadvantage when negotiating or renegotiating their contracts with



their partners. Some producers may also see the terms of their contract change over time or just see their contract be terminated without notice. Finally, the legal complexity of some contracts may lead producers to sign contracts they do not understand completely, which can lead to litigious situations.

For social, economic and political reasons, not all countries adopt agricultural contracting at the same rate. Differences among production sectors also exist. In the province of Québec in Canada, the rate of adoption of contracting has been a bit slower than other regions/countries because of the presence of marketing boards. In recent years, we have however observed an increase in the use of production contracts between producers and feeding enterprises.

Vertical Coordination through Marketing Boards

Approximately 80% of the total agricultural products were marketed through marketing boards in 2012 in Québec. Canadian marketing boards are institutions that perform

marketing functions on behalf of the producers of a particular agricultural commodity and that benefit from statutory coercive powers delegated by public authorities. They become compulsory to all producers of a specific sector and region if a majority of producers vote in their favor. Marketing boards can be considered as a social compromise between agricultural producers and the State. Producers agree to self-regulate and self-impose marketing rules while the government provides them with coercive tools. There are different types of marketing boards with various degrees of power over marketing and prices. Some boards have the power to restrict supply whereas others only assume promotional and market information activities. In most boards, producers can collectively bargain marketing contracts with buyers. These collective contracts *are called convention de mise en marché*.

Marketing boards are usually said to aim at improving producers' bargaining position, which is indeed their main objective, but

they also exhibit a wide range of services intended to frame marketing contracts and reduce (and pool) transaction costs. They disseminate information on markets, determine quality standards and payment grids, set trade practices, investigate and arbitrate disputes between producers and buyers of farm products related to marketing, calculate production costs, set methods of payments, payment deadlines, may require the provision of security or proof of financial responsibility by any person engaged in marketing of the product, etc. The Québec Marketing Board of Processed Fruits and Vegetables has, for instance, access to all private contracts between producers and processors and validates whether these are in line with the collective contract, allowing a harmonization of contracts between producers. The board is also involved in the monitoring and enforcement of marketing contracts. If there are conflicts between producers and processors, the board may send a third party to verify the case and act as a mediator, making sure producers get compensated or comply with their

commitments.

By acting as a chain intermediary between producers and buyers of raw agricultural products, marketing boards have homogenized marketing practices and provided for a steady supply of products, which may explain why packers and processing enterprises have not developed production contracts with producers over time, contrary to what we observe in other parts of the world. Integration contracts with upstream firms and horizontal integration are, however, increasingly used, notably those in which animals are owned by integrators and raised by producers.

The Recent Development of Production Contracts

Production --or integration-- contracts differ greatly from marketing contracts. While the latter focuses on better aligning supply and demand, the former, in addition to coordination, implies the sharing of risk and control between partners. Integration contracts imply the production of a product under the control of another enterprise, usually from another chain segment (upstream/downstream), and often involve the transfer of ownership of the product (animal, seed) before it is produced.

The use of integration contracts in Quebec dates back to the 1950s-1960s. A report published in 1967 indicated that these contracts were widely used in the 1960s in the poultry, swine and processed vegetable sectors. The use of these contracts has fluctuated over time but, in the last few years, we have witnessed a rapid increase in the use of production contracts in the swine, veal and sheep sectors. Integrators are usually upstream firms. In some cases, these firms have integrated downstream and therefore, own whole chains from genetics to processing. The following graph shows the evolution of integration contracts and vertical integration from 2000 to 2012 in various agricultural sectors in the province of Québec.

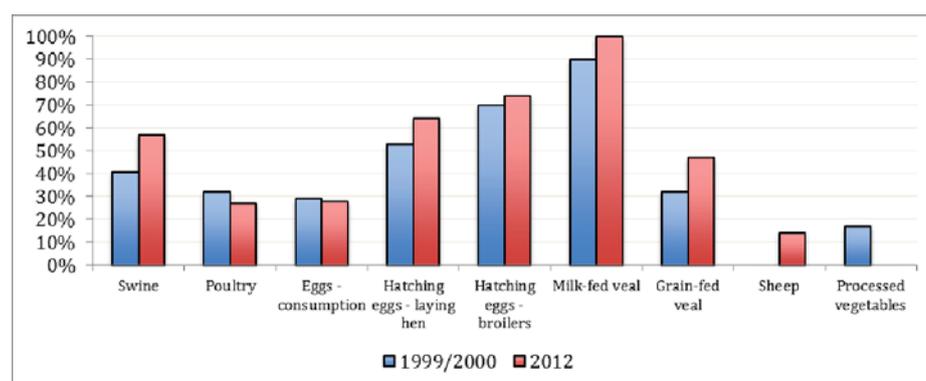
Three main observations can be drawn from this graph. First, the milk-fed veal production sector is now basically 100% produced under integration. Second, the sheep sector, which was not coordinated at all through integration contracts in 2000, is now integrated at a level of approximately 14%. Finally, the swine and the grain-fed veal sectors are more integrated, passing respectively from 40% to almost 60% for swine and from 32% to 47% for veal over the period analyzed. There

are a number of reasons why these increases vary from one production sector to another. According to experts, whereas the milk-fed veal sector is integrated mainly for quality control and highly competitive environment reasons, the swine, grain-fed veal and sheep sectors are rather integrated because of higher market risks and producers' financial difficulties that become too much of a burden for some farmers.

Past, Present and Future

The Law enacting marketing boards was passed in Québec in 1956, in part because the development of market-oriented farming presented numerous occasions for contractual hazards and misperceptions. These "first" commercial transactions implied many operations that constituted many potential litigious situations between the agricultural sector and agri-food firms because of information asymmetry, contractual commitment failures and the low bargaining power of producers. With the rapid rise of production contracts, which are not subject to marketing boards' rules, some of these concerns have been raised again. The issue is not only a contractual one. It encompasses much wider concerns on the competitiveness of agricultural chains, the type of agriculture that society wants to support and agricultural policies' orientations... in other words, a complex issue for the future.

²Royer, A. And F. Vézina (2012). *Intégration verticale et contractualisation en agriculture. État de la situation au Québec. Chaire de Leadership en enseignement de la mise en marché collective des produits agricoles. Département d'économie agroalimentaire et des sciences de la consommation, Université Laval, 59 pages.*



Graph 1. Evolution of vertical integration and integration contracts in various agricultural sectors, Québec, 1999/2000 and 2012. Source: ²Royer and Vézina (2012).



COMPETITIVE AFRICAN COTTON INITIATIVE (COMPACI) EMPOWERING SMALL-SCALE COTTON FARMERS IN SUB-SAHARAN AFRICA

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RATIONALE
Cotton production is an important factor in driving economic development in Africa. The cotton grown on the

continent amounts to five percent of global production, whereas its 10 to 15 percent share of the world market makes Sub-Saharan Africa the fourth largest exporter of cotton. It is one of the most important agricultural export commodities on the African continent besides coffee and cocoa: Sahel states generate 1.5 bil-

lion U.S. Dollars each year by exporting cotton. This accounts for up to 35 – 75 percent of the agricultural export earnings in the region, where cotton is cultivated in crop rotation with staple food crops (such as grain, corn, and sorghum) under mostly rain-fed conditions. Today, twenty million people are di-

rectly or indirectly associated with cotton production. In western and southern Africa, cotton is typically cultivated by smallholder farmers (approximately three million in number); however, little knowledge about adapted methods of sustainable cotton production, a lack of access to services, poor integration into international markets and unfavorable policy frameworks hinder progress. It is necessary to address these problems in order to increase the contribution of smallholder cotton production to economic development and poverty reduction.

OBJECTIVE

Marketing of sustainable cotton from sub-Saharan Africa has been successfully promoted by the Cotton made in Africa initiative (CmiA), which works to build a brand for sustainable African cotton. CmiA defines and monitors adherence to strict ecological, economic and social sustainability criteria, thereby increasing transparency along the value chain and the sales channeled through an international retailer-alliance, as well as increasing producers' incomes generated therefrom. Farmers are trained in the sustainability of cotton cultivation and business administration and are supported through improved social infrastructure and adult education programs. Based on the success of CmiA, the Bill & Melinda Gates Foundation (B&MGF) and the Federal Ministry for Economic Cooperation and Development (BMZ) founded the Competitive African Cotton Initiative (COMPACI). Partners associated with the initiative involve the German Investment and Development Corporation (Deutsche Investitions- und Entwicklungsgesellschaft, DEG), the Aid by Trade Foundation (AbTF) and international as well as African cotton companies. COMPACI fosters inclusive business between cotton farmers and the purchasing companies through consultancy activities and expanded education and training for the smallholder farmers. It promotes

sustainable cotton cultivation practices and CmiA certification to eight African countries, namely Benin, Burkina Faso, Cameroon, Ghana, Ivory Coast, Malawi, Mozambique, and Zambia.

UNDERLYING BUSINESS MODEL

The main focus of COMPACI is the training of cotton farmers on sustainable cotton production and enhanced marketing for CmiA-certified cotton. The following example of cotton farming in Mozambique illustrates the underlying business model. Smallholder cotton production in Mozambique is characterized by farms of 3.3 hectare in size on average, from which on average 0.86 hectare are used for cotton cultivation. Lack of equipment and infrastructure as well as inefficient inventory management adversely affects the productivity of the farms. Consequently, the cotton industry is interested in increasing the reliability of cotton supply and long-term business relations with smallholder farmers. One of the companies is Plexus, which owns a concession on buying cotton in the northern provinces Cabo Delgado and parts of Nampulas. The COMPACI initiative co-finances trainings on demonstration plots where farmers are instructed on improved cultivation and harvest methods, safe and adequate pesticide use and reduction of water usage.

90 agricultural trainers and 2000 'leading farmers' are facilitating on-site trainings. Trainers build the link between farmers and cotton companies. They are responsible for governing production means and sale of the products. For each village, one farmer is in charge of allocation and storage of equipment, seeds, and pesticides. After harvest, farmers are able to deliver any quantity of cotton to collection points ("mercados"), where it is rated for quality, weighed, and packed for transport under surveillance of the Mozambique Institute for Cotton Development (Instituto





de Algodão de Moçambique, IAM). Bonuses are paid to cooperatives that produce and deliver independently to the company. The farmers receive cash payments on delivery and prices are subject to regular negotiation between the cotton industry, farmers' associations and the IAM, depending on world market prices. Between 2009 and 2011, the number of participants in the project almost tripled from 35,000 to 90,000. Plexus reported increases in farmers' yields on the sample plots resulting in higher incomes, too.

The case study shows that sustainable cultivation of cotton in Mozambique not only improves smallholder farmers' income. It also contributes to increased local food production through crop rotation practices and additional projects that establish, for example, access to drinking water.

RESULTS AND IMPACT

During the first phase of COMPACI 454,000 farmers have received CmiA

verification. 316,000 farmers have been trained in basic technologies, 281,000 have received training in conservation farming and integrated pest management (IPM), and 292,000 have been trained in the proper use and storage of pesticides. Additionally, approximately 63,000 farmers have benefited directly or indirectly from agricultural loans as part of COMPACI. Farmers have been able to raise their productivity by between 10 and 40 percent and their income by 30 – 60 percent. According to an independent evaluation by NORC (National Option Research Center), marginal income increased by 60 percent (or 101 U.S. dollar per hectare) for farmers who joined the project in Zambia. In Burkina Faso, COMPACI farmers raised their marginal incomes by 90 U.S. Dollars per hectare in the cotton production and by 96 U.S. Dollars per hectare through associated corn production. On the demand side, sales of verified cotton increased significantly.

In 2011, for example, more than 15 million fabrics were sold whereas in 2012 six million CmiA-products were sold in Germany alone.

Sustainable cultivation practices were able to enhance cotton quality and granted smallholder farmers access to growing cotton markets through verified products. Agricultural food production could be diversified and increased through crop rotation practices with staple food crops. Additionally, the 'Cotton University' was supported, which is a university without walls offering a knowledge-exchange platform (www.univcot.org) under the umbrella of the African Cotton Producer Association (AProCA) and the African Cotton Association. It contains a database that is continuously fed with new data and information and supportive documents.

<http://www.compaci.org/index.php/en/>



BALI FRESH FEMALE FARMERS PARTNERSHIP

Andrew W. Shepherd, CTA - Technical Centre for Agricultural and Rural Co-operation (ACP-EU)

Lake Batur in Bali, Indonesia is a popular place for tourists to visit and a regular stop on tours of the island. Tourists usually stay on the rim of the lake's crater; few venture down the steep and winding road to the small town of Kintamani at the side of the lake. If they did, they would witness some very interesting horticultural production by women, in an area where, despite its stunning

natural beauty, families are very poor. Moreover, gender relations are described as “difficult”, with women generally being expected to take on a disproportionate share of family work responsibilities while having no role in decision making.

PT Dif Nusantara's commercial relations with poor women farmers developed almost by accident. Ronald Serhalawan, a Dutch-Indonesian commercial horticultural farmer who, sadly, passed away this year, discovered that neighboring women farmers in the Karangasem area of Bali were very curious about

his company's operations and were always trying to look inside his greenhouses to see what he was doing. He gave them seeds and some technical support and things developed from there. Subsequently, his company moved all operations to Lake Batur.

Initially, Ronald operated a small-scale contract farming operation with the women, who farmed their own land. However, after a short period the women indicated a preference to rent their land to the company, with the guarantee that they would be offered wage employment. This



employment provides a regular income stream, whereas they would, as independent farmers, only have an income at harvest times. Another problem the women faced as independent smallholders was that they lacked the resources to invest in the greenhouses or tunnels necessary for some of the crops the company wished to buy, such as cherry tomatoes, and yellow and red capsicum. Credit was not an option as 3-4 years ago annual interest rates were fixed at around 60%.

The company has made great efforts to teach the women all about farm operations, including sowing, planting, irrigation, fertilization and harvesting, as well as damage and pest control. It has also tried to develop a culture of saving so that if they return to being independent farmers, they will not be so dependent on credit. The company also provides

a crèche as well as computer classes, since farm employees are required to enter data regarding production progress into the computer-based administrative system.

Recent events mean that many of the women clearly made a fortuitous decision to take wage employment. Apparent climate change has resulted in cloud cover and heavy rains during the “dry” season. When I visited in July 2013, reduced evaporation and higher rainfall had increased the level of the lake, leading to loss of much productive land. This has not significantly impacted the company as it has access to other land, but it certainly would have affected the women farmers with land by the lake, had they remained independent.

Other crops now produced by the farm include salad greens and herbs. Farmers in the area not working

with the company generally grow cabbages and some citrus is also produced. The company offers the only wage employment for women by the lakeside.

PT Dif Nusantara employs 33 women at the Lake Batur farm. More would like to work for it but the company is wary of too rapid an expansion and is also constrained by storage space available to it in Denpasar, Bali’s capital. In addition to the women farmers, the company employs 30 people at the Denpasar storage and packing facilities, which are about a two-hour drive from the farm. Many of these were themselves extremely poor, some being street children when recruited by Ronald. Many of the employees of the packing plant have moved on to other companies and some have started their own businesses. Vegetables produced by the women



at Kintamani are marketed under the “Bali Fresh” brand. Food outlets such as Pizza Hut and the Carrefour supermarket chain are supplied with salads and vegetables, including pre-mixed salads. The company also sells some produce in the Denpasar retail market and uses that market as a source of supply when its own supplies are short. Initially the company received little or no donor or NGO support but its success in working with the women did subsequently attract offers of assistance. However, this has been relatively limited. Bali Fresh has also worked with donors to provide support for farmers from outside Bali, such as horticultural farmers from Timor-Leste who were trained for three months at the Kintamani farm.

The “voluntary exclusion” of the poor women farmers, who had a

preference for wage labor rather than working their own land, is perhaps a cautionary tale for those trying to promote “inclusion” of poor smallholders in value chains. It is not the only example of such a voluntary choice. Involvement in value chains as independent partners is not for everyone. Many relatively well-off farmers are risk-averse by choice; many poorer farmers are risk-averse by necessity. They simply do not have resources to provide food for their families if something goes wrong with a farm enterprise. They often do not have adequate funds or cash flow to cover times when they are not receiving income from their farms.

Donors and NGOs thus need to be aware of the constraints that many farmers face and not try to force “inclusion” on those for whom it would be unsuitable. The Bali case shows that inclusion can often be

achieved through the provision of employment opportunities, although Ronald was clearly not a typical employer.

Companies often provide support to enable farmers to learn about technical issues relating to production but rarely pay much attention to assisting them with other aspects of their day-to-day lives. This may be a short-sighted approach. Farmers, like those working with Bali Fresh, who are provided with advice on managing family finances and on approaches to saving as an alternative to borrowing money, may have fewer problems to distract from their work activities. Contracted farmers who are provided with general support to run their farms as businesses and to produce crops other than the contracted crops may be more loyal to the company, leading to a more satisfactory business relationship.



GETTING THINGS RIGHT: GHERKINS CONTRACTING IN INDIA

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Until the 1990s, gherkins (a race of the species *cucumis sativus*) were virtually unknown in India. Gherkins were not part of the traditional cropping pattern and neither did they figure in peoples' diets. Yet, India today accounts for 15% of the total world gherkins exports, moving from the penumbral margins of the world gherkins trade to center stage.

As of 2011-12, India has been exporting 185 million tons of gherkins in preserved and processed forms. Almost all gherkins production is exported and comes from the two peninsular states of Karnataka and Tamil Nadu. Easy access to ports and climatic conditions that support three crops a year make these the preferred regions. By the end of the decade of 2000s, there were more than a dozen exporters who were



procuring gherkins through contract farming. The gherkin crop is procured from farmers and processed in small-scale plants, by washing, rinsing and preserving in brine, acetic acid or vinegar, based on client preferences. These are either bottled and labeled for international clients or shipped out in barrels for bottling. Some firms have sought to capture more value through bottling and branding. Until recently, the raw materials used in processing, including barrels and vinegar, were imported, but by the late 2000s, barrels began to be manufactured in India. So the gherkins processing industry now uses, by and large, domestically produced inputs. The scale of operations varies widely, between a few hundred farmers and several thousand, depending on export demand apart from the firm's processing capacity, so that the size of contracting

operations varies both across firms in a given year as well as over time for the same firm.

Exports of gherkins based on contract farming in India is a success story on many counts and this success did not come easily for the agro-processors. This article focuses on the experience of one such gherkins processing company that began operations in 1999 and has been contracting successfully since then. In particular, the article highlights the way in which the firm negotiated two major challenges that every processor had to contend with at that time to establish an enduring value chain. The first challenge involved the problem of introducing an 'exotic' crop. The second was setting up a contracting system in a context where contracts were barely enforceable and most transactions were based on social networks and trust.

Though contracting was prevalent for crops such as sugarcane, not all farmers were accustomed to cultivating a crop under formal contracts.

The first years were spent in setting up the systems with a two-tiered system of procurement – a majority from farmers and less from intermediaries who aggregated produce of farmers. By 2009-10, the firm was contracting with over 5000 farmers spread over more than 3000 acres and exporting 10,000 tonnes annually. A majority of these are small farmers, owning no more than 2.4 acres on average and most have only basic primary education. Despite strategic and locational advantages, farmers in the region tended to be poor and had not been exposed to commercial cultivation that came with rigorous quality standards. The firm had to invest significant effort in introducing the crop to the far-



mers, through factory visits, demonstrations and pictorial pamphlets. Acreage contracts rather than volumetric contracts ensured that some of the yield risks were transferred to the firm, an approach that is shared across contracting schemes in India. A cluster approach was adopted right from the start, selecting suitable tracts and canvassing intensively in order to get as many farmers within the village to participate. This was essential for saving on transaction costs of monitoring and collection and to make up the volumes required, given that smallholders with less than a hectare constituted an overwhelming majority of the suppliers. But, the other reason was to promote the spread of knowledge through peer interaction. This has largely yielded results, so that the firm was able to source intensively from a smaller area than spreading out geographically, which would not be feasible given the perishability of gherkins. Nevertheless, several farmers opt to remain out of the gherkins supplier system, mainly out of skepticism and fears that growing

gherkins might be detrimental in the long run to the fertility of their plots. Even before that however, a key challenge was getting farmers to adopt what was perceived to be an exotic and “magical” crop. Even after more than a decade, farmers in the region are amazed at the speed at which gherkins grow in size, as if by magic. Almost universally this is attributed to the high input use, relative to farmers’ conventional practice. Indeed, in the area, the crop is often referred to as “poison” cucumber (or visha vellri in Tamil) denoting the perceived role of chemicals in raising the crop. The firm’s strategy has been therefore to focus on existing suppliers to increase yields through better production practices and post-harvest care. Interestingly, the firm has consistently advised farmers to devote only a small plot to gherkins, encouraging experimentation on a small scale and dissuading some enthusiastic farmers from bringing a majority of their land under gherkins right away. On average, farmers devote just over 1.5 acres to growing gherkins. The

emphasis of the firm was on limiting a farmer’s exposure to risk and thereby focusing on building a supplier base for the longer term. The firm also ensured high intensity of supervision and monitoring, that was more frequent at critical stages of plant growth and tapering off at other times. While the quality of extension was variable, this is mostly regarded by farmers as something they value. Farmers emphasized that they often sought advice from field officials for their other crops. In a context where the public extension system was largely dysfunctional this was a boon to some farmers. The firm has also advised farmers to rotate plots in order to maintain yields and recommended practices for personal safety during spraying, etc. Each of these has earned the firm a reputation of caring for the farmers, well-being and built tremendous goodwill. The other bigger problem was the contracting itself. In rural India, the very idea of a contract carries little meaning, where few farmers understand the document they are supposed to sign. Even if it were possi-

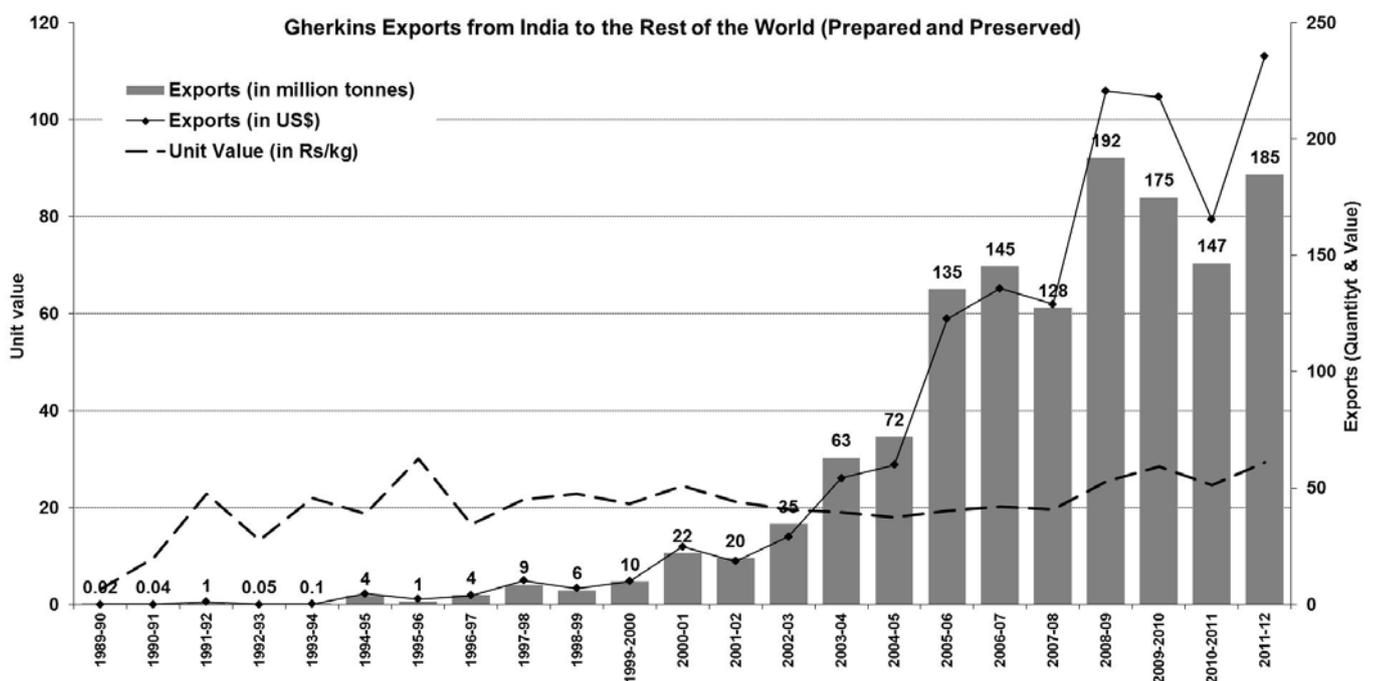
ble to write out complete, verifiable contracts, the proverbially slow legal machinery in India implies huge costs, especially when firms contract with a large number of farmers. For the farmer, recourse to legal redress is practically out of reach. The firm adopted a delicate balance between formal and informal contracting, offering written contracts and passbooks for recording transactions to everyone, but more as a statement of moral commitment than as a rigid legal obligation. The firm consistently faced/ faces a large number of farmers who default, so that the firm is unable to recuperate the full costs of the inputs advanced. For example in 2008-09, as many as 37% of all contract farmers had some default but the average amount owed to the firm was only \$78 per farmer. Small defaults were written off, but the firm ensured that those with large defaults were dropped summarily from the contract scheme. According to the procurement officer of the firm, this enabled them to maintain control. For intermediaries from whom they procured, the firm had a rating system to weed out the ones who either cheated or underperformed. The firm had taken legal action against an intermediary but avoided

taking similar action against the farmer so as not to lose the trust of other farmers.

In the case of gherkins, to a large extent side-selling to alternate markets was not a problem. However, the emergence of several other gherkins processors began to create competition and poaching became common and the firm had to take specific steps. First, the firm began coordinating with other gherkins processors, not so much to set prices, but more to commit not to out-price the contracting firm after harvest. The firms also resolved issues of cross-purchase amongst themselves. Second, the firms would also trade with each other on excess stocks, in the larger interests of preserving the reputation of Indian gherkins firms in the international market. This coordination has resulted over time in remarkably similar contracts across firms, where the smallest gherkins fetch the highest price and the largest, the lowest, with five size categories. All firms today provide inputs on credit, as well as sometimes extend cash advances, often in order to keep suppliers in the fold. The firm has also engaged (and continues to engage) more broadly with the community conducting health

camps, contributing to village festivals and so on to build trust and rapport. Importantly, the firm has always procured what it has promised in order to maintain trust, even if this has meant that destroying the produce later on. The results are there to show. Contract breach as represented by non-delivery (according to a farmer survey conducted in 2009-10) was only 3% lower than for similar contracting schemes in other commodities such as marigold (approximately 65%) and cotton (reportedly, over a quarter of all contract farmers) involving other firms in the same region. Farmers' net profits per acre from contracting are 28% higher than the alternatives they currently have.

In general, the mortality of contract farming schemes in India has been quite high. The case of gherkins contracting is an example of an enduring commodity complex organized around contracts. Firms face continuing challenges; they have been quick to adapt and evolve their strategies to respond to a volatile international market on the one hand and on the other, domestic exigencies like fuel costs and the attractiveness of competing crops.





A BOOST FOR INCLUSIVE FARMER-TRADER RELATIONSHIPS

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Representing 30 per cent of Ghana's formal trade in maize, the Techiman market serves as the main cereals trade platform within the country and the sub-region. However, its role in the region's economic development is threatened by several shortcomings. The Municipal Assembly and

the Techiman traders have therefore launched an innovative public-private initiative to upgrade the maize market infrastructure.

As Ghana's most widely consumed staple crop, maize accounts for 50–60 per cent of the country's overall cereal production and contributes significantly to food security and rural incomes. While involving about

1.6 million largely small-scale producers, a considerable workforce is also employed and income generated at the upstream and downstream ends of the value chain. Even if per capita consumption (except subsistence) is set to decrease due to changing consumption patterns of the rapidly growing middle-class urban population, aggregate human consumption of white maize is likely to remain stable with population growth offsetting shifting demand trends. But rising industry demand for the production of starch, grits, flour, fermented dough and animal feed (yellow maize) will contribute to an overall growth rate in demand of an estimated 2.6 per cent per year. Furthermore, Ghana holds the potential of becoming a breadbasket for neighboring Sahel countries.

It is against this background that maize has been selected as one of the strategic commodities for support under the Government of Ghana Food and Agriculture Sector Development Policy (FASDEP II) that frames the country's obligations under the Comprehensive Africa Agriculture Development Programme (CAADP) Compact signed in 2009.

Given low productivity with an estimated 37 per cent gap between achievable and actual maize yields and high post-harvest losses ranging from 18 per cent to 35 per cent according to different sources, there is a significant dormant leverage potential hidden in smallholder farming and traditional trading. In other words, market supplies could be considerably increased even without expanding production areas. But it is obvious that raising farm productivity will only translate into enhanced food security and rural livelihoods if the root causes of agri-food market failure are addressed.

A driver for local economic development – but with many inadequacies

Generating substantial revenues



and creating sizeable employment, the Techiman maize market (see Box below) contributes significantly to the municipality's internally generated funds, as well as providing proceeds for market operation and infrastructure maintenance and attracting associated businesses such as banking, transport, drying, warehousing and truck repair services, restaurants, hostels and food processing facilities. The Techiman maize market is, therefore, a major driver for local economic development.

However, market operations are highly inefficient. Failure to maintain the market over decades has left infrastructure in a dilapidated state. The place is seriously congested, with trucks sometimes having to wait for days to get into the market for unloading and loading. During the major (rainy) season, maize has to be dried on unpaved muddy ground. Market imperfections are also clearly demonstrated by security problems for stored produce and cash-based business transactions,

as well as by the absence of standard weights and measures. The lack of established routines for measuring moisture contents in maize raises the risk of infestation by Aflatoxin, a carcinogenic fungus that grows under humid conditions.

The Techiman maize market - a transshipment for Ghana and the sub-region.

Thanks to its strategic position at the crossroads along the North-South Trans-West Africa Highway, the Techiman market serves as the major trade hub for food staples in Ghana and is an important trade platform for the West African sub-region, especially for neighboring Sahel countries. With about 80,000 tons throughput per year, the Techiman market realizes around 30 per cent of the country's formal trade in maize.

Located at the center of Ghana's maize belt formed by the Brong Ahafo and Ashanti Regions, the market attracts supplies from different catchment areas following season-



nal production calendars: during the major (rainy) season, supplies are mainly assured from the maize belt. During the minor (dry) season, small volumes of local supplies are supplemented with deliveries from the Northern, Upper East and Upper West Regions. Despite the distance, supplies from these regions are on the rise since Ghana's northern bread basket investment program started three years back aiming at developing commercial agriculture in the largely food insecure regions in the north. The Techiman market also attracts buyers from neighboring Sahel countries.

Owing to scarce drying and warehousing capacities in the maize belt, maize is procured during the rainy season when prices are low. The maize is then said to be (largely informally) exported, dried and stored across the border and resold in Techiman once prices go up during the minor season. While this price

arbitrage contributes to somewhat leveling the volatility of maize prices between the major and minor seasons and to reducing post-harvest losses, these foreign speculations represent forgone opportunities for local producers and traders. They furthermore add to transaction unit costs that in the end have to be borne by largely poor consumers. Resulting high post-harvest quality and volume losses and prohibitive unit transaction costs bear on farmers' and traders' margins and discourage private investments into maize production, transport and logistics, trading or processing. As a result, some suppliers and buyers have started to shift to other nearby (although smaller) markets that have already been refurbished. Furthermore, conflicting policy priorities and market interferences (e.g. export bans) seriously affect the competitiveness of Techiman as the leading maize trade platform in the sub-region.

Public-private solutions required – substantial commitments incurred

Aiming at enhancing local economic development and the viability of farmer-trader business linkages, it is obvious that public and private sector leadership and investments are critical for re-positioning the Techiman maize market. Amidst the on-going transformation of agri-food value chains in Ghana and West Africa, this is a strategic step in order to avoid exclusion of the Techiman maize market from prospective future mainstream cereal marketing schemes such as the Warehouse Receipt System. Viewing the challenges as opportunity, the Techiman Municipal Assembly (TMA), which is mandated to plan and co-ordinate local economic development and the Techiman Maize Buyers and Sellers Cooperative Society (TCS; see Box below), decided to join forces, guided by the vision that: "The Techiman Market remains the leading maize trading platform in Ghana and for the sub-region to support actors to capture the best value possible at all stages of production, processing and trading." The Assembly and traders committed themselves to: refurbish the existing basic infrastructure of the Techiman maize market (especially drainage, pavements, sheds, power and water supply, sanitary facilities); establish new facilities and services (especially drying and storage as well as hostel facilities); introduce codes of practice for assuring quality from farm to table (within the framework of national initiatives for introducing modern cereals trading systems); and derive good practices from the innovative public-private partnership as a catalyst for the upgrading of other commodity markets within the Techiman market and elsewhere.

Trustful farmer-trader linkages – home-grown informal inclusive business models

The Techiman Maize Buyers and



To promote private investments (warehouse, drying, hostel and sanitary facilities), the Assembly intends to organize an investment forum. While the TMA is currently examining different sources of public financing, various development partners have expressed interest in supporting private-sector investments, in particular for the construction of warehouse and drying facilities.

In their efforts to come together and plan public-private initiatives, the Municipal Assembly and the traders' society have been supported by the Market Oriented Agriculture Programme (MOAP), a technical assistance measure funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) in co-operation with MoFA. In the past, MOAP supported TCS in building capacities in the competent use of marketing information systems and plans to assist members in upgrading and up-scaling their existing informal contract farming/embedded service systems already linking about 2,500 smallholders to the market. Thereby, special focus is laid on developing capacities for quality assurance from the farm to the market and the participation in the Warehouse Receipt System. The TMA will be supported in learning from experiences made in upgrading the maize market as catalyst for further infrastructure development in the Techiman food market. In a wider perspective, MOAP is currently also assessing opportunities and needs for improving the coherence between agricultural and trade policies, a major pre-condition for removing barriers to smooth agri-food market functioning.

<http://www.rural21.com/english/news/detail/article/a-boost-for-inclusive-farmer-trader-relationships-0000747/>

Sellers Cooperative Society (TCS) represents maize traders' interests at local and at national and regional levels such as in the recently founded West African Cereal Network. The society provides member services such as market information and book-keeping (all in and outgoing maize supplies) and runs a reputable dispute settlement system that also serves farmers in case of disagreements with buyers.

The majority of TCS members benefit from embedded extension services, including crop pre-financing, advice and livelihood support to about 2,500 small-scale farmers (around one third of TCS suppliers). This is a strong indication that reliable, long-term and trustful business linkages exist between traders and farmers. Interdependencies assure a balance of power between the two contract partners given the reliance of traders on farmers' supplies during the minor season and the dependence of farmers on traders' buying maize during the major season.

Following an assessment of upgrading needs, recommendations for market improvements and an architectural design have been developed and a first estimate of investment costs submitted (roughly 0.5 million Ghana cedis or 200,000 euros for public and roughly 1.5 million cedis or 600,000 euros for priva-

te investments). There is clear commitment from all parties. The TMA has budgeted first items, and the TCS has started collecting member contributions for the construction of sheds. The efforts of the Assembly and the traders are accompanied by the Traditional Council (which owns the land the market is operating on) through the recently established Market Development Committee, the Techiman branch of the Ministry of Food and Agriculture (MoFA) and the Ghana Grains Council (GGC), a private-sector cereals industry representative body.

Seizing opportunities, overcoming challenges – the way forward

With growing demand of industry and institutions for procuring sizeable volumes of maize, the opportunities for the Techiman maize market to grow are obvious. However, rising requirements for quality assurance, reliability of supplies and participation in forthcoming innovative marketing systems (Warehouse Receipt System, Commodity Exchange) will be challenging for traditional agri-food trading systems. Upgrading the market infrastructure and up-scaling existing inclusive farmer-trader relationships is imperative for the Techiman maize market to recoup its competitiveness and keep its vital role for local economic development in the municipality.



Picture 1: The lady in the group is Reina Oliva

COCOA PRODUCTION IN HONDURAS: NEW POSSIBILITIES FOR SMALL-SCALE FARMERS

Ingrid Fromm, *Bern University of Applied Sciences, School of Agricultural, Forest and Food Sciences*

Accessing international markets is a big challenge for small-scale farmers, particularly those producing commodities. Contract farming schemes can provide opportunities for farmers who would otherwise have many difficulties reaching these markets. For Reina Oliva, a cocoa farmer from the municipality of Omoa, on the northern coast of Honduras, something as far away as the Swiss chocolate market is now the main destination of the cocoa she produces. In 2010, she first came in contact with a company called Chocolats Halba, a subsidiary of Coop, one of the biggest retailers in Switzerland. They started a pilot project with the support of different local and international partners with the goal of building partnerships with local producers in order to help them produce in a more sustainable way while increasing the production of cocoa to supply the high demand in Switzerland. Cocoa production in Honduras had not been profitable in the last few years. On one hand, the production



Picture 2: Cooperativa San Fernando, in the cocoa region near Omoa, Cortés in northern Honduras. There is a collection center, fermenting and drying facilities and farmers also have trainings here.

Picture 3: Cocoa drying.

dropped significantly after Hurricane Mitch in the late 1990s, and most plantations were lost. After this, a bout of *Monilia*, a fungal disease, was another factor that further discouraged farmers from producing cocoa. Furthermore, world market prices were too low to motivate farmers to continue producing cocoa, so many simply abandoned their cocoa plantations. However, as Ms. Oliva states, Chocolats Halba has brought new hope to many farmers and there is much interest in the sector, even at a national level. As she states “Our cocoa is very special. The beans are high quality and we produce organic cocoa. Even the Swiss company that buys our cocoa knows this. We are very happy to supply cocoa to the Swiss market.”

Part of the agreement between Chocolats Halba, the Honduran Association of Cocoa Producers (APROCACAHO) and the farmers who are represented by different smaller associations, addresses many of the needs of these farmers. Through their participation in farmer field schools, they have become aware of the importance of maintaining high quality standards, especially because they

produce organically. The cocoa beans are graded according to a quality scale and they are paid a premium. Thus, cocoa farmers are motivated to keep producing. As part of the contract, the farmers have to be trained and maintaining high quality has become important to them.

Reina Oliva states that one of the proudest moments in her life was when the final product, organic chocolate bars from Honduran cocoa, was officially launched in Switzerland in 2013. “There are no words to describe how proud I feel. The effort is finally paying off. Others can enjoy our chocolate and that makes it all worthwhile.”

There are plans to work with more farmers and increase production, but in a sustainable way. Currently, there are over 250 farmers in a contract farming scheme with APROCACAHO and Chocolats Halba. Much effort has been put into training farmers and creating awareness about the importance of sustainable production among consumers. According to Ms. Oliva, other farmers are also interested in producing cocoa. It seems that this is the way forward for cocoa producers in Honduras.





CONTRACT FARMING: HIGH POTENTIAL PROFITS FOR WOMEN IN UTTAR PRADESH, INDIA

Jyotsna Kaur Habibullah, *Mango Farmer, Uttar Pradesh, India*

Sridhar Gutam, *Senior Scientist, Central Institute for Subtropical Horticulture, Lucknow, India and YPARD India Representative.*

Agriculture forms the backbone of the Indian economy, employing about 498.4 million (about 58% of the population) workforce and contributing to approximately 17.2% of the Gross Domestic Product. India is a country of small farms with peasants cultivating ancestral lands with manual and cattle labor, despite the influx of tractors and other machines in the 1990s. Furthermore, the size of operational holdings in India is declining with every successive



generation. The continuous decline in the size of land holdings has raised serious questions about the sustainability of smallholders and their ability to benefit from the opportunities presented by globalization. India is also witnessing a “feminization of agriculture”, with men increasingly migrating to urban areas for work, leaving more women responsible for agriculture labor than ever before. It is estimated that women cultivators and agriculture laborers perform about 70% of all the agricultural activities. Yet, the prevailing social norms and gender inequalities continue to position men and women differently within farming operations, particularly regarding the ownership and access to assets and resources, and most importantly, control over decision-making. Indian agriculture thus is confronted with a serious challenge on how to capitalize on the productive potential of women farmers for sustainable farm-based rural livelihoods and poverty reduction. The Food and Agriculture Organization of the United Nations states that **“In the Indian Himalayas a pair of bulls works 1,064 hours, a man 1,212 hours, and a woman 3,485 hours in a year on a one-hectare farm, a figure which illustrates women’s significant contribution to**

agricultural production”.

Contract Farming in India and Uttar Pradesh State.

Among the Indian states, Uttar Pradesh is the key agricultural contributing state of India producing wheat, rice, pulses, oil seeds and potatoes. It has fertile regions in the Indo-Ganges plain, irrigation through the Ganges Canal and Tube wells. Western Uttar Pradesh is more advanced in agriculture. 32% of the total area of cultivated land is under horticulture generating 3928.78 crores of rupees of per capita income from fruits alone. PepsiCo was one of the earliest promoters of the contract-farming model in India. It had set up a tomato processing plant in Punjab in 1997 for ketchup. Now it still works with 24,000 farmers across nine states in India and with 12,000 farmers in West Bengal primarily to procure potatoes for potato chips. The Appachi Cotton Company, the ginning and trading house from Pollachi (Coimbatore), Tamil Nadu and the Ugar Sugar Works from Belgaum, Karnataka are a few other examples of companies involved in contract farming in India. In 2003, apparently the Uttar Pradesh government began contract farming which is defined as a system for the production and

supply of agricultural/horticultural produce under forwarding contracts between producers/suppliers and buyers. The state government, with the objective of boosting agriculture export and improving farmers’ welfare by providing them assured marketing support, earmarked 4.5 lakh hectare for cultivation of a Pusa-1 variety of Basmati and another two lakh hectare for wheat for contract farming. Later, the impact of diversification of agriculture towards vegetables was assessed on farm income and employment using household level information from western Uttar Pradesh. The results of a survey carried out in Uttar Pradesh revealed that vegetable production is more profitable and labor-intensive as compared to cereals and it fits well in the small farm production systems and the small farms are relatively more efficient in production and own more family labor in contrast to large farms.

Like any other state in India, the women in Uttar Pradesh also receive lower wages than men, with younger girls being favored as they are more committed and productive and could be continuously employed with no social security obligations on the part of employers. Children miss their schooling to work in the fields during the harvest period and thus miss valuable schooling every year. Despite their importance, women are continually denied their property rights and access to other productive resources. A study conducted on the status of women farmers in Uttar Pradesh by Oxfam shows that only 6% of women own land, less than 1% have participated in government training programs, 4% have access to institutional credit and only 8% have control over agricultural income. Protecting women’s rights in land, enhancing infrastructure support to women farmers and giving legal support on existing laws would facilitate recognition of women as farmers

and enable them to access credit, inputs, and marketing outlets.

Sunhara Prayas Project

Against this backdrop, Agribusiness Systems International started implementing the Sunhara Prayas Wal-Mart project in March 2011, with funding support from the Wal-Mart Foundation in Uttar Pradesh. The project's aim and objective is to increase the income of poor households with a focus on benefiting women and targeting 5200 small, marginal and landless women by building rural commercial systems that provide equality inputs, services and information on improved production practices, facilitate streamlined and profitable relationships with buyers and address gender inequality by empowering women to overcome gender-based constraints and become decision makers.

Sunhara's underlying approach to women's socioeconomic empowerment is based on the Self Help Group (SHG) model. The women are organized into small 10-15 member groups, focused on savings and internal credit distribution and ensuring access to external capital. The SHGs also promote leadership and management abilities within the group and work on overcoming the gender inequalities and discrimination they face as individuals. The SHG model serves as the base for creating Village Level Federations (VLF) of SHGs, and Cluster Level Federations (CLF) of VLFs. Usually, seven SHGs make up one VLF, and eight VLF's comprise one CLF. The CLF's are the primary body used by the project to empower women, engage communities and facilitate relationships with other stakeholders such as Bharti Wal-Mart, Government Departments, Banks and Local Mandi (Market) Officials and various value-chain actors. The project established a model in which a SHG president is considered the lead farmer in

the group, and technology are transferred through demonstration plots on her land, while the project extension agent provides support. The key project activity in the Ghaziabad district of Uttar Pradesh is the production and sale of vegetables by women's groups. To ensure a coordinated supply chain management system, the project has conducted a series of training activities during appropriate times

of the season in order to introduce low cost technologies such as nursery trays, poly tunnels, soil testing, hybrid seeds and other practices through demonstration plots strategically located in the villages. The project has about 300 SHGs in the country today and is in the process of forming 5 women federations and developing innovative solutions for them to do business.

Box. 1. "There were no women SHsG active in the western region of Uttar Pradesh. This is the first time that women have had an opportunity to remove their veil and participate in activities like SHG meetings. They are attending sessions on farming techniques. The concept of the Federation has given birth to a sense of self-employment among them. All women must join the Sunhara Walmart program. This will empower them" - Chairperson, Lakshmi Jan Kalyan Sewa Sansthan, Ghaziabad, Uttar Pradesh.

Box. 2. "I used to sell all my vegetable produce to middlemen in the village. Since the inception of the program and the creation of the federation, Walmart purchases all my vegetables. I get a price higher than the Mandi price. For the first time for me, vegetable growing has become a profitable business" - China Sharma, Woman farmer, Harsingpur village, Hapur, Uttar Pradesh.

SHG in Oi Village, Maharajganj

Starting with the help of the NGO Find Your Feet and Sabla, there is a SHG with 11 women who started out as landless farmers and used to work as laborers but as a group they can take land on contract and do wheat and seasonal vegetable farming providing the annual supply of food grain to their family. Many NGOs are operating in the area with a view to helping the formation of small SHGs and this is what is needed for the success of agriculture for smallholders or landless villagers. For the owners of agricultural land it is a reason for them to not convert it to commercial land, which is happening in many cases and would in the end be a death knell to agriculture in India.





Box. 3. “After my husband migrated I had no source of livelihood and was forced to work on daily wages without an assured future for my family. Since the formation of the SHG I have the support of the group and can send my children to school and am self reliant” - Shamsul Nisha, Woman farmer, Oi Village, Maharajganj, Uttar Pradesh.

Contract - Cooperative Farming

While we see that contract farming gives a better opportunity and collective voice to bargain for profitable agriculture/horticulture, it would appear, from evidence in the field and studies, to be more profitable when farmers form cooperatives and get into contract farming, since this would be a win-win situation for the contractor and the farmers. Farming activity should essentially be subjected to insurance coverage in order to minimize the crop failure risk due

to any other reason beyond farmers' control and market volatility.

There are some reports that, under contract farming, both the firms and farmers have breached their contracts. The firms rejected the produce on quality grounds when market prices fell and the farmers sold their produce in open markets. The success story of the Sunhara project seems to be an influential anecdote: Its success needs to be proved in the absence of the project implementation agency. Contract farming provides opportunities

for farmers to access information, new technology, better inputs and assured links to markets. The Farm Science Centres, in association with the State Agricultural Universities and the research establishments of the Indian Council of Agricultural Research, should help the women farmers in forming SHGs and taking up contract farming. With the encouragement and support from the KVKs, the Ministry of Agriculture, Government of India and the National Bank for Agriculture and Rural Development, we would see the formation of producer companies by women in farming.

As India has diverse agro-climatic zones, it has the potential to become a global leading producer of agriculture and horticulture (vegetable) crops generating gainful employment in rural communities, particularly for women.

GIZ ISSUES HAND BOOK ON RESPONSIBLE CONTRACT FARMING

The contract farming handbook is a practical guide linking small-scale producers and buyers through the business model innovation issued in June 2013 by the German Development Agency (GIZ). It provides a practical and process-oriented approach guiding practitioners, through sound planning, through the start-up phase, subsequently consolidating and up-scaling contract farming (CF) schemes. It gives insights into the selection of an appropriate business model for the farm supply-firm procurement interface based on principles of fairness and transparency. Furthermore, it provides guiding principles, and advice for the development of viable CF business and practicable management plans, mutually beneficial farming contracts and mutually agreed dispute settlement systems.

The handbook can be downloaded at the following link <http://www.giz.de/Themen/en/2198.htm>

WORKSHOP ON PLANNING AND IMPLEMENTING CONTRACT FARMING OPERATIONS

As part of the ongoing activities of the Rural Infrastructure and Agro-Industries Division (AGS) towards the promotion of Responsible Contract Farming (CF) Operations, a **Training workshop on planning and implementing contract farming operations** was held in Rayong, Thailand, from 8 to 11 July 2013.

This was the second of a series of CF training events organized in Asia by AGS, in collaboration with the Regional Office for Asia and the Pacific (RAP) and the Agricultural and Food Marketing Association for Asia and the Pacific (AFMA). Details on the training program are available at <http://www.afmaasia.org/cfo2013/index.html>

The goal of the Workshop was to build the capacity of government officials, development practitioners, professionals from NGOs, private sector actors and others with roles in facilitating the initiation of contract farming

operations. The event was attended by 19 professionals representing six Asian countries: Thailand, Vietnam, Cambodia, Myanmar, Malaysia and the Philippines. The training consisted of a combination of presentations and case study discussions covering CF basic concepts and guidance on planning CF operations, implementation and legal issues, financial aspects and contractual design, among others. Field visits to agro-industrial firms and farmers to discuss their procurement and marketing systems complemented the training program. Highly positive feedback was received from the participants of the event, as illustrated by some complimentary messages they shared with the organizers.

<http://www.fao.org/ag/ags/contract-farming/news-cf/news-detail/en/c/181193/>

INDIA: THE UTTAR PRADESH FARMERS' CASE

Uttar Pradesh (UP) farmers (i.e. India) are set to join the retail revolution sweeping the country.

The Agricultural Infrastructure and Investment Policy announced by UP chief minister Mayawati allows private investors with net worth of more than Rs 500 crore (i.e. Indian Currency Unit) to purchase produce directly from the farmers, but not below the government-set minimum support price.

While contract farming (i.e. agricultural production carried out according to an agreement between a buyer and farmers) will be allowed, the ownership of land will remain with the farmers. Importantly, in case the market price are higher than the contracted price, the farmer will be free to sell the produce in the open market.

The private parties will have to make cash payments on the same day. They will have the right to set up private mandis across the state and small entrepreneurs will be allowed to set up kisan bazaars in the joint sector. Other players will continue to have the right to buy farm produce under the Mandi Parishad license.

Those selected will get integrated licenses to operate and pay tax in one place.

http://articles.economicstimes.indiatimes.com/2007-08-04/news/27671399_1_contract-farming-minimum-support-price-retail-revolution

SPREADING THE CONCEPT OF COTTON CONTRACT FARMING AMONG PEOPLE OF TANZANIA

The Bunda District Agriculture and Livestock development officer (DALDO), Chibunu Lukiko told the 'Daily News' in a recent interview, affirmed that the solution to small yields was to engage in contract farming.

"You see, if contract farming were to be established in all the cotton growing zones, there wouldn't be any complaints about little cotton production or about its quality because with contract farming, farmers are eligible to loans given by ginners and government subsidies," he said.

He said despite the challenges the cotton subsector was facing, such as a fall in its price last season, a bumper crop of quality cotton will always stand the farmer in good stead.

In a survey conducted by the 'Daily News' in Mara and Simiyu Regions, it was revealed that there were concerns raised by cotton farmers and ginners over pesticides challenges and the crop's low price. Lugendo Mugole, a farmer in Guta Village, said pesticides were very few and of low quality. Besides, they are very expensive to the extent that few farmers can afford them. The survey also covered Olam and SNG ginning companies, which had promised the Minister for Agriculture, Food Security and Cooperatives to give loans to cotton farmers for contract farming, as well as distributing inputs and pesticides. It was apparent that they had fulfilled the promise.

Contract farming was chaotic at first because the stakeholders, including farmers, Tanzania Cotton Board (TCB), Tanzania Gatsby Trust (TGT) and Tanzania Cotton Growers Association (TACOGA) had little knowledge about it. <http://in2eastfrica.net/tanzanias-bunda-district-touts-cotton-contract-farming/> ◇◇◇

