

Tool: COMPLIANCE MATRIX FOR CONTRACT FARMING

Compliance tracking matrix

The Compliance tracking matrix details how to apply FAO's Guiding principles for responsible contract farming operations (2012). This complementary tool was prepared by Integra LLC based on FAO's Guiding Principles and the contract samples in the FAO database.

Common purpose

- Protect parties from risks.
- Promote production.
- Guarantee secure market for farmers.
- Give farmers more revenue and buyers' return on investment (ROI).

Adherence to a legal framework (basic requirements to form a contract)

- Parties have legal capacity and give free and informed consent.
- Group vs. individual roles are clear in contract with cooperatives.
- Offer and acceptance required.
- Parties' responsibilities clear, including price, who does what, when and payment terms.

Clear documentation

- Preferably written agreements, with clear guidelines on product quality, product delivery, prices and payment.
- If verbal, agreed before impartial witnesses.

Readability of contracts

- Clear, coherent and comprehensible for normal farmer in understandable language.
- Read aloud for illiterate farmers, with confirmation of their understanding.

Due attention and review

- Buyers should give farmers enough time to review drafts and seek advice before signing, and not fight them getting advice.
- Contracts should be signed well before the start of the growing season.
- Farmers should be able to cancel contracts for a limited time after signing.
- Buyers should give farmers a signed copy.

Disclosure (Parties should be transparent in all their dealings)

- Specify quantity and quality of product farmer must deliver, and how quality is assessed on delivery.
- Specify timing of delivery or pick up of product, and transport responsibility.
- If buyer supplies production inputs, specify their terms and conditions.
- Specify exactly criteria to set product price and how this is verified.
- Establish contract duration and conditions for termination, i.e. written notice within reasonable time period.

Transparency in price determination

- Avoid complex formulas or measurements of quantity and quality farmers cannot understand.
- Clearly disclose any charge that may affect the net amount paid the farmer.
- Specify costs of any inputs and services supplied.
- Provide for prices to be renegotiated for unforeseen circumstances.

Transparency and fairness in clauses relating to quality

- Clear requirements for use of production inputs.
- Clear good management practices expected (such as hygienic conditions and product protection).
- Specified post-harvest handling process and materials to be used, by whom at what cost.
- Agreed commodity grades, with transparent assessment of product quality.
- Farmers right to be present at delivery and receive a full explanation of rejects or downgrading.
- Provide for post delivery written report of quantities received and grades applied by buyer

Transparency and fairness in clauses related to input supply and use

- Stipulate who supplies and applies inputs.
- When inputs are needed before a season, identify them and communicate when they will be ordered.
- For buyer supplied inputs, specify quality standards, delivery times and no more than prevailing commercial prices.
- When buyer provides inputs and other advances, require farmers to use for intended purpose and following recommended practices.

Fairness in risk sharing: force majeure and contractual flexibility

- Assign responsibility for controllable losses from plant or animal disease risks commensurate with each party's responsibility.
- In case of force majeure, hold neither party liable and allow renegotiation based on the principle of equal sharing of the costs, or benefits.
- If crop insurance available, evaluate and possibly require as part of contract.

Prevention of unfair practices in buyer-farmer relations (various buyer dirty tricks)

- Confidentiality or other clauses that prohibit farmers from associating or discussing with others about their contract terms.
- Retaliating against farmers who exercise their rights against them.
- Misrepresent contract terms to induce signing.
- Various tools such as discriminatory buying, late payments, inefficient services, poor technical advice and unreliable transportation for commodities.
- Changing pre-agreed production quotas to avoid purchasing contracted production.
- Refusing delivery of goods when farmers are ready to supply them.

Honoring contractual terms

- Buyers should:
 - Provide all necessary information for farmers to plant, grow, harvest and deliver the crop and guarantee they will purchase as scheduled.
 - Honor contract even when market or government policies change.
 - Let the farmer or a rep be there at delivery and allow the farmer or agent inspect rejected.
- Farmers should:
 - Supply the produce, meeting the quality standards specified in the contract.
 - Use inputs and financing supplied by the buyer for that particular buyer, unless otherwise agreed.
 - No side selling for higher prices

Open dialogue

- Parties should meet at the beginning of each season to clarify programme and duties and address emerging issues.

Clear mechanisms to settle disputes

- Contracts should:
 - Provide for a neutral third party to help resolve disputes.
 - Require parties to try to resolve disputes amicably.
 - Provide for mediation or arbitration before court.
 - Make parent companies liable to the farmer for claims against its subsidiary buyer.
 - Provide which jurisdiction's law applies (preferably local law)