



# Contract Farming Questionnaire for Buyer

Lan Li, Ivana Radic, and Kaiqi Zhao

*Agrifood Economics Division (ESA)*  
*Food and Agriculture Organization of the United Nations (FAO)*  
2022

## I. General information and feasibility assessment

### General information about the company

- Can you give us a short introduction to the company?
- What are your main business activities? Aggregation, import, packaging, wholesale, and retail?
- What are the main commodities that you buy and market? Do you also sell seeds and other inputs for beans or other commodities?
- What do you do for processing, for packaging? Do you have storage, processing, and packaging facilities? What other value addition do you do?
- What kind of transportation do you have available?
- Where and who do you sell dry beans to?
- What is your experience in managing contracts, business management, and marketing?
- Do you plan to expand? What is the plan for expansion?
- Do you prefer sourcing from local producers instead of importing beans? Why? Do you plan to expand procurement from local producers? What do you plan to do? What are the challenges to procuring more locally?

### Advantages of CF perceived by the buyer

- Which advantages do you consider for starting a contract farming arrangement with farmers?
  - Do you think that in the future contract farming could lead to a more stable supply, and higher quality beans, from varieties desirable for the market?

## II. Discussion on contract issues and terms

The following questions will follow the main sections in a CF contract.

### Parties to contract

- Which regions do you source dry beans from? What are the advantages of sourcing from different regions? (What are the disadvantages?)
- Do you mainly buy from individual farmers directly? How many farmers do you usually buy from in a year? Do you have farmer selection criteria to buy from?
  - How many of these farmers have you established a relatively stable relationship with? How long have you been working with these farmers?
- What is your procurement process?
- Do you use formal/written or informal/verbal agreements before harvest with farmers?
  - How do you communicate quality requirements to farmers?
  - Do you discuss in advance the quantity of beans farmers would sell to you?
- What are the main reasons you have chosen not to use written agreements?
- Are you working with farming groups, lead farmers, and/or producer organizations?
- Would you prefer to have contracts with individual farmers, or with a producer organization?
  - What would you consider the benefits of contracting with individuals or with producer organizations?
  - Do you consider farmers forming working groups to work closely with lead farmers of these groups to oversee CF?
- We consider a centralized model by which you will have a contract with individual farmers for the pilot. Would you consider working and contracting with a producer organization in the future (either multipartite or intermediate model)? Which one, why? Or why not?

### Purpose

- When sourcing dry beans from farmers, what would you expect the farmer to do:
  - Follow technical specifications to produce the beans?
  - Package and deliver the beans to an agreed location?
  - What other activities would the farmer have to do?
- What would you, as the buyer, be willing to do under the contract?
  - Pick up the beans from a defined location?

- Pay the agreed price immediately on delivery or a short period afterwards?
- Provide advice or other technical support to farmers?

### **Identification of production site**

- Do you know what is the ownership or tenure arrangement of the land used for dry bean production?

Farmers under CF should have confirmed legal rights for unrestricted access and use of the land on which to plant and process beans and should provide the documentation for such confirmed legal rights. Under a land leasing arrangement, the landowner should be informed. The buyer should check whether the lease includes the right of use for CF and otherwise seek written consent to the dry bean production under CF to avoid potential disputes.

### **The product (dry beans): quantity and quality**

#### Quantity

- What is the measurement you normally refer to what farmers are bringing beans: kg, tons, bags? If bags, how many kg in a bag? How many tons does each farmer sell to you on average? How many tons for larger farmers? How many tons (or kg) for smaller farmers?
- Would you want the farmers to commit to delivering a fixed quantity (a range of quantity from the minimum to maximum) of dry beans – such as fifty bags of 15 kilos each – or would you prefer them to deliver either all or some percentage of beans they produce in a specific area?

Self-reported quantity by farmers at harvest or later without effective verification measures should be avoided because it provides an opportunity to report more or less based on their own interests, creates more uncertainty, and does not encourage honest behavior.

#### Quality

- What variety of beans would you want to procure?
- Could you clarify the quality you expect from the dry beans?
  - What physical characteristics are expected?
  - What contents (e.g., moisture content) should dry beans have?

### **Production practices, inputs, and technical assistance**

- Would you like to incorporate requirements for production methods (e.g. seeds, inputs, certain practices) and processing practices in the contract? If so, what requirement would you consider?
- Would you consider providing technical guidance for farmers on production or collection methods in the future for CF? What type of guidance?

## Inputs

*Inputs may be physical (seeds, fertilizers, pesticides) or intangible (training or technical assistance).*

- We understand the input usage will not be recommended or specified under the contract; we want to confirm would you consider it useful to:
  - Require the farmer to use certain inputs?
    - Seeds
    - Fertilizers
    - Pesticides
  - Would you, as the buyer, consider providing all or some of these inputs to the farmer? If you would provide inputs, the cost of such inputs could be deducted from the final price to be paid to the farmer.

## Training, technical assistance, capacity development

- In your view, which of the following capacities do farmers lack the most: production, processing, marketing, or farm management (including record-keeping)?
  - What would be the most suitable way for extension workers to increase the capacities of farmers: training, technical assistance, field visits, telephone assistance?
- How do you propose that the extension service can collaborate with you to support farmers under CF (this will not enter contract terms, generally)?

## **Delivery, quality check, acceptance, and payment**

### Delivery

- How could you agree on the time of delivery? Is there a different time of delivery for farmers from different regions?
  - What is the place of delivery? Are the beans delivered at the farm gate, your processing facility, or elsewhere? Who is responsible for transport, loading, and unloading, and who pays for this?
- Do you have requirements for the packaging (e.g., types of bags or containers) used by the farmers? Will you provide the packaging?

### Quality check

- How do you assess the quality of the dry beans?
- Are farmers able to be present during the quality assessments?
- What happens if the product fails to meet the required standards?
  - If product rejection causes a dispute, how will this be resolved?

### Acceptance receipt

- Once the product is accepted, do you provide a written receipt specifying the time and date of delivery, quantity, quality, and price?
- Do you think it is necessary to indicate in the contract that farmers have the obligation of record-keeping?

### Payment

- When will you pay farmers? What payment method will be used, and in which currency?

### **Pricing mechanisms**

#### Pricing (options):

Because contract farming is an agreement made in advance, in this case, before production, the pricing mechanism is also agreed upon in advance. In general, there are three types:

- Fixed price: more common for commodities with a long season and more continuous supply, or with a stable market, or tied to some price regulation, etc. It can be a set of fixed prices for different qualities.
- Flexible price: usually determined by market price and/or other changing conditions.
- Combined price with a fixed component (e.g. a minimum price) and a flexible component which can be associated with market price or incentive factors.

#### General information on prices:

- How do you determine the price for the dry beans with farmers? Is the price usually negotiated, and who is involved in the price negotiations?
- Are there premiums or penalties based on quality and quantity delivered?
- Do you offer competitive price compared to other packers or public procurement?
  - What do you think makes you more competitive compared to other buyers?
- Is there any government regulation about the price?
- Would you offer the same or better price to farmers under CF as before or as to those farmers not under the CF?
- Would you prefer the contract to have a fixed price for the beans – such as 500 maloti for a bag – or to connect the price to the prevailing market price at the time of delivery?
- If a combined price is to be used, how would you determine the minimum price? What would you consider to be the market price?

### **Excuses for non-performance and Force majeure**

- What are the possible natural and other production risks in the production area (epidemics, earthquakes, storms, droughts, fires, floods, riots, etc.)? *You had torrential rain this year, which impacted the harvest significantly.*
- What happens if the agreed delivery of the crop fails due to unpredictable, inevitable events?
- Would you consider renegotiating or revising the contract when hardship occurs whereby it becomes extremely expensive or difficult for farmers or you as the buyer to fulfill their duty (e.g., a dramatic rise in the price of the inputs necessary for the production)?

#### **Communication and monitoring**

- What is your plan to communicate periodically with farmers throughout the duration of the contract?
- What is your plan to monitor farmers' production progress during the contract to mitigate some of the risks and concerns?
  - Would you visit the production site before and during harvest?

#### **Breach of contract and dispute resolution**

- Have you heard of side selling? Is side selling a concern to you? Do farmers usually sell to one buyer or multiple buyers?
- How would you address a situation where the farmer fails to supply the agreed quantity or does not supply at all?
- How would you address a situation where the farmer fails to supply total or partiality beans of the agreed quality?
- What happens if the packer does not take the delivery or gives the farmer a mistaken address for the delivery?
- If you could not solve a dispute directly by talking with the farmer, who could help in solving the dispute? Do you think the producer organizations can play a role?
- Are there mediation or arbitration services offered in Lesotho, that you would consider appropriate to be used in a dispute with farmers?

#### **Duration, renewal, termination**

- What would be your preferred duration for the contract? For a single production season, or multiple?
- Would you like the contract to be renewed automatically, or require confirmation from you and the farmer?

### **III. Procurement for the current harvest**

- What is your plan to buy from these farmers for the current harvest?
- Would you consider a simple contract that includes just the quantity, quality, delivery and price terms? (Go through the relevant terms for this year's harvest.) What price would you propose for this year?

#### **IV. Final questions**

- In which ways do you think the government can support and facilitate contract farming for you? This includes extension and marketing services from the ministry of agriculture.
- In which ways do you think producer organizations can support and facilitate contract farming?
- In the future, do you think you can support farmers in obtaining loans from banks (e.g. providing documentation and certifying the contractual relationship with farmers)?
- Do you need specific new skills or resources for managing the contract with farmers? Do you think that you might incur additional costs for contract farming? What are they?
- Do you have any additional concerns about contract farming?
  - How can these concerns be addressed?