

Box 4: GraceKennedy - Jamaica

Grace Foods and Grace Agro-Processing Division (GAPD) are part of the GraceKennedy Group, one of the largest conglomerates in Jamaica with markets in over 40 countries in the Caribbean and worldwide. Among other things, they produce and sell branded pepper products that appeal to the taste profile preferred by Caribbean consumers.

The peppers are grown on the company's own farm land and by contracted farmers across Jamaica. In the five years since GAPD first signed contracts with some 60 farmers in 2011 to supply 45,000kg of hot pepper and scallion for its operations, volumes have grown significantly. It currently contracts some 70 pepper farmers who produce an estimated 1,000,000kg of hot pepper per year.

Contracts are usually signed for two years, with clearly stipulated obligations for GAPD and for farmers. The hot pepper plots on contract farms range from 2 to 35 acres and average approximately 5 acres. Farms are distributed across the 14 parishes in Jamaica. Approximately 90% of farms use drip irrigation systems and 15% use plastic mulch. Most farmers source their agro chemicals from the GraceKennedy Group, which offers a discount of 10% and a credit free facility of the duration of the crop. All farmers are required to use the pepper varieties that are produced by CARDI under contract for GAPD, i.e. the West Indian Red and the Scotch Bonnet varieties. Contracts can also be used to secure loans from local credit unions.

The contract farming system has been successful in so far as production volumes have been increasing since the system was established in 2011, in spite of several natural challenges such as the drought in 2015. This growth has been accompanied by positive social economic impact and significant increase in farmer numbers and farm workers across all parishes on the island.

Source: Robert Best, draft report for FAO (2015)



Box 5: How FAO can help

- At the policy level, advocacy for enabling policies and guide decision makers to establish a conducive and supporting environment, including the enforcement of laws and the development of appropriate regulatory frameworks
- Build a contract farming component into value chain projects
- Promote inclusive business models for the integration of smallholders into markets
- Function as a facilitator of contractual linkages between farmers and buyers
- Conduct trainings for government extension, service providers and NGOs in contract design, negotiation and mediation
- Provide access to a knowledge platform to disseminate experiences, success cases, lessons learned and contract samples or templates (see FAO's Contract Farming Resource Centre).

References and resources:

- FAO Contract Farming Resource Center, CFRC, (for search for contract examples, publication and manuals, etc.). <http://www.fao.org/ag/ags/contract-farming/index-cf/en/>
- FAO (2012): Guiding principles for responsible contract farming operations. <http://www.fao.org/docrep/016/i2858e/i2858e.pdf>
- FAO (2013): Contract farming for inclusive market access. <http://www.fao.org/3/a-i3526e.pdf>
- FAO (2015): Inclusive business models. Guidelines for improving linkages between producer groups and buyers of agricultural produce. <http://www.fao.org/3/a-i5068e.pdf>
- GiZ (2013): Contract farming handbook. A practical guide for linking small-scale producers and buyers through business model innovation: <https://www.giz.de/fachexpertise/downloads/giz2013-en-contract-farming-manual.pdf>
- GiZ (2015): Contract farming handbook. Volume II – Selected tools and case examples: <https://www.giz.de/expertise/downloads/giz2015-en-contract-farming-handbook-volume-2.pdf>
- Grossman (1998): The Political Ecology of Bananas: Contract Farming, Peasants, and Agrarian Change in the Eastern Caribbean.
- UNIDROIT/FAO/IFAD (2015): Legal Guide on Contract Farming. <http://www.fao.org/3/a-i4756e.pdf>
- World Farmers Organisation (WFO, 2013): F@rmletter September 2013 http://www.fao.org/uploads/media/WFO_Famletter_09_2013.pdf



Food and Agriculture
Organization of the
United Nations

ISSUE BRIEF

SUB-REGIONAL OFFICE FOR THE CARIBBEAN

#17
January 2016

Contract Farming for Improved Farmer-to-Market Linkages



Globalization has brought the world into national markets throughout the Caribbean. Food markets are fiercely competitive, and profit margins are squeezed throughout the value chain. Higher quality expectations and more stringent regulations are threatening to leave behind small farmers who do not adapt. The well-known obstacles of (small) size, remoteness, high costs of labor and land, as well as the lack of access to much needed services (extension, finance, transport, business and organization) make small farmers even more vulnerable.

Opportunities do exist. Local farmers and food processors could supply a much larger share of the domestic market for fresh and processed fruit, vegetables, meat, dairy and staple foods. The tourist and restaurant markets and niche markets, such as for fine flavored cocoa, offer prime opportunities for local and culturally distinctive products. Tapping into these opportunities requires innovative thinking and much closer collaboration between farmers and buyers.

Contract farming (Box 1) has been commonly adopted for exports of high value agricultural products. Recent international and regional experiences have shown that contract farming can be successfully used for locally marketed fruits and vegetables and staple foods. The examples in Boxes 2, 3 and 4 suggest that contract farming offers several advantages to food processors and distributors as well as for farmers. Contract farming offers farmers more predictable incomes and can provide financing and advisory support for the adoption of innovative technologies and production practices. By promoting local production and processing, contract farming can also generate employment and incomes further down the value chain. By specifying good agricultural practices and higher food safety and quality standards, contract farming provides benefits for consumers as well.

Box 1: What is contract farming?

Contract farming is an arrangement whereby producers and buyers agree in advance on the terms and conditions for the production and marketing of farm products. The terms of the contract typically specify prices, quantities, quality characteristics and delivery dates, and may include other mutually agreed conditions such as production technologies and practices. Contract Farming has been used successfully in poultry and pineapple industries in the Caribbean

Advantages of contract farming:

- Manage risk and stabilize incomes for farmers.
- Reliable supplies of produce for processors and distributors.
- Safe, high-quality food for consumers.
- Employment and incomes in processing and retailing value chain.
- Mechanism to build trust and transparency

Potential pitfalls:

- Breach of contracts by either partner
- Side-selling by farmers
- Delays in agreed payments to farmers
- Unequal power balance between parties

For further information contact:
Food and Agriculture Organization of the United Nations
Subregional Office for the Caribbean
Second Floor, United Nations House
Marine Gardens, Christ Church
BB11000 Barbados

Tel: +1 246 426-7110
Fax: +1 246 427-6075
Email: FAO-SLAC@fao.org
Website: www.fao.org
Listserv: Carib-Agri-L@listserv.fao.org



Food and Agriculture
Organization of the
United Nations

GUIDING PRINCIPLES

Based on analytical studies from around the world, FAO has compiled a set of 14 guiding principles that are conducive to responsible contract farming operations (FAO 2012). These principles were discussed at an FAO regional workshop on contract farming in the Caribbean, held in Barbados in 2015. The principles provide an aid for producers and buyers engaged in contractual relationships, in order to promote good business practices and maintain an atmosphere of trust and respect. These principles are essential if contract farming is to prove effective and beneficial for both sides. These guiding principles include:

- **Common purpose** – farmers and buyers should share similar goals when entering into a contract.
- **Legal framework** – contracts should comply with essential legal requirements.
- **Clear documentation** – contracts should be in written form, so as to promote in a transparent manner, the terms of the agreement and the means of their enforcement.
- **Readability of contracts** – contracts should be written in a clear and coherent language, using a legible typeface and words that are understandable by a farmer of usual education and experience.
- **Due attention and review** – buyers grant farmers a sufficient period of time, depending on the case, to review the draft contract and seek legal or other advice before signing.
- **Disclosure** – farmers and buyers make available, all information necessary for the

Box 2: Trinidad and Tobago Agro-Processors Association

The Trinidad and Tobago Agro-Processors Association (TTABA) uses contract farming to source raw material for its three processing plants. During the 2009/10 growing season, TTABA entered into 130 contracts with farmers and farmer organizations. These contracts supplied 0.9 million lbs of cassava, 0.2 million lbs of sweet potato, 40,000 lbs of pommecythere, 80,000 lbs of paw-paw by the end March 2010. The contracts stipulate clearly the obligations of TTABA and of farmers. TTABA's main expectation from contract farming is a reliable supply of quality raw material for its processing operations at known costs. The main benefits for farmers include a guaranteed market and prices for significant volumes of products, supply of farm labour, effective irrigation and drainage systems, control of praedial larceny, expansion of and easier access to incentives, improved farm roads, crop and livestock insurance, reduced bureaucracy in accessing loans. TTABA attributes its success to a strong emphasis on differentiation through market development, investment in appropriate agro-processing technology, and contract farming through farmer's organizations as far as possible. It focuses on developing relationships with buyers, farmers and service providers, many of whom are represented on its Board. Up to 2015, the contract farming programme reached several communities and represented 26,064 small farmers covering approximately 6,250 acres.

Source: TTABA at FAO contract farming workshop 2015

- conclusion of the agreement and be transparent in all their dealings.
- **Transparency in price determination** – prices and payment constitute a key element of any contract, and these points need to be clearly understood and agreed upon by farmer and buyer.
- **Transparency and fairness in clauses relating to quality** – contractors expect farmers to engage in production practices and procedures that are conducive to producing good quality products and following established standards.
- **Transparency and fairness in clauses related to input supply and use** – the contract stipulates which party will be responsible for supplying and applying farming inputs and may specify the timing of input applications.
- **Fairness in risk sharing: force majeure and contractual flexibility** – contracts should envisage the possibility of renegotiation. They should also specify the issue of

sharing of production and market risks among parties.

- **Prevention of unfair practices in buyer** – farmer relations contracts should not prohibit or discourage farmers from associating with other farmers to compare contractual clauses or to address concerns or problems.
- **Honouring contractual terms** – farmers and buyers are loyal to each other. Mutual trust and respect are important factors for the success of contract farming operations.
- **Open dialogue** – dialogue between farmers or their representatives and buyers is essential for the stability of contract farming operations.
- **Clear mechanisms to settle disputes** – farmers and buyers agree in the contract on a neutral third party to assist them in the event of disputes.



Box 3: The Marketing and National Importing Board of Grenada

In Grenada, the Marketing and National Importing Board (MNIB) is a state owned enterprise which operates five retail outlets where it sells local fresh produce and agro-processed products. The Board sources raw material from about 1,700 farmers. MNIB operates a central packinghouse where produce is stored, prepared, and distributed to local, regional and international markets such as U.K, Canada and USA. MNIB initiated a supply contract programme over two decades ago in order to guarantee consistent supplies of key vegetables, providing farmers with a minimum guaranteed price for a specified quantity over a period of time. As a result, farmers were able to better plan and take the contract document to a financing institution to secure financing for on-farm investments. Some of the produce contracted throughout the years includes lettuce, cabbages, hot pepper, watermelons, cantaloupe, ripening banana, dasheen, sweet potato, tannia, yams, ginger, and plantains. While there were approximately 20% of the farmers who would have delivered over 90% of their contracts, overall, the average delivery on contracts ranges between 35% and 45% throughout the years. Some of the major challenges were unavailability of planting material, lack of irrigation, pest and disease pressure, and in some cases side selling by farmers. In addition MNIB lacked the capacity to monitor farmers. In some cases, MNIB, suffered losses when gluts occurred with certain produce or an overseas market failed. Now, MNIB is restricting its contract farming program to target crops that are scarce at certain times of the year and required for the various marketing programs to increase consumption. About 50 to 75 farmers have contracts under this program at any given time. This is supported with field extension staff to provide monitoring and technical support, and a closer working relationship with seedling nurseries and seed suppliers, financing institutions, and a web-based crop forecasting system to plan and tract farmers' production. There is a desire to adjust this program and sign contracts with farmer organizations. The aim is to get 75% of the supplies required by MNIB through contracts, which would ensure a monthly supply of about 175,000lbs with a value of EC\$200,000.

The potential benefits of contract farming are not necessarily guaranteed. Failed attempts are documented from around the world and the Caribbean (Grossman 1998). Unequal power relations between small farmers and large companies can result in contracts that are unfair. Breach of contract by either party, such as side-selling by farmers or slow payments by buyers, can cause contracts to fail. The lack of legal enforcement mechanisms is critical obstacle for which governments bear a major responsibility. The FAO Guiding Principles can help ensure that contract farming works for the benefit of all partners and society at large. FAO stands ready to assist partners in the region in promoting contract farming (Box 5).