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# MINUTES SFRAS MEETING 26 FEBRUARY 2020

## CONTRACT FARMING AND RAS

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Host Max Havelaar Stiftung Schweiz  
 Limmatstrasse 107  
 8005 Zürich

Participants SFRAS members

Recipients SFRAS members, A&FS Shareweb

Minutes and facilitation: Stefanie Kaegi, Helvetas

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### Agenda

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9.15	<b>Opening &amp; Welcome</b>	Stefanie Kaegi
9.20	Introduction to the topic	Stefanie Kaegi
9.30	Fairtrade principles to enhance farmers voice in contract farming schemes / current status of discussions on Fairtrade and Contract Farming	Manuela Stiffler & Annet Röst, Max Havelaar Schweiz
9.45	Caritas' experiences with Contract Farming in Bosnia and Herzegovina (IGAS project)	Daniel Bronkal, Country Director Caritas BiH; Elvedin Alic, Caritas BiH; Berry Kralj, Caritas CH
10.00	Swisscontact's experiences with Contract Farming in Eastern Europe (Promoting Private Sector Employment Project)	Fisnik Reçica, Deputy Project Manager PPSE, Swisscontact
10.15	Helvetas' Experiences in Contract Farming in Tanzania (Rural Livelihood Development Project)	Martin Fischler, Regional Coordinator East Africa & Senior Advisor Sustainable Agriculture, Helvetas
10.30	Coffee Break	
10.45	Group Work a. What are common learnings from the presentations? b. How to enhance farmers voices in contract farming schemes? c. Under which preconditions does contract farming improve access to quality services; what are limitations and risks; and how to address them?	Moderated by Martin Fischler, Manuela Stiffler and Stefanie Kaegi
11.15	Sharing of results; conclusions	Group moderators
11.45	News from members	All
12.15	Closing	Stefanie Kaegi

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## Participants

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Martin	Fischler	Helvetas
Carole	Nordmann	Bio Suisse
Johann	Züblin	Prime Agri Ltd.
Sebastian	Mengel	HAFL
Erich	Waldmeier	Private Consultant
Christina	Grünewald	Swisscontact
Monique	Frey	Private Consultant
Rahel	Wyss	Caritas
Felicitas	Bachmann	CDE
Manuela	Stiffler	Max Havelaar
Annet	Röst	Max Havelaar
Stefanie	Kägi	Helvetas
Ueli	Mauderli	SDC
Anton	Stöckli	BLW
David	Schwitter	World Vision
Wade	Jenner	CABI
Martin	Schmidt	HEKS / EPER
Berry	Kralj	Caritas
Fisnik	Reçica	Swisscontact (online presentation and participation)
Elvedin	Alic	Caritas BiH

Excused: Sarah Mader (Swissaid), Johannes Brunner (HAFL), Gian Nicolay (FIBL), Joep Slaap (GFRAS), Shruti Patel (Biovision), Angela Deppeler

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## Thematic session

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All presentations are available [here](#).

### Setting the scene - introduction to contract farming (Stefanie Kaegi, Helvetas)

*Definition of contract farming:* CF is an agreement between farmers and processing companies and/or traders for the production and supply of agricultural products, frequently at predetermined prices and combined with input supply and other services.

*Why contract farming? Benefits and challenges* (FAO; Contract Farming in Action [www.fao.org/in-action/contract-farming/background/en/](http://www.fao.org/in-action/contract-farming/background/en/) (accessed in February 2020))

### Advantages for farmers

- easier access to inputs, services and credit
- improved production and management skills
- secure market or access new markets
- reduction of price-related risks
- more stable income: better planning
- introduction of new technologies

### Advantages for buyers

- consistent supply of raw materials
- products conform to quality and safety standards
- reduced input and labour costs when compared to integrated production on company-owned land
- better chance to secure products of a consistent quality
- can help to overcome land constraints
- production more reliable than open-market purchase

### Disadvantages for farmers

- loss of flexibility to sell to alternative buyers when prices increase
- possible delays in payments and late delivery of inputs
- risk of indebtedness from loans provided by the buyer
- environmental risks from growing only one type of crop
- unequal bargaining power between farmers and buyers
- increased dependency and vulnerability if buyers are unreliable or exploit monopoly

### Disadvantages for buyers

- high transaction costs from contracting with many small farmers
- risks of side-selling if farmers decide to break the contract and sell to others
- potential misuse of inputs if farmers use seeds and fertilizers provided
- by the company for another purpose
- loss of flexibility to seek alternative supply
- reputational risks if things go wrong

## Fairtrade Contract Production (by Manuela Stiffler and Annet Roest, Max Havelaar CH)

Manuela explained the Fairtrade Standard system and how contract farming is included. The overall target of Fairtrade is to strengthen the voice of farmers and labourers. Therefore, Fairtrade emphasizes the need to organise farmers in Small Producer Organisations (SPOs). 90% of the Fairtrade producers are organised in a SPO. In addition to that, Fairtrade maintains a Hired Labour Standard which is open to specific commodities such as banana, flowers, tea, fruits & vegetables. Thirdly, there is a contract farming standard. The standard yet plays a minor role in Max Havelaar and is applied in few locations and products only: cacao in the Pacific's, rice and cotton in India and some minor products from Pakistan. According to the standard, contract farming is only a temporary solution for a Fairtrade certification. Thus, farmers need to show that they organise in an SPO within 6 years from initial certification. The SPO is then replacing the individual farmers as the contracting party. An analysis of Fairtrade Max Havelaar showed that this transition to an SPO is in theory desirable from an empowerment perspective. However, this transition is challenging for the farmers and yet, only three such farmer groups have successfully managed the transition to an SPO. There are several reasons for that: 1) the transition to an SPO is only a development criterion and thus not mandatory, 2) lacking management capacities of SPOs and (3) no interest of Promoting Body in transition to SPO. However, the example of the Fairtrade Organic Rice Project in India that is implemented by COOP, Reismühle Brunnen and Helvetas shows that there are well functioning contract farming set ups which do not require a transition to an SPO.

The aim of Fairtrade Max Havelaar is clearly to bring up the discussion to open up the Fairtrade system to a fair contract farming system in contexts and products where the SPO system is subjected to limits.

*Comment, Johann Zueblin:* Fairtrade US, a separate entity from Fairtrade international, has developed a standard for contract farming that doesn't require the transition to an SPO. In the US, there is thus considerable experiences in Fairtrade certified contract farming, which is worthwhile to checkout.

### **Cornichon and raspberry production in Bosnia and Herzegovina (by Elvedin Alic, Caritas)**

Elvedin Alic presented the approach of the IGAS project from Caritas in Herzegovina that uses contract farming for enhancing farmers livelihoods. Caritas plays the role of a moderator between farmers and companies and monitors the contract farming schemes with the goal to increase trust between producers and companies. In raspberry production, Caritas is even involved in providing inputs to farmers as well as microcredits. The project experiences show that despite the strong role of Caritas, it is very challenging to create trust between farmers and companies if not the entire value chain is engaged in the contract farming scheme, including the end markets. Price volatilities cannot be managed, as long as the contracting parties do not have a strong power in the entire value chain. Fluctuating prices and demand lead to mistrust of the parties and breaches of contract. So, the key question is, how to build trust in a contract farming system, if the trader as well has only little influence on the entire market situation.

Discussion: Johann proposed a combined approach where farmers do not rely on only one crop but have contracts for several crops; the limitation for that is clearly the workload of the farmers. They cannot produce two labour intense crops, which are attractive to contract farming schemes. Martin F raised the question on farmers insurance that could come along with the microcredit scheme. This has not yet been established, as neither the farmers nor the companies are ready to pay for it. Martin S. Raised the question of who is going to assume the role of Caritas when the project phases out. There was consensus that this role should be covered by a local party as soon as possible, in order to allow the contract farming schemes to function independently from Caritas. It is, however, not evident who could assume this role.

### **Supporting Contract Production in Kosovo (by Fisnik Reçica, Swisscontact)**

Fisnik Reçica presents the approach of Swisscontact to strengthen the market system for agricultural produce in Kosovo. Contract farming is seen as a solution as it entails risk sharing between producers and buyers as follows: companies provide all inputs at a discounted price. The inputs will be paid when the produce is sold. The price for the produce is set prior to the production cycle and is transparently communicated to all farmers. The risk of production is with the farmers. The risk of price volatility is with the traders.

Swisscontact aims to limit its role to the facilitation of contracting relationships, however, Swisscontact is also involved subsidizing agricultural inputs that are offered by the companies. As many farmers in this context are risk averse, input subsidies are a way to motivate farmers experimenting with new contract farming models. Once tried, farmers decide whether the model is beneficial to them also without the subsidised inputs – and yet it looks like the models are beneficial also without subsidies.

### **Contract Farming in Tanzania (Rural Livelihood Development Project) (by Martin Fischler, Helvetas)**

Martin Fischler presents the capitalization of experiences of the Rural Livelihood Development Project in Tanzania (see [Summary](#) and [Full Version](#))

The project facilitated market development of selected value chains and used contract farming as one way to enhance farmers access to RAS as well as to beneficial markets. The learning related to contract farming include:

**CF needs to be applied with the logic of MSD, addressing specific constraints.** The stakeholders need a common sector specific vision of engaged market actors.

**Type of contract: mostly oral, not written!** For reasons of literacy, fear of legal reprisals, etc.

- Importance that farmers understand the terms and implications, and seek clarification
- Preference of engaging farmer groups in CF, instead of individual framers; Agreements taken in meetings with minutes that document agreement between group and processor

→ Trust building is key!

#### **Inclusion of small-holder farmers, gender and social equity:**

→ Importance of selection criteria for farmers, crops, contracting modality.

→ Importance of understanding why the market system is not working for disadvantaged, CF could be a means to address their needs

#### **Importance of RAS in CF: Crucial for the success of CF!**

→ New technology (varieties, cropping system, GAP etc.) requires RAS

→ Fosters good communication between producers & processors = contribution to trust building

→ Various forms of pluralistic RAS used (processors, agro-dealers = embedded services; gov. extension services, NGOs etc.)

#### **Conducive framework conditions for CF:**

→ Role of (local) government as “witness” of CF agreements, ensuring fair transaction (e.g. control of tampered weighing scales), mediator in case of disagreements/breach of contracts)

→ Risk of over-regulation (e.g. GoT declared nation-wide mandatory CF in cotton)

→ Importance of strong apex organizations to influence modalities of CF incl. price setting.

## **Group work and discussion**

Three groups discussed below questions with the following summarized and compiled outcomes:

### **1. What are common learnings from the presentations and from your own experiences?**

#### **Trust is key – and a major challenge**

- CF can lead to enhanced trust between producers and processors/traders
- Extensionists / RAS can considerably contribute to trust building, as they maintain the relationship with farmers on a regular basis, they observe production and communicate with both parties.
- Important for trust are clear, transparent and consequently implemented agreements. The consequences of breach of contract must be transparently communicated and agreed by both parties.
- Digitization (e.g. crowd verification / blockchain) has considerable potential to enhance trust between contracting parties
- A third-party moderation & controlling of the contracting agreement is key to balance power inequalities between farmers and companies
- Development projects shall focus on facilitating contracts and refraining from becoming an actor in contract farming arrangements. This is easier said than implemented, as many projects try to reduce risks of contract farming through a range of instruments, such as subsidies, marketing support, moderation and controlling of agreements.
- Responsibilities of contracting parties -> power relations matter!

#### **Risk sharing**

Contract farming often includes access to finance or production inputs for farmers. With that, farmers increase their production risks. If the company doesn't offer to bear at least part of the marketing risks (price fluctuation) the farmers bear comparably higher risks in contract farming schemes. It is likely that costs and risks are beard by the last member of a value chain. This needs to be considered and addressed carefully.

#### **Demand-orientation, diversification and insurance in contract farming schemes**

- Access to market information for farmers is crucial to realistically assess the benefits and risks of contract farming agreements. The potential of digitization is considerable
- Diversification of markets (local/national/international) limits the risk of fluctuating demand
- Insurance: yet, production and marketing insurances are not broadly applied. Companies are expected to increasingly offer such insurance systems in order to ensure their supply chain and to bind producers; independency of producers, however, needs to be considered, when companies are holders of the insurance packages.

## **2. How to enhance farmers voices in contract farming schemes?**

- Strong Farmer Organisations, Apex / Umbrella Organisations are key
  - Challenge to work with / create organised farmers / farmer groups that are conducive for CF. Who should organise te farmers?
- Good / enhanced flow of information, communication -> transparency
- Multi-stakeholder engagement (e.g. tripartite agreements)
- Farmers self-perception as entrepreneur

## **3. Under which preconditions does contract farming improve access to quality services; what are related limitations and risks; and how to address them?**

- CF shall be defined as a consented business model
- Services must add value
- Services must be paid appropriately; payment for services by the companies is a major benefit in contract farming. But:
  - What are quality services? How to ensure that they are neutral and comprehensive? Who trains the training providers? Who are they?
  - Sustainability Standards have good potential to enhance quality of services
- Conducive framework conditions for quality service delivery

## **News from members**

Ueli Mauderli, SDC: Based on [the Hanoi Statement on Rural Advisory Services](#), SDC developed a draft Global Brief on RAS "Effective Rural Advisory Services (RAS) for smallholders - an important ingredient for the 2030 Agenda. How can we reach the millions?" The SFRAS group discussed whether SFRAS will enter in a consultative finalisation process of the Global Brief. As the group members do not have enough resources to considerably contribute to the finalisation of the Global Brief, it was decided that Ueli and Stefanie will finalise the Global Brief bilaterally, while the Hanoi Statement on RAS will remain a key resource of SDC for guiding RAS.

## **Annex: Posters of group works**

Group 1

② How to enhance farmers voices

- Zugang zu <sup>Bildung</sup> <sup>info technol</sup> <sup>Digitalisier</sup> Information, Recht & Verantwortlichkeiten
- Diversifizierung
- Farmer → entrepreneur
- Trust / risk sharing
- Organisat° of farmer <sup>organisat°</sup> <sup>Dypt</sup> <sup>Strong leaders</sup>
- Consider gender relations

③ - Who pays for services?

- availability
- biased information → informed partners
- What does quality service mean?

Group 2

a) Common learnings

- Challenge to work with/have organized farmers/groups conducive for CF. Who should organize the farmers?
- Responsibility of contracting parties ⇒ Trust! Power relations matter!

b) • Strong FO's, Apex/Umbrella org

Good/enhanced flow of information, communication → transparency ↑

- Multi-stakeholder engagement (e.g. tripartite agreement farmer - processor - LGA)

Group 3

① Trust

- CF can enhance trust (and bases on trust)
- RAS for trust building
- Clear, transparent & consequent agreement
- Digitization / crowd verification
- Third party moderation & controlling
- ↳ power balance between farmer & companies
- Facilitator ⇒ actor
- Time for development of system and creation of responsibility in the long run

Finance

- Empowering to access finance

Demand orientation

- Market information for farmers → digitization
- Diversification of markets - national - international

Insurance

- Who pays?
- Market as driver (for secured supply)
  - ↳ binding producers
  - ↳ but: independency to keep in mind

Diversification

c) • CF defined as a "consented" business model

- Services must add value!
- Services must be paid appropriately! Who pays?
- Conducive framework conditions for quality service delivery