



Contract Farming

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Overview

1. What is contract farming?
2. Facts & figures
3. Benefits & risks
4. Legal framework
5. Government interventions
6. Role of the investment contract
7. CF tools

What is contract farming?

- A private contract, governed by domestic law, btw:
 - A **producer** (or group) who promises to produce & deliver goods to predetermined criteria: quantity, quality, time, date & place;
 - A **buyer** (processor, agribusiness, exporter) who promises to pay an agreed price & contribute to production (fertilizer, seed, training, credit, etc...)

What is contract farming?

- Different models & arrangements:
 - **Centralised:** 1 buyer, a large group of smallholders
 - **Nucleus:** processing plant & plantation which also buys from smallholders
 - **Multiparty:** arrangement including parties other than producer & buyer, e.g. govt agencies, NGOs, credit agencies, certification bodies
 - **Informal:** small buyer enterprise, seasonal, simple & informal (often oral) contracts (common in coffee)

Why are we talking about contract farming?

- From investor-govt contracts to investor-farmer contracts...
- Following outcry about land grabbing (post 2008 food price crisis), came increased interest in alternative, inclusive models...
- Contract farming allows farmers to retain possession & control of their most valuable asset – land.

Contract farming in Africa

- High-value crops, often for export, perishable & labour intensive...
- Cotton & paprika in Zambia
- Tea & sugar in Kenya (60%)
- French beans in Madagascar (10,000 small farmers)
- Oil palm & cotton in Nigeria
- Cut flowers in Ethiopia

Benefits of contract farming - farmer

- Retain rights to land
- Stable income
- Access to more distant & lucrative markets
- Finance & inputs
- Technical assistance & training

Benefits of contract farming - buyer

- Secure & stable supply through efficient supply chain
- Does not bear production risk
- Control over quality of product through inputs, training
- Avoids land disputes associated w. LSLBI

Benefits of contract farming – state

- Job creation (1 job:3 ha vs 1:19 for plantation)
- Transition from subsistence to commercial production (expand tax base)
- Food security: incomes & food production for local & domestic consumption



Risks of contract farming – farmer

- Power asymmetry, less education/literacy, lack of legal advice →
 - Unfair/unclear pricing mechanisms
 - Unfair/unclear quality assessment
 - Buyer can unilaterally change conditions & terminate
 - Unfair risk burden esp. for perishable goods
 - Indebtedness through inputs on credit
 - Unfair penalties for breach



Risks of contract farming – buyer

- Side-selling or non-performance
- Cheating on quality or quantity
- Inputs are sold to third parties



Gender & contract farming

- UNCTAD study: only 1.5% of contract farmers were women
- Women do most of the work to produce contracted goods but men sign contracts & control income
- Cash crops replace subsistence crops grown by women – household food security issues



Legal frameworks for contract farming

- ...are often inadequate...
- Court system inaccessible or not adapted to contract farming issues – cost & time
- Remedies absent or unenforceable
- No deterrent to breach for either party
- No laws to fill gaps in contracts; address power asymmetries



Govt. interventions to support CF

- Price setting / quality assessment role
- Capacity building for farmers' organisations
- Strengthening private contract framework generally; promoting ADR
- Infrastructure to lessen farmer dependency on buyer (cold storage, feed roads)
- Farmer legal advice services
- **Direct role: incentivising / requiring establishment of CF schemes**



Role of the investment contract

- State must intervene to require CF; investor is unlikely to use this model this unprompted
- Require investor to set up outgrower scheme
- Annex template contract to lease/concession:
 - Specify who should be included, support & assistance to be provided, and a fair price-setting mechanism.
- Preference outgrower schemes that prioritize women and marginalized farmers



IISD, FAO, UNIDROIT CF Template

- Based on FAO/UNIDROIT/IFAD Legal Guide to Contract Farming
- Contains customisable provisions, adaptable to specific commodity, inputs, legal system
- 2 x commodity e.g.s (coffee & tomatoes)
- More balanced risk sharing, greater detail of obligations (e.g. quality assessment, delivery, force majeure, remedies)
- Published soon!

Thank you!

**Questions, comments,
experiences to share?**



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