

C2A Notes

Agriculture and Food in question

Issue n°16 - March 2014

CAN CONTRACT FARMING CONTRIBUTE TO REINFORCE PEASANT FARMING AND FOOD SOVEREIGNTY OF POPULATIONS OF THE SOUTH?

For the last few years, the development of different forms of contracting, or "contract farming", between peasants and food processing companies has been a determining trend of global agrarian and food systems evolution. In certain areas, commercial agreements are thus developing between individual or organized peasants and various economic operators (wholesalers, processors, exporters, etc.). These relate to the production and supply of food products based on pre-established agreements at predetermined prices. Against the backdrop of food mass production and standardization, and to meet growing expectations regarding quality, hygiene and traceability, companies see this model as a way to control and secure their supply to guarantee volumes, quality standards (particularly for size and hygiene), modes of production and even prices.

Different forms and definitions of contract farming exist. We here refer to commercial partnership model, widely found in developing countries, characterized by "input" loans – seeds, fertilizers, credit and extension services – granted by a company to individual peasants or an organization of peasants for exclusive buying rights to predefined crop volumes, subject to quality specifications being met. This clarification is crucial, given that some short distribution chains between peasants and consumers, sometimes involving public entities, even SME, can also be referred to with the term "contract farming", even though the logics underpinning them are at the opposite of the model discussed here.

Contractual agriculture: a new Eldorado?

For companies, contract farming enables to secure supplies with respect to both quantity and quality, so as to guarantee the volumes required and meet public standards (safety and quality, mainly in terms of hygiene and size) as well as private standards (differentiation of products according to taste, social or presentation criteria). For companies with their own farms, it also allows for production to be increased or reduced, without additional investment, while maintaining economies of scale on input purchases. Finally, production risk is left to the peasants and the companies reap the benefits of new farmland without carrying the risks of expropriation.

For contracted peasants, the advantages can also be considerable: first and foremost, they benefit from a secured market at guaranteed prices, with all the services necessary to production (technical assistance, facilitated access to inputs, credit, transport, etc.). They can also access standardized products value chains by being

supported on meeting norms, without having to bear traceability costs themselves.

Now in many developing countries, peasants represent a highly vulnerable share of the population, some suffering from multiple exclusion processes (from markets, technology, education, etc.). Their capacity to maintain viable farms on small areas is nevertheless crucial to their community and to inclusive and sustainable development. Despite great diversity, peasant farms around the world all share common characteristics:

« Subject to fair access to means of production and markets, peasant farms are economically viable, sustainable and can be passed down to future generations. »

- Their size allows for a fair distribution of production factors and limits their concentration, thus ensuring the creation or maintenance of jobs in rural areas, and affording income for their families.

- They are based on diversified production systems directly valorised by family labour, and often practice multi-activity.

They currently ensure the bulk of food supply to

the cities and maintain the food systems specific to respective territories. They also offer a wide variety of cereals, tubers, legumes, fruits, vegetables and animal products. Subject to fair access to means of production and markets, they are economically viable, sustainable and can be passed down to future generations.

Is contract farming therefore the new Eldorado which so many public and private actors currently support? Does it enable to reinforce peasant agricultures, along with their fairer integration into value chains? Does it also promote the inclusion and strengthening of peasant organizations which, by virtue of their crucial role in the supply of food crops to local populations, are a major actor in the food

sovereignty of populations of the South and of the sustainable and fair development of territories?



Madagascar © AVSF

Contract farming currently represents 39% of agricultural production value in the USA, 38% of dairy, poultry and sugar production in Germany, and 75% of agricultural production in Japan. In Eastern European countries, the share of companies practicing contracting rose from 25% in 1997 to 75% in 2003. In Brazil, it represents 70% of chicken production, and 30% of soya. In Vietnam, it accounts for 90% of fresh milk production, and 40% of rice and tea production; in Kenya, 50% of tea and sugar, and a large share of horticulture. In Mozambique, all cotton production, i.e. 12% of the population, comes under contract farming. Nestlé has signed contracts with 500,000 peasants in 80 developing countries or countries in transition, Olam Singapour with 200,000 peasants in 50 countries for 17 different products, and Carrefour with peasants in 18 countries¹.

The main factors of failure of contract farming²

In most cases of failure analysed, where peasants' income is neither increased nor secured, several common factors are identified:

- Prices are not clearly predetermined and contractual terms are neither known nor negotiated.
- The use of new varieties and technology at a higher cost and risk, which induce a certain specialization and polluting intensification and increase risks of non-sustainability of the technical proposition.
- The lack of solid peasant organizations, conducive to peasants with the most land grabbing the bulk of volumes granted and inputs distributed, thus limiting the benefits of these commercial transactions for those with the least land.

- The absence of a third party (NGO or government) to reinforce peasants' capacities, contribute to a climate of trust, facilitate the proper use of subsidies, intervene in cases of conflict, enforce the agreement between the parties, grant tax exemptions or export advantages in the case of States, but also to regulate and prevent situations of exploitation.
- The promotion of contract farming on "non-traditional" exportations, based on products competing internationally across temperate and tropical areas (broccoli, artichoke, grapes, green beans, etc.): the contract are often not perennial when the comparative advantage of the production area disappears; the latter is often abandoned and then relocated to a region or country offering higher margins.

Many issues still debated

• Does contract farming reinforce family farms?

Contract farming very rarely encourages peasants to rise up the value chain and venture into the packaging, processing and commercialization of their products. As a result, one of the effects of contract farming is to produce a division of labour between the buyer and the seller who is confined to the primary production of raw material, thus limiting the latter access to a large share of the wealth created within the industry. In most cases, the companies decide on the crops and technical

management, as well as the markets targeted. Consequently, the diversification strategies normally affording family farms resilience risk being significantly destabilized.

• Is contract farming an inclusive or a discriminatory economic model?

Existing contractual models often lead to the exclusion of the poorest farming families, which make up the overwhelming majority of peasants, with areas of land that are too small and/or who lack resources to invest. The transaction costs

¹ A savoir 12 (AFD): Contract Farming in Developing Countries - A Review, Martin PROWSE, Institute of Development Policy and Management, Février 2012, University of Antwerp, 99 p.

² *Idem.*

associated with the services provided by the buyer (input supply, credit, technical support, product quality control) often deter companies from working with small peasants, turning instead to medium-sized or large farms with greater means of production. This reinforcement of large farms' means of production makes the competition all the more unbearable for the smallest farms. Contract farming is therefore not yet an instrument for the inclusion of most peasants.

- **Does contract farming contribute to greater autonomy for women?**

In most cases, the reality is that men make the decisions concerning productions highly integrated to the market and in long distribution channels. Research in Kenya revealed that contracted women in horticulture for export represented less than 10% of peasants. In Senegal, out of 59 green bean production contracts for export, only one had been entered into with a woman³. Even when most of the work is done by the wife, the contract is signed by the husband: this is particularly the case for sugar crop contracts in South Africa or legumes production in Punjab in India⁴. Conversely, AVSF studies on short distribution chains in the Andes show that 70 to 80% of participants and income beneficiaries on peasant markets are women.

- **Towards greater peasant autonomy or agricultural labour?**

In some cases, the buyer considers contracted peasants as workforce easily available on the work market. By causing peasants to lose control over their production (choice of crops and technical management), contract farming is likely to turn peasant into employed farmworkers on their own land, sometimes without the benefits associated with employment, such as a minimum wage or social benefits.

- **Towards fairer value chains or still asymmetrical power relations?**

When small peasants are not organized, they are very often in a weak position in contractual negotiations: apart from having been and still being excluded from decent education systems, they generally have less information on the markets and knowledge on legislation to defend their rights. The way in which prices are set, the charges imposed for input supply, contract cancellation conditions and the way in which product quality criteria are determined are set out in clauses that are formulated in favour of the buyer. Moreover, if the peasant has to commit to a single buyer, they put themselves in a most vulnerable situation of dependency.

- **Does contract farming contribute to food sovereignty?**

Peasants' access to the market constitutes a major challenge. Moreover, reinforcing food security in poor rural and urban areas will not be possible without the development of local and regional food crop markets. Yet contract farming often encourages peasants to change their farming system towards cash crop production, at the expense of food crops, thus losing a precious food safety net for their families. If this growth of contract farming for export in many developing countries confirms

itself, it is then be likely to lead to countries' and families' growing dependency on a limited number of exported raw materials, smaller subsistence food production for the internal market and greater vulnerability to the prices fluctuations of these same raw materials as "food importers".

- **What are the State's missions in view of the rise of contractual agriculture?**

The decreasing role of States in the regulation of trade and of production support since liberalization in the 1980s has encouraged the establishment of private companies promoting contract farming. The reduction of current public funding is leading many countries of the North and the South to consider private investment as a priority for their respective territories' future development. Actually, by guaranteeing goods and services to peasants, private investors supporting contract farming are thus most of the time considered to substitute the role of the State. Yet States should not shy away from their obligations in areas as fundamental as the support of agricultural prices or technical support, amongst others. Does contract farming not encourage States – and the accompanying international organizations and public cooperations – to neglect their obligations?

- **Does contract farming contribute to protecting the environment?**

The companies involved in contract farming are not always embedded in sustainable farming approaches, nor do they supply peasants with the knowledge and inputs needed for that. Many of them generally neither advocate sustainable agriculture, even agro-ecological production modes, which would make use of the natural inputs generated on the farm. For reasons of efficiency, standardization and economies of scale, they rather favour the distribution of external inputs such as commercial seeds or chemical fertilizers. Contract farming tends to promote the specialization of farms; it does not encourage autonomous peasant families' production of seeds, biological inputs and natural treatments... Moreover, contract farming promoters' often have a short-term vision which is sometimes rather unfavourable to implementing sustainable agricultural practices.

No contract farming without peasant organizations!

The participation of a peasant organization is crucial to ensuring the smooth running of a contractual transaction. It allows peasants' interests to be better taken into account, affording time gains in the long term, greater efficiency, and lower business costs, particularly in terms of monitoring, and it reinforces the sense of belonging, of loyalty to the contract (especially if mechanisms of benefit shares exist) when the organization has a good leadership. It also allows peasants to better defend their rights, especially in economic and social terms.

³ M. Maertens et J. Swinnen, « Are modern supply chains bearers of gender inequality? », paper delivered at the OIT-FAO workshop « Gender and rural employment: different pathways out of poverty », (Rome, 2009).

⁴ J. Behrman et al., « The gender implications of large-scale land deals », IFPRI Discussion. Paper no 01056, International Food Policy Research Institute (Washington, 2011).

Contract farming should not penalize other alternatives!

There is great danger that contract farming growth and debate silence other economic alternatives which already highly efficiently support peasant agriculture and would allow a greater number of peasants to most benefit from their agricultural and livestock productions. To mention a few:

- **Peasant-led collective companies:**

Peasants have the possibility to organize into cooperatives or associations by integrating the functions generally fulfilled by several actors in their value chain. Such structures can afford member peasants various collectively managed services (technical assistance, input supply, marketing, etc.) with an increased capacity for negotiation with the other actors already involved in the value chain and these services. Whether small or medium, these companies have already shown their full potential.

In November 2002, the GIE LAROGAL AYNAKOBE (Velingara, region of Kolda, Senegal) was created with the support of AVSF by some 15 peasants to collect, process, package and commercialize fresh milk on the local market. The GIE currently offers its 40 or so members a panel of paid services (management of the Milk Processing Unit, commercialization of products in Velingara shops, cattle feed resale, implementation of black-eyed pea fodder seed fields, member support for artificial insemination, supply of veterinary treatments, amongst others), allowing them to ensure a production level of double their processing unit's break-even point.

- **Co-businesses:**

Peasants (generally through their organizations) and private investors can create co-businesses, with each of the parties making their contribution financially or in kind. The different parts are theoretically partners and co-owners. They have shares in the co-business while retaining their own legal individuality and sharing their profits and losses.

In Kayes in Mali, the "Grenier du paysan" is a local cereal processing unit supported by AVSF, the shareholders of which comprise of the French cooperative Ethiquable, the Benkouto fonio peasant organization and private investors from the region, with each party contributing up to 1/3 of the capital.

- **Short distribution chains and direct sale:**

Direct sale by the peasant to the consumer is a more efficient way of linking peasants to the market in conditions allowing them to both increase their income and control production themselves. Besides, this type of commercialization contributes to reinforcing food sovereignty on a local, regional or even national scale.

In Ecuador, AVSF supports peasants, most often producing on a surface area of less than 3 ha, to directly commercialize their agricultural and livestock products on peasant markets. In 2010, 87 weekly peasant markets were recorded at national level. In total, over 6,000 peasants are concerned, representing an annual sales turnover of over 5 million dollars (USD).

As part of its mission to support the collective advocacy of its members, Coordination SUD has set up working committees. The Agriculture and Food Commission (C2A) brings together international solidarity NGOs working to realize the right to food and increase support for smallholder farming in policies that impact world food security: 4D, ACF, aGter, Artisans du Monde, AVSF, CARI, CCFD-Terre Solidaire, CFSI, CIDR, CRID, Gret, Inter Aide, Iram, Oxfam France, Peuples Solidaires in association with ActionAid France, Réseau Foi et Justice Europe, Secours Catholique, Secours Islamique, Union Nationale des Maisons Familiales Rurales, and one guest : Inter-réseaux.

The aim of the Commission is to coordinate the work conducted by its participants and to facilitate consultation among its members for their advocacy work with social actors and international policy makers. The members of the Commission reach agreements on who represents Coordination SUD in a range of arenas (Concord in Europe, FAO, WTO, UNCTAD) and share information on current international issues. The Commission is mandated by Coordination SUD to formulate the positions taken by the group during the major institutional meetings on the subject of agriculture and food.

This paper was written by AVSF.

