



## AGRICULTURA POR CONTRATO Y COMERCIO JUSTO :

*“Contract farming and fair trade: drivers and impediments to the emergence and consolidation of producer organizations”*

## SYNTHESIS OF THE STUDY



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## Introduction to the PFCE

There is a strong consensus today around the idea that supporting family agriculture is the most effective means to fight poverty and world hunger while meeting the multiple challenges associated with the preservation and development of rural employment, environmental protection, adaptation to the effects of global warming, etc. Small producers can indeed feed the world, but they need specific support to improve their yields, improve their organization and reach stable and profitable markets in the long term.

Another strong idea which is becoming increasingly popular regarding agricultural policies is the role that the private sector could play in the development and support of farming, through what is called contract farming. The advantages of this type of relationship between the private sector and small producers seem obvious: small producers benefit from a reliable connection to the market, from the technical support granted and the pre-financing of newcomers. Nevertheless, the risks associated with the development of this new method of commercial exchange between asymmetric actors are also real and increasingly well documented<sup>1</sup>: increase in producer dependency in conditions of power and information that are unbalanced towards their purchaser, inadequate sharing of the added value in the sectors at the expense of small producers, hidden producer wage-earning situations on their own land, over-specialisation of profitable cultivation to the detriment of subsistence crops, etc.

Fair trade is a tool to strengthen the producer capabilities and organisational structures. Its ability to make an impact has also been widely documented<sup>2</sup>. Since small producer organizations small producers are an essential part of the regulation of the differences with their interlocutors (states, private sector, banks, etc.), what lessons could fair trade bring to the methods of implementing contract farming? Indeed, for several years, the fair trade labels have included contract farming methods in their specifications. This study aims to verify to what extent the specific relations developed by fair trade regarding contract farming succeed in countering the differences in power and relations observed in "conventional" relations. To what extent can Fair Trade be a tool to overcome these differences? Or on the contrary, could contract farming dilute fair trade's ability to have an impact on small producers and with their organizations? That is the purpose of this study.

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<sup>1</sup> Report of the special reporter for the United Nations on the right to food, Olivier de Schutter, August 4<sup>th</sup>, 2011.

<sup>2</sup> Fair trade has a positive impact on the access of producer organizations to the international markets, on their knowledge of markets and their commercial services. It indirectly foments the empowerment of the latter and has a positive impact on the services supplied by producer organizations to its members. "Cartographie et analyse d'études d'impact du commerce équitable", CIRAD, August 2011.



## Synthesis of the study

### I. CONTRACT FARMING WITHIN FAIR TRADE

Contract farming is a rapidly growing type of commercial relationship, with the support of public and private actors that promote the many advantages it offers to the producers and buyers involved. However, the risks linked to the development of this new method are real and increasingly well documented<sup>3</sup>.

It joined fair trade through Fairtrade Labelling Organisations - FLO in 2005, with a specific reference table, then through ECOCERT in its generic reference table "Equitable, Solidaire et Responsable"- ESR, in 2006. These fair trade guarantee systems present contract farming as a way for non-organised, marginalized or isolated producers to join the market in favourable conditions. According to them, this method is a means not to limit access to fair trade and to the impact it generates to producers who have already established organizations, but on the contrary, to insert new producers and respond to the market demand and growth. It also has to contribute to strengthening of the way these producers are structured and help the progressive emergence of producer organizations. The Fairtrade and ESR standards, unlike classic production contracts, stipulate in particular the obligation for the operator in commercial partnership with producers, to support the structuring and the consolidation of their organization.

Historically, fair trade developed to allow the consolidation of strong and autonomous producer organizations in the South through their access to international markets under favourable conditions. The inclusion of contract farming in fair trade, which connects a buyer with individual producers, constitutes a break from the traditional fair trade modus operandi. This is why important questions have been raised by various actors involved in fair trade concerning the inclusion of contract farming within fair trade, its coherence with the fundamental principles of fair trade, its implications for the producers involved, producer organizations and fair trade in general, as well as the capacity of the operators with production contracts to effectively take up this challenge of structuring and consolidating producer organizations.

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<sup>33</sup> Report of the special reporter for the United Nations on the right to food, Olivier de Schutter, August, 4<sup>th</sup>, 2011.



## II. STUDY ON THE STRENGTHENING OF PRODUCER ORGANIZATIONS WITHIN THE CONTRACT FARMING METHOD

The Plateforme pour le Commerce Équitable (PFCE) financed the present study to contribute to debates and reflections concerning contract farming and fair trade. It aims at identifying, in the modality of contract farming method developed within the fair trade framework, drivers and impediments to the emergence and consolidation of producer organizations, based on the principle that the strengthening of the producer level of organization is a central objective of fair trade and that numerous studies have shown the strong impact of fair trade when it is focused on producer organizations playing an active role within the sectors and in the development of their territories<sup>4</sup>.

The methodology chosen to lead this study was discussed and validated by the study steering committee<sup>5</sup> when it was launched. It is based on documentary reviews, three case studies with field work carried out in April and May 2012, as well as on specific elements stemming from another contract farming study without field work (elements from the last audit report). Case studies were chosen according to criteria defined with both Max Havelaar France<sup>6</sup> and ECOCERT to ensure a variety of contract farming situations. The three cases studied are COFA in the cotton sector, SUNSTAR in the Basmati rice sector in India (Fair trade certification) and BIO PLANET / BURKINATURE in the sesame sector in Burkina Faso (ESR certification).

For each of the case studies, 8 variables were defined to analyse the procedures to achieve organizational strengthening of producers:

- The structuring of the organization
- The representativeness and the legitimacy of the organization and its democratic operation
- The technical capabilities of the organization
- The organization's administrative and management capabilities
- The commercial capabilities of the organization
- The financial capabilities and degree of self-financing of the organization
- The capabilities for advocacy and incidence of the organization
- The influence of the organization on community development

## III. THE CONTRASTING RESULTS OF THE CASE STUDIES

### *The positive effects on the development of the sectors*

Three case studies enabled an observation of the effects of contract farming method within the framework of fair trade, in particular with respect to the development of the sectors. The analysis of these effects shows the benefit of the commercial relationship: for the producers, when it allows them to secure their access to the market with significant volumes, or to obtain guaranteed minimum prices covering production costs, and to be paid at a level that is higher than the local market. For the companies, when it allows them to secure their supply as well as the quality of the products so as to develop or strengthen their market.

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<sup>4</sup>Some of these studies are available on the editorial site of AVSF: [www.ruralter.org](http://www.ruralter.org).

<sup>5</sup>Consists of representatives of the PFCE, Max Havelaar France, ECOCERT, Ethiquable and Partner Bio.

<sup>6</sup>Max Havelaar France is the French initiative of fair trade affiliated to FLO at the international level.



### *Important differences in terms of structuring and organizational strengthening*

Beyond the development of the sectors, the strengthening of fair trade producer organizations forms a central stake within the contract farming method, as it is within more traditional fair trade methods (other than contract farming). When producers have strengthened levels of organization, it is easier for companies to offer them technical support, quality control and collection, and allows them to federate the producers. As for the producers, it is one of the main drivers that enables them to take part in the food-processing sectors and their effective contribution to local development practices. It also enables certain internal control by their own producers to fulfil contracts (collective interests beyond individual interests).

Yet, the results of the case studies on this aspect of organizational strengthening are mitigated. Indeed, a process of real consolidation was observed when the intermediary structure that accompanied the producers was an NGO (COFA example), but the organizational process was very fragmented and fragile in the two other case studies where the intermediary structure was a commercial company:

- **In the COFA example**, the support received by the producers allowed the organization to exist legally, to have a good level of representation and governance. It developed technical support capabilities for its members, administrative, financial and commercial capabilities of their own (in different areas). It tried to better control the sector by creating a first processing plant. It developed a network of diversified partners and advocacy activities. It participated in local development initiatives. Commercial performances were however limited and in particular, the volumes sold were reduced because of the difficulties of the cotton sector and a lack of working capital.
- **In the SUNSTAR example**, the support received by the producers allowed the organization to exist and be recently legalized, to have good level of representation and governance but with little rotation of the persons in charge. It acquired the ability to manage the development premium. This premium enables it to finance its operation and to lead local development activities. The organization does not however offer any technical support or credit services to its members and did not develop its own commercial capacities: it depends on its relation with SUNSTAR. The whole production is marketed as fair trade by the company but the guaranteed minimum price remains lower than market prices and the producers have little opportunity to negotiate and depend strongly on the company. The organization is isolated and did not develop networks or advocacy capacities.
- **In the BURKINATURE example**, the support received by the producers allowed the organization to establish itself and to be in a process of legalization today, to have certain governance but modes of representation to be improved for more transparency. It developed some technical and financial capacities, but it does not really give any technical support to its members nor have any commercial role. Even though the whole production was sold and commercial performance is good, maintaining prices and volumes will remain unsteady in the future. The organization did not develop networks or advocacy capabilities and takes part to a small extent in local development.

These partial results question the efficiency of the contract farming method within fair trade for the multidimensional consolidation of producer organizations.



### *The added value of a non-profit support operator*

The results of the case studies highlight the importance of the nature of the operators supporting the structuring and consolidation of producer organizations. Indeed, whether these operators are of a commercial nature or not influences their ability to support these processes, as well as desired changes to the respective roles of the producers and of the company with the production contract (sharing of know-how).

- The strengthening of the commercial role of organizations is a difficult point : it is present in the support work of the operator when it is a NGO (COFA example) but it is absent in the two other cases where commercial structures are responsible for it because of potential conflicts of interests and the cost this support represents.
- The nature of the operator also greatly determines its ability to mobilize external support (financial support in particular) and to have access to the skills and initial experience required to strengthen organizational capabilities.
- Differences also appear in terms of effective priority given to organizational strengthening, deadlines and the amount of support given by the operator.

These results question the real feasibility of the strengthening of producers' organization, particularly as regards their own commercial skills (diversification of buyers, ability to negotiate, etc.) if support structure is a commercial structure, with possible conflicts of interests.

## **IV. DRIVERS AND IMPEDIMENTS TO THE STRENGTHENING OF ORGANIZATIONS**

To understand better the levels of organizational strengthening of the producers involved and their limits within the contract farming method under fair trade, various impediments and drivers were identified that are linked to the context, to the requirements of the fair trade standards or to the nature of the operators.

### *Factors linked to producers and their context*

The main drivers identified were:

- The existence of a preliminary level of basic organization,
- The distances and the geographical isolation of producers, making necessary the creation of producer organizations to manage collection and quality,
- The presence of other commercial operators generating competition and stressing the need to develop the customer loyalty of producers and secure supplies.

The main impediments identified were:

- The strong illiteracy rate in rural areas in Southern countries,
- The difficulties for women to take part in producer organization processes,
- The existence of social stratification (clans, castes, etc.),
- The existence of past negative experiences of producer organizations,



- The nature and the dynamics of some sectors less favourable to the control of first processing by producer organizations (requirement for investments, technical level, volumes).

### *Factors linked to the Fairtrade and ESR specifications*

The main drivers identified were:

- the obligation for contract farming companies to support the organisation of producer groups,
- the transient nature of contract farming arising from the requirements and progress indicators, the request to develop action plans (ESR) or organizational development plans (Fairtrade),
- the requirements of good governance and the joint management of the premium / development fund (even though producer representatives sometimes use a limited democratic system),
- The request for technical training (regarding environmental aspects in particular).

The main impediments identified were:

- the lack of details or commitment on behalf of some actors involved (commercial operators in particular) to constitute autonomous producer organizations,
- the inadequacy of some specification requirements concerning the joint projection of the development of the roles of the actors involved in the contract farming method,
- the lack of precision of calendars and indicators for an efficient follow-up of the process of organizational strengthening,
- the limited importance given to the strengthening of administrative and commercial capacities, and to the strict follow-up / control of the deadlines established to meet the standards of producer organizations (Fairtrade),
- The lack of attention given to the strengthening of networking and advocacy capabilities (the political vision of the role of producer organizations), as well as to the inclusion of women in the organization process.

### *Factors linked to the project leader/ promoting body*

The main drivers identified were:

- The duration of the relation between the project leader / promoting body (PL / PB) or the support structure, and the producers,
- The social nature of the PL / PB or the support structure involved in the strengthening of producer organizations,
- The capacity and will of the PL / PB to mobilize important financial, human and technical means.

The impediments identified were:



- A truncated vision or a misunderstanding by some PL / PB as regards the objectives and principles of fair trade, some processes of rural development in the South (structuring of strong and multidimensional producer organizations), or the development premium/ fund,
- the lack of experience or skills of the PL / PB regarding the support for organizational strengthening,
- The commercial interests of the support structure, which entails conflicts of interest regarding the strengthening of the commercial capacities of producers and a certain passiveness to accelerate the steps leading to their empowerment,
- The logic of the PL / PB to concentrate funds on the strengthening of technical capacities and quality management rather than on organizational strengthening,
- The possible substitution of the PL / PB or producer organization support structures, not allowing any changes to roles.

## V. THE RECOMMENDATIONS OF THIS STUDY

From these elements, a series of recommendations has been formulated to contribute to the variety of works led by several fair trade actors regarding contract farming within fair trade, including fair trade guarantee systems.

**First of all, some general recommendations have been proposed concerning the relevance of the contract farming method.** The heterogeneousness of the study results in terms of the effective emergence and consolidation of producer organizations as well as the important questions of several actors involved in fair trade, show that it is important to resume the debate to clarify the arguments that justify the inclusion of contract farming into fair trade and that question the relevance of the development of this method and its implications in a system that focuses on producer organizations.

**Other general recommendations are then proposed concerning the current cases of contract farming within fair trade.** It seems necessary to study the organizational dynamics of several current experiences and to strengthen the control of all these cases to make sure that the organizational strengthening is or becomes a priority within the current initiatives undertaken (21 FLO cases and the ECOCERT cases). As regards the results of this study, and the reluctance of several producer organizations and other actors involved in fair trade, it seems relevant to search and promote some alternatives to contract farming so as to develop fair trade and strengthen producer organizations.

### *The role of the Fairtrade and ESR guarantee systems in the evolution of the current cases and the extension of contract farming within fair trade*

#### **Recommendations concerning the current situations of contract farming within fair trade**

It seems necessary to revise and strengthen the requirements of the reference tables, even if their frequent modifications and the increasing number of requirements can also limit the development of initiatives. It seems particularly important to be able to clarify the evolution of the roles wished in the commercial relation and to confirm the requirement regarding the strengthening of the own commercial capacities of producer organizations to make their empowerment possible.



### **Recommendations concerning the extension of the contract farming method within fair trade**

A careful and challenging attitude concerning the extension of contract farming within fair trade is recommended, while waiting to see the practical evolution of current situations and learn from them. It may allow us to lead a more global reflection on the relevance and coherence of the current dynamics of fair trade including contract farming. If the fair trade labels choose to extend this method within fair trade, precautionary principles should be defined to avoid competition within fair trade between producer organizations and production contract companies, since it could weaken the producer organizations.

Beyond the present study on the drivers and impediments to the emergence and consolidation of producer organizations within the framework of contract farming, a challenging vision of fair trade, focused on its fundamental principle of consolidating multidimensional and autonomous producer organizations, would imply not including contract farming within fair trade. If the fair trade guarantee systems choose the extension of this modality within fair trade, precautionary principles should be defined to avoid inconsistent situations such as the competition of producer organizations with production contracts companies working in fair trade.

### *Main recommendations from the Plateforme du Commerce Équitable (PFCE) to value and use the results of this study*

**Recommendations concerning the presence of the modality of contract farming within fair trade:** broadcast this study as basic material for collective thought and use its elements of analysis to specify its institutional positioning.

**Recommendations concerning current contract farming situations in fair trade:**

- Promote the carrying out of studies and the follow-up of the evolution of these current experiments according to the guarantee systems, and search for their financing.
- Offer the companies involved in contract farming within fair trade, training and awareness-raising activities relating to the dynamics of the rural development processes in the South and the stakes involved in the strengthening of producer organizations.

**Recommendations concerning the extension of the contract farming method within fair trade:**

- Provide information to the collective analysis regarding what is at stake in this trend and its institutional positioning on this matter,
- Discuss the methods to be encouraged to strengthen producer organizations and develop the fair trade sectors with its members and other interested actors.



## VI. CONCLUSION

Since the emergence and the consolidation of multidimensional and autonomous producer organizations are not guaranteed by the current of contract farming method under the Fairtrade and ESR guarantee systems, it is important to keep careful reserves regarding the position and the prospects for changes in this method within fair trade.

A collective reflection on behalf of the numerous actors involved today in fair trade is necessary to guarantee the achievement of the central fair trade objective, which is to reach the organization of producers and strengthen of their associative, commercial and socio-political capabilities to encourage their empowerment and their contribution to development processes.

Beyond the system of fair trade, and in view of the expansion of the contract farming method worldwide, the reflection on the need to strengthen producer organizations should also concern mainstream sectors. Some tools and principles of fair trade can be used as relevant material for this reflection. The possible regulation measures taken by the authorities regarding international commercial policies would also guarantee to rural families, through their organizations, the protection of some of their interests within the framework of contract farming.