



CONTRACT FARMING AND FAIR TRADE :

Identification of driver and impediments to the emergence and consolidation of producer organizations

**FINAL REPORT**



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## Initials and abbreviations

AFD:	Agence française de Développement (French development agency)
APB:	Piéla Bilanbia association ( Burkina )
AVSF:	Agronomes et Vétérinaires Sans Frontières (Veterinarians without borders)
BD:	Board of directors
CIDR:	Centre International de Développement et de Recherche (International centre for development and research)
COFA:	Chetna Organic and Fair Trade Association
COPIL:	Steering committee
CP:	Contract production
CPC:	Contract production company
CVECA:	Caisses Villageoises d'Épargne Crédit Autogérées (Self-managing rural credit and saving funds) (Burkina)
ECOWAS:	Economic Community of West African States
ESR:	Equitable, Solidaire et Responsable (Fair, united and responsible)
FAO:	Food and Agriculture Organization
FCAR:	Fair Credit Reporting Act
FLO:	Fairtrade Labelling Organisations International
FT:	Fair trade
GA:	General assembly
GDP:	Gross domestic product
GMP:	Guaranteed minimum price
GNP:	Gross national product
HDI:	Human Development index
ICS:	Internal Control System
IMF:	Institut de Micro-Finance (Micro-finance institute)
INSD:	Institut National des Statistiques et de la Démographie (National institute of statistics and demography) (Burkina)
LOASP:	Loi d'Orientation Agro-Sylvo-Pastorale (Agro-sylvo-pastoral act) (Burkina)
NAP:	Network of Asian Producers
OPD:	Organizational development plan
PB:	Promoting body
PEB:	Producer executive body
PO:	producer organization
PV:	minutes
RGPH:	Recensement général de la population et de l'habitation (General census of population and homes) (Burkina)
ROPFA:	Réseau des organisations paysannes et de producteurs de l'Afrique de l'Ouest (Network of rural organizations and producers of West Africa)
SERACOM:	Service Rural d'Approvisionnement et de commercialisation (Rural service for supply and marketing)
SHG:	Self- help groups
SOCREGE:	Société de Conseil et de Réalisation pour la Gestion de l'Environnement (Environmental Management Development and Consulting Organization)
SPO:	Small producer organization
UEMOA:	Union Economique et Monétaire d'Afrique de l'Ouest (West African Economic and Monetary Union)
UNDP:	United Nations Development Programme
WAFN:	West African Fairtrade Network



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Study on contract farming and fair trade: identification of drivers  
and impediments to the emergence and consolidation of producer  
organizations





## 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 foment 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.

## 1. Justification of the study

### 1.1. The opening of fair trade to contract farming

#### *The inclusion of contract farming methods in the Fairtrade reference table*

Faced with the growth in fair trade, the Fairtrade system decided from 2005 to include contract farming to allow small producers that are not organized but gathered in informal structures, to have access to the market and to Fairtrade certification since they join to an intermediate organization to market their product (exporter, processor, private company, NGO or others). This intermediate organization holds the certification but has to demonstrate its ability and desire to help the producers get organized and promote the conditions of an environment-friendly socio-economic development. It makes a commitment to help the organisations become formal autonomous organizations and fulfil the generic standards applicable to small producer organizations.

To fulfil the existing "small producer organizations (SPO)" and "Plantations" standards, specific "Production contract (PC)" standards were developed to define the requirements concerning this new methodology. In these standards, a series of criteria relate to the grouping of producers and their representatives (the PEB: Producers Executive Body), another series of criteria relates to the of contract farming initiative project leader and first purchaser (the PB: Promoting Body), which can be a processing company, a purchaser, an exporter, a NGO etc. The initial PC standards were revised in 2008, then in January 2010 on the basis of the results of an evaluation study. New modifications resulted in the last edition of the Fairtrade standards for contract farming (in May, 2011) applicable from 2012.

#### *New emerging initiatives of Fair Trade labelling (ESR)*

In parallel with these changes to the Fairtrade system, from 2007 on, ECOCERT developed its Équitable, Solidaire et Responsable - ESR<sup>3</sup> reference table, on the basis of the Biofair labelling initiative, which was initially developed by the Bio Partenaire<sup>4</sup> association and its member companies. This new fair trade reference table, still being developed today<sup>5</sup>, tries to enable the development of organic and fair sectors on the basis of a regulated commercial partnership between purchasers and producers.

In addition to the specific need to base its reference table on organic production, this reference table emphasizes the role hardly played by the commercial operators in the development of the sectors, and considers the Fairtrade reference table in the same way as the method of contract farming in the cases of non-organized producers. This methodology is also presented as a temporary situation during the emergence and consolidation of formal producer organizations.

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<sup>3</sup> <http://www.ecocert.com/equitable-solidaire-responsable-esr>

<sup>4</sup> <http://www.biopartenaire.com/>

<sup>5</sup> A technical committee steered by Ecocert and established by several actors involved in fair trade. Aims at talking of the orientations of the reference table, the performance of the standards and the evolution wished (to analyse and later validate with the actors involved in the ESR approach).

## *1.2. The questions raised*

The contract farming method within the fair trade framework is presented by the Fair trade guarantee systems as an opportunity to enter the market in favourable conditions for non-organized producers who are marginalized and isolated. For them, this method is a means to avoid restricting access to fair trade and to the impact it has on already established producer organizations, but on the contrary, to include new producers and meet market demand and growth. It also contributes to strengthen the structuring of these producers and to promote producer organizations in a progressive way on the long term.

However, questions on these processes appeared from several fair trade actors:

- Some people underline the contradiction that arises from the inclusion within fair trade of a method of contract farming which recreates the asymmetric power-based relationship within the sectors between producers on one hand and wholesale buyers, and on the other hand, actors further downstream, as seen within conventional trade and criticised by those who initially promoted fair trade.
- Numerous producer organizations that already exist and have fair trade certification are still fragile and in huge need of strengthening to fit better in fair trade sectors and enable their partners to benefit from fair trade. Including in fair trade producers that are not yet organized can be seen as a danger of diluting the already inadequate efforts granted to strengthen these existing organizations (efforts of the backers, commercial operators, NGOs, etc.).
- Actors insist on the temporary characteristics inherent in contract farming within fair trade and insist on the way it evolves into a more independent commercial relationship between a stronger producer organization and a buyer. The contract farming method can be an opportunity to enable producers to get organized or to join organizations, thus having a positive impact on more families and facilitating the development of the sector. It can also become an option that some commercial operators (in particular traditional exporters in the sectors) may wish to develop in order to set up fair trade sectors more quickly, which they will hope to maintain in the medium term to secure their products- supply and fulfil their quality standards. This would result in a low level of participation by producers in controlling the sectors and to a lack of contribution to their structuring as producer organizations.
- Because past years have shown that contract farming did not result in the emergence and the consolidation of producer organizations in spite of sometimes consequent deadlines, and since the key objective of the fair trade system as a whole is the structuring and consolidation of producer organizations, some actors wonder about the level of progress requirements as regards institutional and organizational strengthening that are mentioned in the Fairtrade and ESR reference tables.
- Some people also wonder about the effective capacity of the PC operators to take up effectively the challenge of structuring and consolidating producer organizations.
- On the other hand, some question the structuring requirement of an organization by questioning its feasibility and its relevance in some contexts. Some actors underline the difficulties linked to the sector's context or specific features and question the suitability of imposing timetables, wishing the standards could be less rigid on these aspects.

- Some producer organizations and their networks are afraid of competition between producer organizations and companies that have more financial means and easier access to bank credits for their working capital. For them, contract farming and participation by processing, packaging and/or marketing companies could represent a loss for the producers who may be interested in the possibility of working in the sectors beyond the simple primary production to benefit from superior capital gain and strengthen their implication in the processes of local development.
- Some networks of fair trade producer organizations (in particular in Latin America) as well as fair trade historic economic operators and NGOs that offer the development and support for small producers (such as Agronomes et Vétérinaires Sans Frontières, AVSF), are strongly opposed to the inclusion and extension of this method. They are seeking support to structure and strengthen the great number of producer organizations that do not benefit from fair trade yet.

These numerous **questions**, wwhile non-exhaustive manner, **show the discrepancies** among fair trade actors regarding contract farming in fair trade, which since its inclusion has generated many debates and a great deal of tension.

To contribute to these debates, the Plateforme française du commerce Équitable (PFCE) financed the present study "Contract farming and fair trade: identification of drivers and impediments to the emergence and the consolidation of producer organizations". This study aims at analysing more specifically the **effectiveness, the efficiency and the feasibility of the institutional and organizational work** done to strengthen producers- groups within the framework of existing production contracts (Cf. Reference terms in appendix 1). The strengthening of the organization level of producers is indeed a central objective within fair trade.

This study **contributes to the global reflexion** on the inclusion of contract farming within fair trade, which must be tackled according to three levels of analysis:

- The first level is a **reflection on the relevance** or not of this method within the fair trade system in light of the results of the first experimental years. The present study is not directly focused on this question but its conclusions will bring elements of reflection on the organizational levels reached and thus on the consistency of the approach in terms of opportunities, risks and limits.
- The second level concerns the **reflection on existing contract farming cases** today (twenty one in the Fairtrade system officially, a number still requiring classification in the Ecocert system). It would be important to draw up a balance of these experiments and when necessary, to take measures so that the strengthening of the organization processes followed by the producers involved is real. The present study will contribute to this reflection because it will enable identification of the drivers and impediments to the organizational and institutional strengthening expected in the case studies.
- The third level concerns the **reflection on the possible conditions for extending this method, and whether it is appropriate**. Indeed, the recommendations of this study should be considered as input for the current debates concerning the extension of the model within new sectors and production areas (within the framework of the Fairtrade reference table), and before the number of contract farming cases that are certified by Ecocert increases.

AVSF, who was chosen by the PFCE after a call for tenders, aims at **answering the study's terms of reference** which, as mentioned above, are not directly focused on the relevance of the inclusion or the extension of contract farming within fair trade but **will bring elements of reflection to these debates**.

AVSF's institutional positioning is opposed to the initial inclusion of contract farming within fair trade, because of its experience in support of the emergence and consolidation of producer organizations and its historic commitment to support fair trade development according to its fundamental principles. However, AVSF has wished to lead the present study to contribute, on the basis of its skills, to the reflections and debates on contract farming within the fair trade, especially with the PFCE actors.

AVSF has tried to answer **objectively** the study terms of reference defined by the PFCE, on the **basis of evaluation tools presented and validated by the study's steering committee** (Cf. methodology presented in Appendix 2): 8 variables were chosen and used to measure the levels of institutional strengthening of the case studies by analysing their Evolution through time. The explanatory factors of these evolutions were then analysed (impediments and drivers) with regard to contexts, logics of actors and standards requirements, to formulate several recommendations.

Case studies are detailed in two appendices to show with full transparency the elements of analysis that support the conclusions and the recommendations. At the request of several actors involved in the study case, these appendices are only being shared on a restricted basis, since specific and nominative data is given in each case.

The study results were first presented in an interim report, then during a meeting with the study steering committee, who expressed its satisfaction on the seriousness and the reliability of the initiative.

The present final report includes the observations of the steering committee.

### ***1.3. Identify, within the modalities of contract farming, drivers and impediments to organizational strengthening***

According to the reference terms, the study's objectives are:

- ✓ **Analyse fair trade sectors** that started with production contracts with individual producers and which, via a set of measures to be identified, to enable or prevent producers to become part of successful organizations, achieving the desired impact by fair trade at the economic level, in terms of local development and strengthening of small producers.
- ✓ **Identify impediments and drivers** allowing the evolution from non-organized producers to organized producers capable of fulfilling their local challenges in terms of development.
- ✓ **Formulate recommendations to the fair trade guarantee systems** to better include measures and stages into their specifications to allow the structuring and emergence of autonomous organizations, and requiring them in a contract so as to pursue the process of obtaining the certification. The standards are not the only means to develop fair trade sectors but they remain a central instrument to ensure the respect for the commitments of the different parties involved.

- ✓ **Identify the preconditions necessary for the implementation of contract farming**, in situations where contract farming appears to be able to bring an answer in terms of structuring.

### ***1.4. Three case studies to nourish reflections***

The methodology presented in [appendix 2](#) was discussed and validated by the study's steering committee at its launch. At the same time it was based on documentary reviews (several documents on contract farming: cf. bibliography in [appendix 3](#)), 3 case studies with field missions realized in April and May 2012 (cf. results detailed in [appendix 5, 6 and 7](#)), and punctual elements stemming from another experiment of contract farming but without field mission (elements of the last audit report, Cf. [appendix 8](#)).

Case studies were chosen from the following common criteria:

- Experiences with at least 3 years history
- Agreements of the partners and available information
- Fairtrade system ( 2 cases) and ESR system (1 case + 1 case without field mission)
- Several types of actors involved supporting of producers to come together in organizations: company, producer organization or support structure.
- Experience on 2 continents (Africa / Asia)
- Strategic sectors of contract farming within the fair trade framework and the systems of guarantee considered
- Logistic feasibility (difficulties in some sectors with picking products).

### ***1.5. Limits and difficulties***

This study is a qualitative study from 3 experiences analysed during field missions and some information received on 1 additional case, without field mission: the observations cannot be generalized. The results are not exhaustive or statistically representative. The samples do not contain cases involving a public development body (situation that exists for example in Mali in the sesame sector with ESR certification) or a processing company as project leader (in the case of the Fairtrade system). However:

- The study tried to recut several situations and the steering committee members underlined the situations were heterogeneous and representative.
- The questions raised are relevant for all experiences of contract farming. The study contributes to a global reflexion on the subject.

Some difficulties appeared concerning the realization of the field studies:

- The case initially chosen in Mali (ESR) was not able to be studied because of the political crisis of April, 2012 in this country.
- The reluctance expressed initially by the companies involved in the Burkina Faso case were dismissed and the mission took place in very good conditions, in spite of the slight delay in the study. However, it was not possible to obtain any information directly from Bio Planet who is, however, the promoter of the project.
- The significant distance between groups of producers (2,000 km in India), their geographical dispersal (more than 100 groups covering approximately 10,000 km<sup>2</sup> in Burkina Faso) and some logistical difficulties limited the number of groups visited.
- The information was globally able to be obtained and the great majority of the actors cooperated. However, we can underline that some commercial information (sale prices, financial results, setting of margins etc.) was not always available, and that several documents logically drafted in local languages (Hindi) could not be translated and consulted. The certification / audit reports were communicated, sometimes with great transparency, sometimes more partially.

AVSF thanks all the companies, support entities and producer groups that made this study possible.

## 2. Reminders on contract farming

### 2.1. What do we call contract farming?

First, we must define the method of contract farming to present its characteristics. Numerous studies in recent years have considered this topic. In the present report, we based ourselves on a wide definition proposed in *Contract farming in Developing Countries, a review*, A savoir 12, AFD.

The method of contract farming can be characterized by the following elements:

- A contractual arrangement for a given period, ·
- between a producer and a first purchaser (intermediate company, exporter, NGO) ·
- elaborated verbally or in writing, ·
- before production begins,
- the purchaser supplies resources (input, technical support, credits, transport) to producers and / or specifies the production modes (input, technical itineraries...) that he wants, and one or several conditions of sale (quantities, quality, price, frequency),
- as regards an agricultural production on a producer's land (or under his control), ·
- for non-transferable production that gives the purchaser or the producer exclusive rights to this production and a legal title over what is produced.

#### *Variables*

According to the cases:

- supplied resources are more or less important,

- conditions of sale are more or less demanding and fair,
- the dependence on the purchaser is more or less strong (exclusivity, integrated sector).

## *2.2. Interests for producers and companies*

The studies underline several interests regarding contract farming, for producers and purchasers (when the parties successfully consult each other and the relation is established on a well-balanced basis).

### For producers:

- they have access to a secure market, ·
- they have guaranteed prices, the promise of a better income, ·
- they obtain more easily input, credits, transport of products, land preparation, ·
- they have access to technical support and innovation, ·
- they can sometimes increase diversification, ·
- they are able to obtain a credit thanks to the contract, which serves as a guarantee.

Some studies show that what especially attracts producers is the stability of the commercial relation, the reduction of risks and technological innovation.

### For purchasers:

- They Increase the security of supplies in quantity and quality,
- They leave the risks related to production to producers (control of the work done and not only the means of production),
- they have access to the land without having risks of expropriation,
- they take advantage of a workforce that optimizes family work, and that is qualified in its practices,
- they have a bigger control over the production to reach predefined quality standards according to the markets targeted,
- they reduce and control coordination costs,
- they have more flexibility to reduce or increase production without making investments,
- they are able to make economies of scale on the raw material purchases by ensuring standardised production processes,
- they can adapt their investments to processing processes,
- they maintain intellectual property on the varieties sown, ·
- they have a better image by getting involved in development programs of the local / social government,
- they share the risks with producers / suppliers, ·
- they transfer the responsibilities of staff management.

### 3. Fair trade contract farming

Contract farming within the fair trade system presents some specific features, both in its definition and in the standards.

#### 3.1. *The specific features of fair trade contract farming*

- *According to the Fairtrade / Max Havelaar guarantee system*

CP, "contract production" is defined by the Fairtrade / Max Havelaar guarantee system as the implementation of a production plan (regulated by CP standards) involving small producers who are not organized in a formal structure, or organized in structures with no legal status. These can then participate in the Fairtrade / Max Havelaar system where they have a partnership with an intermediate body, with which they can establish production and sales contracts. It can be a support body (NGO) or a company (processor, exporter) called "Promoting Body" (PB). The PB is the holder of the Fairtrade certification and has to guarantee the respect for the CP standards.

The PB has to contribute to producers' social and economic development and makes a commitment to help them form an independent organization and become autonomous, and, after some time, be subject to the generic standards of small producer organizations (SPO Standards)<sup>6</sup>. The revision of PC standards enabled this requirement to be included and specified since the new 2011 standards, that will apply in 2012, specify that producer groups have 6 years to meet SPO standards. The Fairtrade / Max Havelaar system thus considers contract production as a temporary stage in which individual producers must formalize their organization.

The authority representing producers or "Producer Executive Body" (PEB), consists of elected representatives of producers with a production contract. This PEB plays the role of interface between individual producers and the PB. It also represents the interests of the producers and ensures effective management of the development premium until the organization assumes these responsibilities.

"Contract farming" standards defined by the Fairtrade / Max Havelaar guarantee system only apply to twenty situations approx. (groups of producers and intermediate structures), in the Basmati rice and cotton sectors in India, and recently, cotton and dried fruits in Pakistan. Debates regarding the extension of the method of contract farming to other sectors and contexts are however taking place.

- *According to the ESR guarantee system*

In the ESR guarantee system developed by ECOCERT, the contract farming method also intervenes when producer organizations are formally structured, for reasons linked to the product or to the regional context. Small producers (not organized or organized in structures without formal status)

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<sup>6</sup>[http://www.fairtrade.net/fileadmin/user\\_upload/content/2009/about\\_fairtrade/Fair\\_Trade\\_Glossary.pdf](http://www.fairtrade.net/fileadmin/user_upload/content/2009/about_fairtrade/Fair_Trade_Glossary.pdf)

can then enter the ESR initiative if they are in partnership with a body (exporter, importer) with whom they have sales contracts and who have the capacity to contribute to their social and economic development. This body ("contract production company") then has to demonstrate constant efforts to create a structure for dialogue allowing producers to develop autonomous decision methods. This structure, eventually, can become an economically autonomous producer organization. Standards are generic for the production groups involved (producer organization, company with production contract and plantations).

Moreover, an ESR sector must be based on the support of producers and workers to help them understand better conditions and market trends, and develop knowledge, skills and resources. The support has to aim at developing producer autonomy, in a prospect of sustainable development. An operator in the sector, the "Project leader", is identified to coordinate these development actions (whether it be the contract production company, an NGO etc.).

A contract production company (CPC) has to structure and support non-organized producers to lead them towards autonomy, by means of the Project leader if necessary.

Every project leader must, before making a commitment to the approach, demonstrate that he wishes and is capable of assisting producers so that they can reach a level of organization that allows them to acquire more autonomous functions.

The Fairtrade standards (the initial standards were revised in 2008, 2010, 2011) and the ESR standards (2010) show some specific characteristics in their definition of contract farming compared with classic production contracts:

- Production contracts must concern **small producers**
- The commercial contract between producers and their partners **must not be exclusive**: producers must be able to sell their production to other purchasers.
- The prices have to respect the standards of the **minimum guaranteed price (FLO) or concerted price (Ecocert)**.
- There is a commitment, an **obligation** for the structure in commercial partnership with producers **to support the structuring of the organization** and to strengthen this organization. The following chapter presents the several obligations included in the Fairtrade and ESR standards in terms of institutional and organizational strengthening.
- **Audits / controls** are set up by the systems without guarantees.

Several questions appear on the requirements of these standards:

- The institutional support requirements which serve to promote an autonomous organization can seem to contradict the commercial interests of the partner structure which can wish to maintain the control of the market and not give a more important role to producers in the control of the sectors. This makes us **question the feasibility of such a device** according to the nature of the structure, its values and its goals.
- The strengthening of producer organization capabilities suggests an evolution in the commercial relation. **What are the possible advantages for each party?** What future roles

will be played by each party? Can the evolution of every party's functions and responsibilities exist without institutional strengthening?

- The requirements of "non-exclusivity" can seem contrary to the logic of contract farming, by which a commercial partner tries to better secure his supply and develop the loyalty of each producer. **Can this requirement be respected?** Without this security, commercial partners could be more reluctant to prefund the production or bring services, or could also not make a formal commitment to buy the production.
- The requirements assume an evolution towards an autonomous organization (and in the case of Fairtrade, an evolution towards the SPO standards system). What are the **technical, but also commercial, financial and administrative** capabilities to acquire to make it possible, and what is the indispensable support for a **transfer of roles** and responsibilities on these aspects?

### ***3.2. The requirements regarding organizational strengthening in the standards***

As previously mentioned, the Fairtrade and ESR standards include some requirements for the commercial partners and producers to strengthen the organizational levels of producers.

To spot these requirements, and later to analyse in case studies what results were reached, we suggest structuring the analysis around **8 variables** that allow the important components of the organizational and institutional level of producer organizations involved in fair trade to be described in more concrete terms. These variables are the following:

1. Legal, functional existence
2. Governance and representativeness
3. Technical capabilities
4. Administrative and management capabilities
5. Commercial capabilities
6. Financial resources and autonomy
7. Advocacy capabilities
8. Participation in the local development

The following tables show the requirements that appear concretely in the standards according to these variables, and their progressiveness (year 1, 2, 3, 6 and factors of progress).

In the case of Fairtrade, some criteria concern producers and their representatives (PEB), others concern commercial partners (PB).

The analysed standards are the 2008 PC standards; changes in the most recent standards (2011) are underlined. The reference standards for case studies remain the 2008 and 2010 standards because the new standards apply only from 2012.

The recommendations will take into account the 2011 standards and the on-going evolution of some requirements. Appendix 4 presents more in detail the 2008, 2010 and 2011 standards.

In the case of ESR, the reference table consists of requirements, which are classified according to three orders: Minimum requirements, which the operators have to fulfil to make a commitment to the ESR initiative; general requirements, which the operators have to fulfil during the first year after their commitment to the ESR initiative; and progress requirements, to which the operators have to conform via continuous improvements. The standards analysed in the present study correspond to the version of the reference table dated February 15<sup>th</sup>, 2010.

<b>INSTITUTIONAL AND ORGANIZATIONAL STRENGTHENING REQUIREMENTS IN THE FAIRTRADE STANDARDS EVOLUTIONS 2008 - 2011 (last version)</b> <u>Underlined</u> : deleted requirements - <b>In Blue</b> : new requirements, precisions	
2008	2011
<b>1. Legal, functional existence</b>	
<b>PB</b> <b>Minimum requirement</b> The PB is willing and capable of helping producers to get organized to respect the SPO standards. The PB guarantees the constitution of one or several PO and helps them formalize their internal system of control for the democratic and transparent participation of the producers involved. The PB elaborates with the PEB an Organizational Development Plan (ODP). The ODP indicates clearly the stages and the deadlines to create a formal but not necessarily legalized producer organization. The PB brings services to strengthen producers capabilities until they establish an organization.  <b>Progress requirement</b> An ODP is established in which the profits of the IT (including the premium) are distributed according to the democratic decision of producers. The ODP helps the PO become strong, independent and recognized, and legally constituted.	<b>PB</b> <b>Minimum requirement</b> The PB <b>has to demonstrate that it has the skills and the resources to support producers providing training for an organization (or hire external experts). The PB has to sign a contract written with the PEB showing its commitment to help the training of a PO.</b> The PB, with producers, has to develop an ODP in a democratic way without the PB imposing its point of view. Calendar: · <ul style="list-style-type: none"> <li>• The ODP has to exist in year 1, the PB has to facilitate the means to reach the objectives ·</li> <li>• If the objectives are not reached, the PB has to hire a third party, <b>after consultation with the PEB, with proven capabilities</b> ·</li> <li>• Year 3: one or several POs have to exist and strengthen (year 6)</li> </ul> The PB <b>has to have an internal control system (ICS)</b> to assure the follow-up of the respect of the standards and the implementation of the organizational Development Plan (ODP).
<b>Producers</b> <b>Minimum requirement</b> The organized producers are willing and capable of getting organized in due time to respect the	<b>Producers</b> Producers have to develop an organizational development plan (ODP)with the PB <b>Year 3:</b> with the help of the PB, the PEB has to

<p>SPO standards and cooperate with the PB. <u>The PEB establishes the ODP with the PB indicating clearly the terms and the required activities so that the PO is strong, independent and recognized.</u></p> <p><b>Progress requirement</b> The initial organizational structure is converted to PO, formal but not necessarily legally established according to the ODP. The PO with the PB updates its ODP indicating clearly the deadlines and the required activities so that the PO is strong, independent and recognized. The producer organization is a legally recognized body.</p>	<p>update the ODP and define clearly the following stages to answer the SPO standards. <i>Year 6: producers have to get organized in PO with the SPO standards.</i></p>
<p align="center"><b>2. Governance and representativeness</b></p>	
<p><b>PB</b> <b>Minimum requirement</b> If the PO or the PB limits the incorporation of new members, there should be no discrimination of any particular social group. <b>Progress requirement</b> If non-registered producers are interested in joining the PO and are also small producers, the PB makes the efforts necessary to incorporate them or supports the implementation of a new PO. The PB guarantees that programmes intended for minorities or disadvantaged persons are ready in the organization to improve their position.</p>	<p><b>PB</b> The PB has to make sure that the group appoints a PEB to take part in decisions on fair trade and the use of the premium. <i>Afterwards, when the PO exists, the PEB can become a committee in charge of following-up the premium.</i> The PB has to make sure that the PEB <i>is elected through a democratic vote (informed, report of the election).</i> There must not be any discrimination within the organization (regarding participation, access to markets, training, decisions etc.) or <i>in areas in which discrimination exists, progress must be made to reduce it).</i> <i>The composition of the PEB has to reflect the diversity of producers (gender, origins, communities, migrants).</i> The PB has to define and document the process to include / exclude producers. <i>In year 6, if non-registered producers want to participate, the PB has to try to include them.</i> The PB <i>has to support the group to facilitate the participation of the members and the feeling of membership.</i> The PB <i>has to make sure that there is a good communication and feedback between the PB / PEB to give information about sales and the repartition of the premium.</i></p>
<p><b>Producers</b> <b>Minimum requirement</b> Fair trade beneficiaries are small producers and their families.</p>	<p><b>Producers</b> The beneficiaries of fair trade are small producers and their families. <i>The workers (agricultural employees) must be</i></p>

<p>There is a clear process of representation of producers by the PEB.</p> <p><b>Progress requirement</b>  <u>The PEB has a life cycle limited to 3 years and is re-elected or reappointed in a process where the voice of each producer matters.</u></p>	<p>beneficiaries of an activity (in year 3).  In year 3, the producer organization has to take measures to promote participation in the organization. Producers must be able to tell their concerns regularly and easily.</p> <p>There should be no discrimination regarding beneficiaries or participation. In year 3, the organization has to identify who are the disadvantaged minorities.</p>
<p><b>3. Technical capabilities</b></p>	
<p><b>PB</b>  <b>Minimum requirement</b>  The PB assures that the PO respects the quality needs of the market corresponding to the IT certification.  The PB has some experience or collaborates closely with experimented purchasers to market the product.</p> <p><b>Progress requirement</b>  The PB will encourage the PO members to set up a management system that integrates cultural aspects.</p>	<p><b>PB</b>  The PB has to train the groups on the control of diseases, alternative methods, and prevention not to develop resistances to pesticides.  The PB has to have a nominee to follow the environmental aspects.</p>
<p><b>Producers</b>  The members of the OP, with the support of the PB, gradually assume the full responsibility to protect the environment and consider environmental protection as an integral part of the management of their farms.</p>	<p><b>Producers</b>  There should be training on environmental aspects.</p>
<p><b>4. Administration and management capabilities of the organization</b></p>	
<p><b>PB</b>  <b>Minimum requirement</b>  The PB assures with the registered producers the establishment of a structure that allows producers to make decisions concerning the repartition of the development premium in a democratic way.</p>	<p><b>PB</b>  The PB has to make a commitment in writing on the fact that the PEB decides in an independent way on the repartition of the premium.  The PB has to open a separate account to receive the premium funds, with joint signature of at least 1 member of the PEB.  The PB has to accompany the PEB in the choice of the actions by offering training (prioritization of needs, elaboration of budget, implementation and monitoring etc.).  The PB must ensure that there is a effective communication and must guarantee the transparent and democratic repartition of the premium.  The PB has to supply the PEB or producers with a report on the accounts audited for the distribution of the premium at least once a</p>

	<p>year.</p> <p>The PB has to organize training for the PEB on the administrative and organizational aspects.</p>
<p><b>Registered producers and PEB</b></p> <p><b>Minimum requirement</b></p> <p>The registered producers have defined instances regarding participation and decision-making, allowing the constitution of the PEB and enabling the registered producers to decide on fair allocation of the premium.</p> <p>The PEB ensures that all members receive an annual report and assessment of the accounts regarding the development premium.</p> <p>The decisions taken by the PEB are shared with the members through an appropriate communication system after each meeting of the PEB.</p> <p>The premium cannot be used before the PEB is constituted.</p> <p><b>Progress requirement</b></p> <p>Member participation in the administration of the PO and internal control improves in a continuous way through the training assured or provided by the PB.</p> <p>With the support of the PB, the PO assumes in a progressive way full responsibility for administration of development premium funds.</p> <p>If the annual premium amount is determined early, the PEB develops an annual plan and a budget on the PO's behalf; it is better if it is included in the general plan and budget of the repartition of the development premium.</p> <p>If the premium value is not known beforehand, the plan must be developed on the basis of reasonable forecasts.</p> <p>The financial statements (bank accounts) and the annual reports of the PO are shared annually with all the shareholders.</p> <p>The PO can demonstrate clearly its capacity to administer its activities, training and operations.</p>	<p><b>Producers</b></p> <p>The PEB has to decide in a democratic way on the activities of the fair trade development plan, present and plan them. The PEB has to update the development plan. The longer-term activities are to be considered.</p> <p>In year 3: the assessment of the plan (its realizations or delays, its costs, its success or not) must be made and presented.</p> <p>The PEB has to have an account and an accounting system. The accounts must be available. The PEB has to acknowledge receipt in writing of the development premium.</p> <p>Year 6: with the support of the PB, producer organizations have to be totally responsible for the management of the premium.</p> <p>Producer organizations have to improve their ability to administer their activities.</p>
<b>5. Commercial capabilities</b>	
<p><b>PB</b></p> <p><b>Minimum requirement</b></p> <p><u>The contract written between producers and the PB does not prevent producers from selling their products to another purchaser.</u></p>	<p><b>PB</b></p> <p>The PB has to help the group acquire other certifications for new markets.</p>

<b>Progress requirement</b> The PB supports PO regarding access to certifications linked to the market, which the PB holds in the name of producers, which allows organizations reaching other markets and purchasers.	
<b>6. Financial capabilities</b>	
<b>PB</b> <b>Progress requirement</b> <u>The PB assures the access of producers to services of technical assistance and pre-financing.</u>	-
<b>Producer</b> <b>Progress requirement</b> <u>The PO assumes in a progressive way more responsibilities on the whole commercial process.</u>	
<b>7. Advocacy capabilities</b>	
-	-
<b>8. Community development capabilities</b>	
-	-

Table 1: Institutional and organizational strengthening requirements in the 2008 Fairtrade standards. Evolutions of the new version 2011: new requirements and precisions (Source: Standards regarding production contract, FLO, July, 2008 and May, 2011)

## INSTITUTIONAL AND ORGANIZATIONAL STRENGTHENING REQUIREMENTS IN THE ESR STANDARDS

### 1. Structuring of producers- organization

#### 1.1 Generalities:

The **Contract Production Company (CPC)** is defined as a company having production or collection contracts with producers (in the sense of the present standards: farmers, breeders or gatherers) not yet organized or organized in informal structures that it organizes and supports.

The Project leader establishes, together with the beneficiaries, an action plan defining the purpose, the objectives of the partnership project and the means used to realize them.

ECOCERT will check in particular:

- The transparency and the precision in the description of the objectives and the means (activities, structures, human and financial resources).
- The reality of the technical set up and human means.

#### 1.2 Specific requirements regarding contract farming:

**Minimum requirement.** From the first year, the CPC establishes with producers an action plan to create a participative body representing the producers.

The plan will establish concrete measures and a calendar, which will enable :

- The body to participate in the definition of axes for development wished by the producers, more particularly by participating in the decisions linked to the development fund;
- The body to work according to a democratic model (representatives elected by producers, structuring);
- The body to be a place for continuous dialogue between the producers and the company.

The plan will thus formalize an internal system for participative and democratic decision-making.

#### Progress requirements:

- thanks to the constant support of the company, the implementation of such a body is effective at the end of three years
- Thanks to the continual support of the company, and when producers wish it, the participative body will allow producers to evolve towards a structure of producer organization having an autonomous economic functioning.
- Within the group, the organization or the company tries to improve the living conditions of the most disadvantaged producers and/or the communities associated with it (e.g. isolated producers in very poor regions, stigmatized native populations, and groups of women, people or groups of people in handicap situation, discrimination or exclusion).

### 2. Representativeness - legitimacy of the organization, transparency and democracy

**Minimum requirement.** The members of producer or CPC organizations participating in the fair trade initiative are clearly identified and registered.

**Minimum requirement.** The majority of the registered members are small producers:

1. More than 60 % of these members are young producers<sup>7</sup>;

Or

2. More than 60 % of the volume (annually on average) sold by the organization or the company is produced by small producers.

**Minimum requirement.** The CPC statutes (or any similar internal regulations) do not restrict the access of producers according to discrimination criteria such as race, skin colour, religion, sex, political belief, national ancestry or social origins.

**General requirement.** There is no particular obstacle to the participation of women in the structures and in the decision-making procedures within producer organizations or the CPC.

**Progress requirement.** Within the group, the organization or the company tries to improve the living conditions of the most disadvantaged producers and/or the communities associated with it (e.g. isolated producers in very poor regions, stigmatized native populations, groups of women, persons or groups of persons in handicap situation, discrimination or exclusion).

### 3. Technical capabilities

**Minimum requirement.** The action plan, at least:

1. Identifies with the beneficiaries their technical support needs and the axes for social, economic and environmental development towards which they wish to make a commitment;
2. Drafts a provisional budget for potential support and development projects to be coordinated;
3. Defines the financial and technical means that will be implemented to answer the identified needs:
  - I. The financial means provided can come from the project leader, the financiers involved in local development programmes of, or a combination of both. Beforehand, the project leader would have secured local support capabilities and their financing;
  - II. Human technical means and skills corresponding to an effective and regular technical support (effective and functional presence of a technical support, adapted to the situation of the production).

**General requirement.** The project leader makes regular visits to the field to coordinate the development actions identified with the action plan beneficiaries.

**Progress requirement.** Besides, the project leader coordinates actions to strengthen the autonomy of producer organizations, already existing or to be developed, such as:

- support to the activity of the technicians, for the training of local persons in charge of cultural techniques, quality control...
- support to the organization, help for the management and supervision;
- search for an optimization of processing activity so as to increase the added value before export, if it reaches the quality level expected by the market;
- identification and valuation of local technical know-how.

**Minimum requirement.** Annual cultivations: producers are not forced, in any way (explicit or implicit), to plant a given plant every year. They will not be excluded by the company if they do

<sup>7</sup> Defined in the ESR reference table as producers whose structure does not depend on a regular or permanent salaried workforce, and who mainly work on their exploitations using their strength and that of the members of their families.

not do it.

**Minimum requirement.** The contract specifies:

1. The company's obligations regarding support: supply of services, input ...
2. The producer's obligations: quality criteria, organic and sustainable practices, priorities regarding social aspects ...

#### 4. Capabilities of administration and management of the organization

**Minimum requirement.** The Purchaser makes a commitment on a real policy of volumes allowing the production group to have access to stable and sustainable markets and to set up appropriate technical, logistic and administrative means. For each subject, the contract defines a supply plan specifying the volumes corresponding to the minimum purchase as well as the purchasing schedule.

**Minimum requirement.** The guaranteed minimum price enables the payment of organizational costs (internal quality control, administration; control costs and certificate if they are to be paid by the Group);

**Minimum requirement.** The development fund is managed in a transparent and responsible way: Separate and transparent accounting, with scheduled records.

**General requirement.** Once money is available in the fund, an annual meeting with the beneficiaries allows production of a report showing actions carried out or planned:

- report on the activities and more exactly progress of financed existing projects;
- financial assessment of the income, expenses and balance of the development fund;
- prospects for actions to be led the following year.

#### 5. Commercial capabilities

The purchaser develops a partnership on the long-term with the production group to build a privileged relation. The commercial relation between both partners is formalized by a framework agreement.

This contract holds the principles of a sustainable relation based on mutual profit. Both parties can specify in a secondary agreement the activity or activities of additional stakeholders (NGO, support body).

**Minimum requirement.** The determination of the guaranteed minimum price is made in a joint way, argued and justified thanks to a real dialogue with the production group and its members. A consensus is reached through transparent negotiations.

**General requirement.** Producers are clearly and regularly informed about the mechanisms and rules governing the setting of the prices they are paid, as well as the quantities of products which they can deliver.

**General requirement.** The first purchaser supports marketing, according to needs, by supplying information on markets (practices, prices, quality requirements, statutory evolutions applicable) and searching for new outlets.

#### 6. Financial capabilities

**Minimum requirement.** The guaranteed minimum price enables the payment of organizational costs (internal quality control, administration; control costs and certificate if they are to be paid by the Group);

**Minimum requirement.** If the production group requests it officially, the First purchaser grants pre-financing.

**Progress requirement.** Thanks to the continual support of the company, and when producers wish it, the participative body will allow producers to evolve towards a structure of producer organization having an autonomous economic functioning.

#### 7. Advocacy capabilities

No consideration of this variable in the corresponding guarantee system.

#### 8. Community development

**Minimum requirement.** The development fund is used in favour of all the beneficiaries. There are no risks of appropriation by individuals or interest groups.

**Minimum requirement.** The financed projects were identified together with the beneficiaries.

Producers participate, directly or through their representatives, in the decisions linked to the development fund and are informed about it. All the means adapted to the social and cultural reality of producers are implemented to involve as much as possible producers in the decisions linked to the development fund.

Table 2: institutional and organizational strengthening requirements in the ESR standards (Source: ESR reference table, Ecocert, Feb. 2010)

## 4. Reports on three case studies

### 4.1. Presentation

The 3 case studies (with field mission) are presented in appendices 5, 6 and 7 with restricted broadcasting.

In each situation, the study tried to measure the margins of progress of the groups / organizations at the organizational and institutional level according to the 8 variables mentioned by identifying the contributions of partner structures, by making references to the requirements of the standards and by trying to understand the difficulties met.

However, in order to analyse the drivers and impediments of these case studies, it was necessary to set these experiences back in their context, to understand who are the project leaders, the partners involved and their institutional or commercial objectives, to see how the fair trade relation is established and what its effects are on the producers and on the companies.

Each case study was structured according to the following plan:

#### Context

- 1) Context and sector data
- 2) Project leader company presentation

#### The fair trade relation

- 3) The commercial relation (contract and price)
- 4) Effects on producers
- 5) Effects on companies

#### Institutional and organizational strengthening

- 6) Organizational diagnosis
- 7) The role played by the project leader (intermediate structure, first purchaser) in organizational strengthening
- 8) Perspectives of evolutions of the relation
- 9) Strengths and weaknesses
- 10) Identified drivers and impediments

Study on contract farming and fair trade: identification of drivers  
and impediments to the emergence and consolidation of producer  
organizations



Table 3 presents for every case study, the name of the involved structures (base groups, organizations of the second or third level, CPC, project leader etc.) and the number of beneficiary producers.

Study on contract farming and fair trade: identification of drivers  
and impediments to the emergence and consolidation of producer  
organizations





Case studies	Start of the support to producers	Standards	Number of producers involved	Organizations or base groups	Second level organizations	First purchaser with production contract (or SPO)	Project leader	Support bodies
Cotton India Hyderabad	2001	Fairtrade Standards  Production contract in 2005 SPO Fairtrade Standards since 2009	10,000 producers (30 % of women)	Self- help groups	Cooperatives (11)  Legalized in 2001-2006	COAPCL  Producer company	COFA  Producer Organization (PO) 3 <sup>rd</sup> level	COFA with ICCO financing, public financing
Basmati Rice in India	2003 / 2004	Haryana Standards  Fairtrade production contract since 2005	1,664 producers (2 % of women)	Clubs (32)  20 in Khadar 12 in Kaithal	Federations (2)  Legalized in 2012	SUNSTAR  National firm	SUNSTAR  State-owned company	-
Sesame in Soum, Burkina Faso	2009	ESR Generic Standards  including production contracts since 2009	1,742 producers (15 % of women)	Reliable partners (107)	Production "units" (6)  2 were legalized in 2011	BURKINATURE State-owned company	BIO PLANET  French company	SERACOM8  Structure of services financed by BURKINATURE

Table 3: presentation of the actors in the three case studies.

<sup>8</sup> Rural service for supplies and marketing

Study on contract farming and fair trade: identification of drivers and impediments to the emergence and consolidation of producer organizations





## *4.2. Organizational assessment*

The following tables present an assessment of the progress and difficulties of each case study in reference to the 8 variables that characterize the level of organizational strengthening. They allow us to visualize progress and questioning points.

Case studies must not be directly compared to each other: indeed, situations are very different according to the context, the project leaders, the duration of partnerships, the evolution of the reference standards (CP, SPO), etc. Yet, these differences bring elements of reflection.

Study on contract farming and fair trade: identification of drivers  
and impediments to the emergence and consolidation of producer  
organizations





		COFA cotton case study	SUNSTAR Basmati rice case study	BURKINATURE sesame case study
1. Legal, functional existence	Progress	<ul style="list-style-type: none"> <li>- 1,170 base groups structured (Self-help groups) and 9 cooperatives of 2<sup>nd</sup> level legalized.</li> <li>- Creation in 2009 of a 3<sup>rd</sup> level PO of support and representation (COFA) and a producer company (COAPCL) whose cooperatives and the 3<sup>rd</sup> level PO are shareholders.</li> <li>- Scheduled meetings of local groups, monthly meetings of the BD of cooperatives</li> <li>- One coordinator and salaried team in cooperatives (external financing)</li> <li>- Structuring focused economic, commercial, social objectives and around local development.</li> </ul>	<ul style="list-style-type: none"> <li>- 32 clubs trained at the local level,</li> <li>- 2 (2nd level) federations legalized in 2012 under associative statutes.</li> <li>- clubs meet every 2 or 3 months and BD of federations meets every 2 or 3 months (70 to 100 % attendance)</li> <li>- One coordinator in federations (financed on the premium)</li> <li>- Structuring focused on the management of the FT premium (essentially).</li> </ul>	<ul style="list-style-type: none"> <li>- organizational and prospective diagnosis of "reliable partners of producers" (base groups) led by the Provincial Direction of Agriculture, financed by SERACOM.</li> <li>- Elaboration by SERACOM in 2010 of a three-year plan of strengthening of capabilities.</li> <li>- Organized in 107 "reliable partners" and six "production units" (2nd level<sup>9</sup>) with an office, among which 2 have a legal existence.</li> <li>- Structuring focused on economic objectives.</li> </ul>

<sup>9</sup> These unit groups are not natural persons.



	Limits	<p>- Some cooperatives are less structured than others, some base groups are weaker.</p>	<p>- Federations are non-profit organizations: they cannot take care of marketing.</p> <p>- The procedures of legal recognition took a long time (more than 6 years)</p>	<p>- informality of reliable partners (<sup>10</sup>1<sup>st</sup> level PO) considered as a guarantee of their "functionality".</p> <p>- Low control of the internal rules by the members and persons in charge of the production units.</p> <p>- Functioning dependent on the support of SERACOM (planning and meetings).</p> <p>- The lack of action plan for the project (from the project leader) makes that responsibilities, objectives and conditions of structuring are not defined and unknown of all.</p> <p>- Finally, we do not see any practical effect of the progress requirement<sup>11</sup> stipulating <i>"Thanks to the constant support of the company, and when producers wish it, the participative body will allow producers to evolve towards the structure of a producer organization with autonomous economic functioning"</i>. (SERACOM requesting funds to train producers who are</p>
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<sup>10</sup> We consider here that reliable partners correspond to informal producer organizations since they mobilize producers clearly identified having the obligation to participate in the rural BD, in which they have to tell the quantity of organic sesame they will supply to this group. Besides, they have of a sales manager who cashes the payment realized by BurkinaFaso and distributes this amount between the several members of the grouping.

<sup>11</sup> § 4.3.2.5 of the reference table ESR of ECOCERT of February 15th, 2010.

Limits ' Some cooperative are less structured than other, some base groups are more low(weaker) ' Federations are Non-profit organizations: they cannot take care of the marketing ' The steps(initiatives) of legal gratitude(recognition) were late made ( more than 6 years) '



		COFA cotton case study	SUNSTAR Basmati rice case study	BURKINATURE sesame case study
2. Representativeness, governing	Progress	<ul style="list-style-type: none"> <li>- Members are small producers</li> <li>- Elections of the BD members of the cooperatives and appointment of a member of the BD of every cooperative in the BD of COFA and of the COAPCL.</li> <li>- General assembly of COFA and of the company, rotating geographically, good participation</li> <li>- Participation of women in cooperatives (sometimes 50 % of the members and female groups).</li> <li>- Satisfaction of the groups in terms of governance and transparency</li> <li>- Strong feeling of membership towards base groups and in cooperatives</li> <li>- Open debates in an annual meeting regarding the repartition of the profit of the company.</li> </ul>	<ul style="list-style-type: none"> <li>Members are small and medium producers</li> <li>- Elections every 3 years of 3 members by club</li> <li>- Participation of the president of every club in the BD of the federation</li> <li>- Annual general assembly (50-70 % of the members)</li> <li>- Satisfaction of the groups in terms of governance, transparency and trust in the federation</li> <li>- Fluid information from the Federation to clubs</li> <li>- Feeling of membership towards local organization (clubs) / as well as towards the Federation and SUNSTAR.</li> </ul>	<ul style="list-style-type: none"> <li>- Production units and reliable partners mainly consist of small producers.</li> <li>- New responsibilities given to women within rural communities via the constitution of female reliable partners.</li> <li>- The membership of the groups in a unit is subject to a certain level of production.</li> </ul>



	Limits	<ul style="list-style-type: none"> <li>- Insufficient representation of women in the BD of cooperatives (sometimes 1 treasurer) and no presence in the BD of the COAPCL.</li> <li>- Information is not fluid from the company to the base groups.</li> <li>- Producers feel they own the COAPCL but without knowing what it means in terms of rights and duties, nor how many shares each cooperative holds.</li> </ul>	<ul style="list-style-type: none"> <li>- Women are not club members (very rare, 4 %). No women in the BD of the clubs or federations.</li> <li>- Federations depend on the presidents leaders of each club.</li> <li>- There was little rotation in the long run, (70 % of the presidents of clubs and BD members of the federation have been the same since the beginning). Risk of concentration of power.'</li> </ul>	<ul style="list-style-type: none"> <li>- The system that appoints the persons who are morally and commercially responsible for the groups and participants during strategic meetings (regarding the use of the development fund) is based on co-optation<sup>12</sup></li> <li>- Producers ignore the contents of the ESR reference table and the major principles of fair trade, in particular regarding the commitment to the democratic functioning of a PO.</li> </ul>
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<sup>12</sup> The choice of these representatives is not being made through elections but by appointing some "leader producers".



		COFA cotton case study	SUNSTAR Basmati rice case study	BURKINATURE sesame case study
3. Technical capabilities	Progress	<ul style="list-style-type: none"> <li>- Technical teams exist in cooperatives and in COFA thanks to the external financing of projects and local public programs</li> <li>- The internal quality control is assured by cooperatives, local groups and COFA</li> <li>- Technical support from cooperatives and COFA</li> <li>- Several cooperatives manage funds from contributions of the members and part of the premium to finance the production and the purchase of seeds.'</li> </ul>	<ul style="list-style-type: none"> <li>- Federations and clubs allow the connection to the important technical support of SUNSTAR, the access to training and quality control.</li> <li>- In 2012, federations should be in charge of establishing the needs of input and to organize the order themselves.</li> </ul>	<ul style="list-style-type: none"> <li>- Important work of training and technical follow-up led by SERACOM since 2002 (first organic certification).</li> <li>- Organized in field school by SERACOM to teach techniques of protection of the environment (organic Fertilization and Anti-erosion battle).</li> </ul>
	Limits	<ul style="list-style-type: none"> <li>- Insufficient services in comparison to needs (significant number of producers, distances).</li> <li>- Dependence on ginning units.</li> </ul>	<ul style="list-style-type: none"> <li>- Federations do not give direct services to their members</li> <li>- Federations and clubs are not given responsibilities regarding the quality control.</li> </ul>	<ul style="list-style-type: none"> <li>- There is no implication on behalf of producers in the system of internal control of the "Organic" sesame and in the supervision plan of the base members. Consequently, producers consider that the control activities and technical support are the responsibility of SERACOM and are not services that will be taken care of by production units in the medium term.</li> </ul>



		COFA cotton case study	SUNSTAR Basmati rice case study	BURKINATURE sesame case study
4. Capabilities of administration and management of the premium	Progress	<ul style="list-style-type: none"> <li>- Cooperatives benefited from support and developed administrative capabilities - They manage several activities, credit funds and their own commercial activity of the rice sale.</li> <li>- The development premium is distributed by the COAPCL according to criteria voted in BD not to exclude cooperatives with small volumes.</li> </ul> <p>The repartition of the premium is decided by cooperatives in a democratic way.</p>	<p>The coordinator supports the administrative aspects</p> <ul style="list-style-type: none"> <li>- Federations manage the premium and validate the projects presented by clubs by fixing limits according to the number of club members.</li> <li>- Projects managed par clubs or by federations benefit to several clubs.</li> </ul>	<ul style="list-style-type: none"> <li>- Transparent management of the development funds that appears as an effective vector of mobilization of the PO members.</li> <li>- Funds are transferred to an account whose cosignatories are the presidents of the units and the person in charge of SERACOM.</li> </ul>
	Limits	<ul style="list-style-type: none"> <li>- Illiteracy of the members that limits their capabilities.</li> </ul>	<ul style="list-style-type: none"> <li>- No strengthening action of administrative capabilities of producers.</li> </ul> <p>Illiteracy which limits their administrative capabilities.</p>	<p>Support of SERACOM for the management of development funds.</p> <ul style="list-style-type: none"> <li>- Illiteracy of the PO members, which strongly limits their administrative capabilities (no action has been planned to get rid of illiteracy).</li> </ul>



		COFA cotton case study	SUNSTAR Basmati rice case study	BURKINATURE sesame case study
5. Commercial capabilities	Progress	<ul style="list-style-type: none"> <li>- Cooperatives have their own commercial activities for the volumes not bought by the COAPCL (50 % of the production of the members)</li> <li>- Producer company, legal, in progress</li> <li>- Attempts to sell other products (rice, lentils) by the COAPCL, at the request of its members, which strengthened its experience but without success.</li> <li>- Will and project to create a ginning unit (1<sup>st</sup> processing) for COFA.</li> </ul>	<ul style="list-style-type: none"> <li>- Clubs fulfil contracts and oversee the collection and the labelling.</li> </ul>	<ul style="list-style-type: none"> <li>- The capacity of negotiation of the prices negotiated within the framework of the commercial relation with BURKINATURE is sometimes valued for the sale of other products.</li> </ul>



	Limits	<ul style="list-style-type: none"> <li>- There is no commitment regarding time and security on defined volumes. Contracts are signed with each cooperative after the harvests (in December) on the basis of negotiated established prices, but there is no fixed commitment of volumes.</li> <li>- The absence of capital limits the action of the COAPCL, producers complain about the limited market.</li> <li>- The COAPCL, despite the Fairtrade relation, does not pre-finance the production. The COAPCL does not succeed in requesting the pre-financing by the purchasers.</li> <li>- The commercial capabilities (negotiation, connection with markets) of the COAPCL is still to be strengthened.</li> </ul>	<ul style="list-style-type: none"> <li>- Effective commercial relation with Sunstar but exclusive for 10 years, with a strong dependence that limits the possibilities of evolution.</li> <li>- Federations have not developed capabilities of management, market research, knowledge and contacts. No knowledge of the export prices of the Basmati rice or of the margins of the company.</li> <li>- Producers ask for support regarding the marketing of other products (wheat, lentils, dairy products, sugar cane).</li> <li>- Producers are not satisfied by the FT minimum price that has been below that of the market since 2005, but do not develop capabilities of negotiation.</li> </ul>	<ul style="list-style-type: none"> <li>- Important Implication of SERACOM in the negotiation of the prices with BurkinaFaso, which prevents producers from having complete access to the commercial information.</li> <li>- The marketing contract between BURKINAFASO and the production unit is not translated into vernacular tongue. No copy of this contract is handed to the concerned producers (including the office).</li> <li>- Commitments mentioned in this contract are not known to producers.</li> <li>- Almost non-existent knowledge of the market by producers.</li> </ul>
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		COFA cotton case study	SUNSTAR Basmati rice case study	BURKINATURE sesame case study
6. Financial capabilities	Progress	<ul style="list-style-type: none"> <li>- Some appropriate contributions.</li> <li>- Financing from self-managed credits funding.</li> <li>- External contributions from projects and financiers (30 %) and public programs (70 %) for COFA and cooperatives. Commitments for 15 years.</li> </ul>	<ul style="list-style-type: none"> <li>- Federations take 10 % of the premium for their administration.</li> <li>- Federations manage some activities that allow some income (English training centre).</li> </ul>	<ul style="list-style-type: none"> <li>- The membership and contribution expenses allow unions to have their own funds.</li> </ul>
	Limits	<ul style="list-style-type: none"> <li>- The COAPCL finds it difficult to have capital (another 3 years of existence).</li> <li>- The covered zone is huge and the budgets of the projects are limited.</li> </ul>	<ul style="list-style-type: none"> <li>- The strengthening of clubs is reduced at the local level. They have no bank account (just the Federation).</li> <li>- No contributions or external contributions.</li> <li>- Federations regret that they do not facilitate loans to their members.</li> </ul>	<ul style="list-style-type: none"> <li>- The PO cannot cover their running costs with their own funds because of a lack of support regarding services.</li> </ul>



		COFA cotton case study	SUNSTAR Basmati rice case study	BURKINATURE sesame case study
7. Advocacy capabilities	Progress	<ul style="list-style-type: none"> <li>- Important networking at the local level, between the cooperatives and COFA.</li> <li>- The mobilization of support is to amplify.</li> <li>- An action of advocacy from COFA at the national level against pesticides (Plateforme).</li> <li>- The presence of COFA in international events.</li> </ul>	<ul style="list-style-type: none"> <li>- The presidents of federations participated in 2011 in the meetings of the Network of Fairtrade Asian Producer Organizations (NAP). However, they were accompanied by Sunstar, which can reduce their capacity of intervention and independence.</li> </ul>	<ul style="list-style-type: none"> <li>-</li> </ul>
	Limits	<ul style="list-style-type: none"> <li>- Successful contacts with cooperation agencies, commercial banks (in particular to increase the current assets or finance a ginning unit).</li> </ul>	<ul style="list-style-type: none"> <li>- No contact or partnerships with NGO or government structures or programs or other PO, or at the level of clubs, or at the level of the Federation.</li> <li>- Producers were able to obtain the re-evaluation of the guaranteed minimum price after 6 years.</li> </ul>	<ul style="list-style-type: none"> <li>- No strategic alliances of producers with other actors of the province.</li> <li>- SERACOM did not know the Fair Trade Platform of Burkina or the West African Fairtrade Network.</li> </ul>



8. Participation in the local development		COFA cotton case study	SUNSTAR Basmati rice case study	BURKINATURE sesame case study
	Progress	<ul style="list-style-type: none"> <li>- Several collective projects were introduced (purchase of land for groups of women for a tree nursery).</li> <li>- The participation to the local development is amplified thanks to connections with other partners.</li> </ul> <p>The premium allows the co-financing of investments for community actions (storage, water leaks.) Driving effect.</p>	<p>Several community actions took place (training centre, bus stop, bridges and dikes, house for the migrant workers, mobile health unit, computer training centres etc.).</p> <ul style="list-style-type: none"> <li>- The premium also financed production investments for clubs (agricultural machinery).</li> </ul>	<p>- First economic activities supported by the premium (fattening, credit equipment in particular).</p>
	Limits	<p>The premium is also intended for production investments to compensate the lack of pre-financing (creation of a rotary fund to be able to supply seeds of non-GMO cotton).</p> <ul style="list-style-type: none"> <li>- The premium remains low because the volumes are low and the sector has many participants.</li> </ul>	<ul style="list-style-type: none"> <li>- Part of the premium is used to subsidize input (paid off to Sunstar) and to pay the coordinator and the expenses of the federation</li> <li>- Risk that some productive investments benefit only to some individual producers.</li> </ul>	<ul style="list-style-type: none"> <li>- Producers do not consider they really participated in the local development having used or suggesting using the development fund to finance individual actions (in 2011, purchase of agricultural equipment, support in ovine fattening and granting of individual credits to a limited number of producers; and in 2012, proposal of inclusion of the development fund in the purchase price to producers of additional pieces of land).</li> <li>- The amount of the premium is relatively modest for some production units whose volumes are low.</li> </ul>

Study on contract farming and fair trade: identification of drivers and impediments to the emergence and consolidation of producer organizations



Table 4: institutional and organizational assessment of the 2012 situations of the 3 case studies according to the 8 variables.

(Source: documentary study, interviews of producers and authorities, workshops, conversations with project leaders and support bodies. Field work of 5 days by case study)

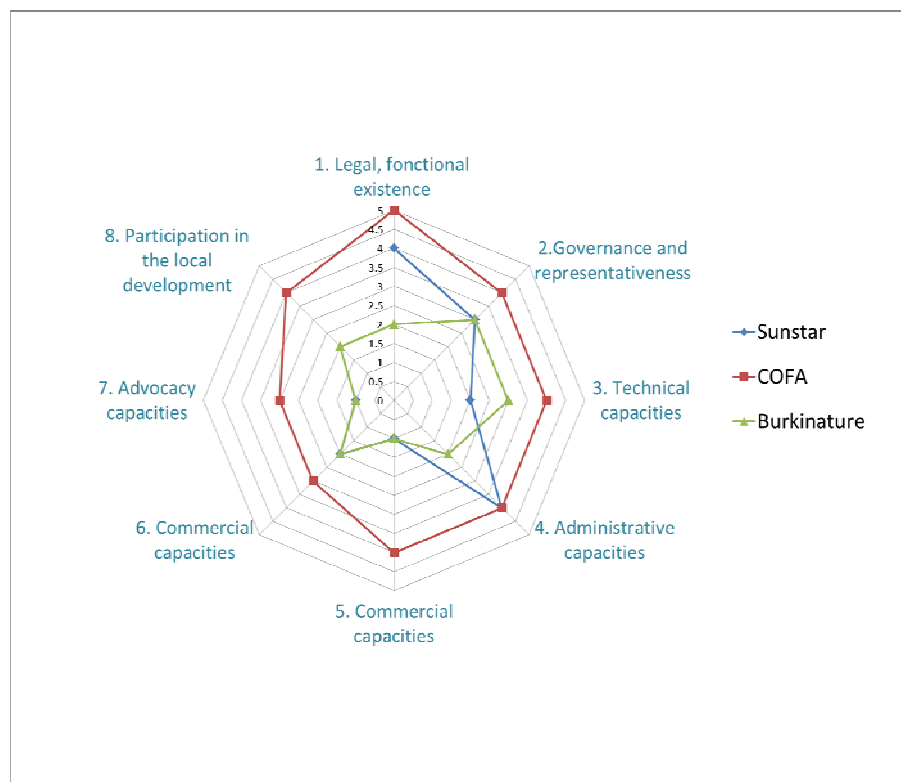
Improvements and progress noticed in terms of organizational and institutional strengthening but also in terms of commercial advantages and autonomy are represented in the following tables and graphs. They are based on the appreciation (rated from 1 to 5) of progress realized from a start with no contract farming and their current situation, according to 8 organizational variables. They are not based on respect for the standards requirements but on the situations found. Apart from these variables, it seemed convenient to report three additional indicators: the volumes sold, the satisfaction regarding the price and the independence of the project leader / first purchaser.

This notation was established from the analysis of the strengths and weaknesses in each case and according to a notation exercise proposed to the producers during meetings (cf. annex).

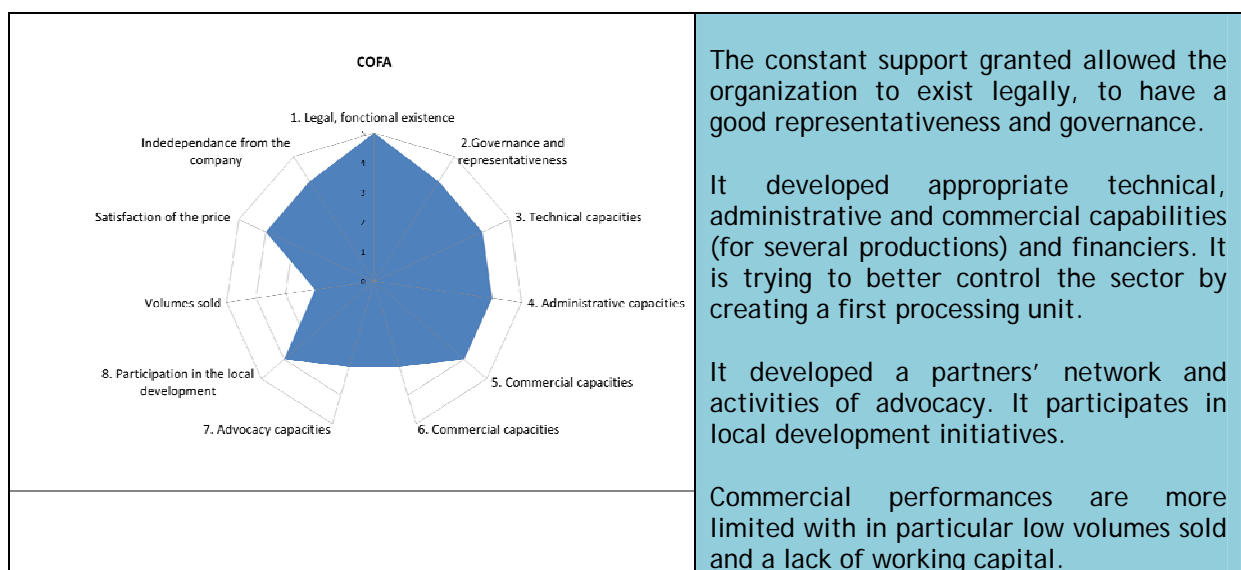
	COFA	SUNSTAR	BURKINATURE
1. Legal , functional existence	5	4	2
2. Governance and representativeness	4	3	3
3. Technical capabilities	4	2	3
4. Administrative and management capabilities	4	4	2
5. Commercial capabilities	4	1	1
6. Financial capabilities	3	2	2
7. Advocacy capabilities	4	1	1
8. Participation in the local development	4	3	2
Quantity sold	2	5	4
Price satisfaction	4	2	3
Independence from the company	4	1	2

1= min, 5 = max

Table 5: notation of the variables in the three case studies.



**Graph 1:** Representation of the progress of institutional and organizational strengthening in the three case studies  
(Source: meetings with producers and their instances, notation exercises)



# Study on contract farming and fair trade: identification of drivers and impediments to the emergence and consolidation of producer organizations



<p style="text-align: center;"><b>Sunstar</b></p>	<p>The support allowed the organization to recently be created and legalized, to have good representativeness and a governance but with few rotations of the persons in charge. It acquired capabilities of management of the development premium and used the premium to finance its expenses. The premium enables the organization to lead local development activities.</p> <p>However, the organization does not offer services to its members and did not develop appropriate commercial capabilities.</p>
	<p>100 % of the production is marketed in fair trade but the guaranteed minimum price remains lower than market prices and producers have few capabilities of negotiation and a strong dependence to the company. The organization remains isolated and did not develop networks or advocacy capabilities.</p>
<p style="text-align: center;"><b>Burkinature</b></p>	<p>The granted support allowed the organization to form itself, start its legalization procedure and have some governance. Yet, its modes of representativeness must be improved for more transparency.</p> <p>It developed some technical and financial capabilities, but does not really play a role in technical or commercial support.</p> <p>The commercial performance was important since the whole production was sold but some insecurity appeared regarding the future and the stability of prices and volumes.</p>
	<p>The organization did not develop networks or advocacy capabilities and has a limited participation in the local development.</p>

**Graph 2: Representation of the progress of each case study in terms of institutional and organizational strengthening**  
(Source: meetings with producers and their instances, notation exercises)

The following elements can be underlined:

**1. Legal, functional existence:**

- The groups of producers studied were able to set up formal producer organizations, sometimes after a long time, depending on the priority given to this effort for structuring and legalization and on the support they received: if they had an organizational strengthening plan, specific strengthening activities and external support to pay their employees.
- The groups of producers were set up with different objectives: economic and social objectives, or sometimes management of the premium. Their legal status is variable and it restricts in one case their possibility of getting involved in economic or commercial activities, which is an important limit.

**2. Governance and representativeness:**

- Governance is variable: it is very democratic and transparent in a case, based on elected leaders but little renewed in another case (with risks of concentration of power), or in the third case, more opaque, with co-opted leaders.
- The participation of women is facilitated when there are female base groups. Their implication in the decision instances remains insufficient or non-existent.
- The functioning of the PO remains closely linked to the support of companies and structures of support they appoint. In some cases, it is even a feeling of belonging to the purchaser, the project leader that is expressed by producers.

**3. Technical capabilities**

- In one of the cases the organization is given responsibilities and offers support services, quality control to its members and the other services thanks to its connections with other structures and the support of external financing. In two other cases, there was no know-how transmission and responsibilities; the company or even the support structure keeps the control of the technical support and quality control.
- The transfer of responsibility from the company (or sometimes from the intermediate support structure) towards producer organizations depends on its vision of the wished evolution of the roles and skills. It is thus connected to its will to facilitate the empowerment of producer organizations and in the efforts it makes to reach this goal.

**4. Administrative and management capabilities**

- Some organizations developed administrative capabilities (thanks to specific support received from the project leaders on these administrative aspects) to be able to manage activities, the others had no support for their administrative strengthening.
- The illiteracy remains an impediment.



- The management of the development premium is sometimes very democratic (in two cases), sometimes more opaque (one case).

#### 5. Commercial capabilities

- In one of the cases, the organization developed real commercial capabilities, knowledge of the market and collection, which allowed it to become a small producer organization governed by the SPO standards of FLO. In the two other cases studied, organizations have no commercial capabilities and a legal status that limits their activity to the non-commercial sphere.
- When there is an exclusive relation with the contract production company, the possibilities of evolution are more limited and there is no support to develop commercial capabilities (conflict of interests, confidentiality concerning the market).

#### 6. Financial capabilities

- Organizations can have their own resources (contributions), resources from other supports and project partners, or take a percentage of the development premium for their functioning.
- The concern on financial autonomy and search for capital is stronger when the organization has its own activities, especially if they are commercial.

#### 7. Advocacy capabilities

- The networking varies a lot: some organizations can have developed numerous contacts and partnerships (partly with the support of CPC), other organizations remain very isolated.

#### 8. Participation in the local development

- The use of the premium enables the participation to the local development through social or economic actions.
- In other cases, the projects remain more individual or for small groups and are not community projects: the premium is sometimes used for production credits or other actions that benefit individually to each producer; or to cover support expenses of the organization (coordinator) and running costs.

There are notorious differences between the 3 case studies in terms of organizational and institutional strengthening. This strengthening was successful in a particular case, where the intermediate structure is an NGO that has supported the organization to fulfil the SPO standards since 2010. It remains very partial and fragile in the 2 cases where the intermediate structure is a commercial company.

We can note that when the structure with the contract is a NGO / PO as in the case of COFA, the work of organizational and institutional support is more consequent, in particular thanks to:

- a mobilization of external supports (of project / public programs),
- skills and preliminary experiences on these aspects of strengthening of capabilities,
- a given priority (will) and wish for a faster evolution,
- a vision different from the role given to the PO: an economic and commercial role and not only of management of the premium and supply from the company.

When the expanding structure is a company, in both cases studied:

- the ability to ensure a market exists are greater, in developing sectors, with more working capital, thanks to easier access to the global market (the export company),
- The commercial relationship and the significant sale capabilities of these companies' products allow significant development premiums (they are in proportion to the volumes sold), and the work of organizational support is essentially focused on the management of this premium. The organizational and institutional objectives of strengthening are different and the transfer of responsibilities more limited than in the cases where project leaders are not companies marketing their own products. There are obvious conflicts of interest between companies assuming the role of project leader or promoting body and the marketing / export of products, and producers of emerging organizations, who wish to play a more active role in the sectors beyond the simple primary production.

These results question the real feasibility of the strengthening of producer organizations, particularly in terms of their own commercial skills (diversification of the purchasers, negotiation capabilities , etc.), if the support structure is a commercial structure, with possible conflicts of interest.

### 4.3. Effects

Three case studies allow underlining some effects on the producers involved, their partners with production contract and the local environment.

#### Effects on producers

Change in the number of producers with contract, volumes and percentage of marketed contracts

In three situations, the number of producers involved and the volumes sold in fair trade increased over time allowing producers with the largest number of credit notes, quick access to the fair trade sectors (popular objective). However, we can note that:

- The growth of the volumes sold depends on the development of "fair trade" markets (more limited for cotton). The fair trade market remains a niche market in the case of cotton and it is a priority to search for organic markets (outside fair trade markets).
- The growth in volumes depends on the commercial capabilities of companies: companies (national or foreign) often have an advantage compared to the emerging PO because they have opportunities to raise investment funds through banks and consequently, they have a higher working capital available, which allows them to buy the production more easily. Producer organisations do not have these financial opportunities and their working capital is often limited. Consequently, there is a competition on these aspects between PO and production contracts companies.
- The volume purchase commitment to can be total when markets are carriers (in the case of SUNSTAR, with rice), or more flexible and less defined when markets are more difficult or when there are different supply sources. In some cases, the whole production is bought by the company, which facilitates the market but creates dependence and risks.
- Producers wish to market other products (any market, conventional or fair trade).

#### Evolution of yields and volumes produced

In three cases, we note an improvement in organic agriculture yields (15-20 %) and producers' technical knowledge:

- Companies provide a follow-up of quality and practices to establish volumes available to sell.
- Techniques and equipment acquired thanks to the premium allowed to improve land preparation and water management.

- Access to quality seeds is essential and strategic.
- Producers were able to improve their access to organic fertilizers.

### Capital gain for producers

The increase in producer income can be seen through better prices and more secure markets. Their vulnerability is lessened thanks to the access to input, faster payment and fairer weighing. They can have easier access to credits from other institutions (indirect effects). This improvement in income is however more or less significant and limited by specific constraints:

- The farm gate price is higher thanks to the organic bonus essentially. In the case of Basmati rice, apart from the organic bonus, the price paid to the producer is the same as the market because the guaranteed minimum price is lower. This situation creates dissatisfaction among producers.
- The supply of input is a crucial economic advantage but this pre-financing of the production is accepted with difficulty by buyers as regards cotton.
- The sharing of margins remains uncertain (confidential information) except in the case of the COAPCL (which is an OP with SPO standards), where information about company accounts is available and there is a dialogue on how to use profits by the board of directors.

### Social and community development

The development premium allows development and community activities to be carried out; the management of this premium appears as the reason for some organizations to exist. Contributing to the development is more or less important according to several factors:

- Premium management is carried out by the organization in a very transparent way or sometimes by some co-opted individuals whose legitimacy is not guaranteed. The lack of leader rotation is a risk factor of corruption and concentration of powers.
- The development premium partially finances community activities but also activities that directly benefit producers: credit funds for seeds, purchase of agricultural machinery, subsidies.
- The development premium can be received late (one year after the sale) and can be low when the market is limited.
- The mechanisms to determine the premium value are sometimes not clearly understood / known, in particular when a series of actors are involved at processing level). In the case of cotton, the guaranteed premium concerns the cotton seeds. The cotton is handled gross by producers, it is shelled and then processed in the form of spun cotton with a processing factor of 3 - 4 out of 1 (4 quintals of cotton for 1 quintal of cotton fibre). However, in the



case of COFA, the first purchaser is not the gin but the PO, which sells the cotton (the ginning process is paid to the processing company as a service). The PO sets a price for the development premium on the cotton volumes it markets and pays producers according to the volumes of cotton fibre handled and the processing coefficient. This is why producers feel that they only receive less than 30 % of the premium.

- The premium can allow the co-financing of other projects and can act as driver effect organizations are well involved and develop several contacts with public authorities or technical and financial partners (projects). The level of networking enables this development action to multiply. In cases where the trained organizations remain isolated and only connected to CPC/ project leaders under contract, these effects on the local development are reduced.

When the management of this premium enables producers to work together, it strengthens these effects by allowing producers to lead some more important projects than those they would have been able to lead alone.

### Effects on gender

In some cases, the processes enable women's participation in activities to increase, to facilitate their access to economic and social profits and to improve the way men consider them. However, their participation in organization decision and representation bodies remains very limited. The effects on gender vary:

- Female participation is facilitated when the support structures have grown and accompanied the structuring of female or mixed groups (sometimes upon the recommendation of the certifying body), and made producers sensitive to the need to further integrate women.
- Progress on gender depends on the support structure level of awareness (NGO or company) which has a mainly male technical staff. The relationship with the other partners (financiers, projects) encourages work on gender.
- The development premium can bring economic profits to women with support for activities that generate income (production of fruit-bearing shrubs in a nursery, training young women in the small business sector (crafts), in computing, fattening, etc...). In one case it was able to facilitate the purchase of fields for a group of women who did not have any.
- However the consideration of women's needs / expectations of is not systematic because they often have no representation on the premium decision and management authorities .

### Effects on the environment

The development of the organic and fair sectors enabled producers to modify their practices and to generate less contamination. We noticed the development or preservation of areas of organic production without pesticides, the development of composting practices, manure pits, vermicomposting, a more important and reasoned use of organic fertilizers, a better preparation of ground, etc. ... We can underline the following points:

- Some PO also lead some advocacy work at the national level against pesticides and / or GMO.
- Cotton is cultivated in monoculture, in rotation with vegetables (lentils). The cultivation systems of Basmati rice in Khaddar are also based on monoculture, but it is associated with a legume (this crop rotation system is interesting in terms of soil fertility management).
- The practices of ground preparation facilitate a better control of the water.

### Effects on the company

#### Market Position

In 3 situations, the number of producers involved and the volumes sold on the fair trade market increased over time, allowing the companies to secure and to develop their sources of supply and the volumes sold, and to develop their activity. We have noticed the following advantages:

- Companies secure their supply in organic quality production (development of organic practices) and preserve areas without pesticides or GMO. The volume of sesame sold in ESR in Burkina Faso has increased and BURKINATURE intends to buy AB sesame in the Soum province only. The fact that there is no cotton cultivated in the area guarantees the sesame has no pesticides.
- The relation between producers and the marketing company is strengthened. There is sometimes a very strong feeling of membership that underpins an exclusive commercial relationship (SUNSTAR for example). This feeling of membership also develops within producer organizations under SPO contracts but in a more horizontal relation (case of the COAPCL).
- Contracts allow traceability, which brings a comparative advantage to the companies that value and communicate on this traceability. In the case of the COAPCL, the purchasers look for the guarantee that the cotton is totally organic and without GMO (especially after the questioning in 2011 of the quality of the Indian organic cotton). SUNSTAR communicates on the traceability, the quality of the products sold and the social responsibility of the company.
- However, in the case of the COAPCL, we noticed that in spite of the availability of the production, there were difficulties to secure and develop its market because of the difficulties and limits of the cotton sector (insufficient demand, bankrupt purchasers and distributors), and because of a lack of capital.

Study on contract farming and fair trade: identification of drivers  
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organizations



## Evolution of support costs

The fair trade production contract standards require work on organizational strengthening and support for producers groups in more structured organizations. In 3 case studies, we can see that the structuring of the groups and the development of the activity had several effects on company support costs:

- In the Sunstar case, the company's anticipated support costs have increased over time to support one, and then two groups (32 clubs). The strengthening of producer organization levels progressively allows the company to search for a progressive reduction in its costs (mutual advantages):
  - by the local production of organic compost, which limits the use of organic fertilizers by the company,
  - by a subsidy to producers financed by the Fairtrade premium, which ensures the company receives refunds for seeds,
  - by financing a coordinator on the Fairtrade premium, which aims at supporting the structuring of the federation but also the organization of the collection,
  - by strengthening the responsibilities of the Federation in the long run so that it coordinates the delivery of input and the collection of rice.

However, the company prefers to maintain local support to ensure the quality and maintain a strong connection with producers.

- In the case of BURKINATURE, the support costs are paid to SERACOM according to volume (45 FCFA / KG). This support work (in particular on the technical plan) by SERACOM will be transferred to producers only in the very long term. It has two major consequences: the very limited development of services to producers in the short and medium term and the loss of potential income for producer organizations. In this manner, SERACOM may slow down the strengthening of capabilities by the production units and establish financial competition by continuing to benefit from the payment of support costs. To avoid a conflict of interests and give responsibilities to producers for some services more easily, SERACOM should be able to plan the evolution of its own role of support.
- In the case of COFA, producers support costs have increased over time and the number of cooperative members has grown. Today, they are distributed between COFA (which is looking for external support to subsidize the costs of technical support) and the COAPCL (which is trying to self-finance the commercial and quality control jobs). COFA has developed and encouraged the networking and the search for external partners to finance the support. The COAPCL remains beneficiary of some support. Its position of PO / Producer Company enables some organizational strengthening partnerships.

## Evolution of net profit, turnover and sales

The development of commercial activity *a priori* allows companies to increase their turnovers and profits:

- In the case of the COAPCL, the annual profit has grown in the past two years but remains limited by market constraints. The company's financial results were presented in BD and the distribution of profits was discussed with representatives of each cooperative. This profit was distributed under the form of a premium to each cooperative. Given the low volumes and the numerous beneficiaries, producers had no direct effects but their cooperative strengthened.
- In the case of SUNSTAR and BURKINATURE / BIOPLANETE, the data regarding the margins, the turnovers and the repartition of the profit was not available and remains confidential.

### Effects on other producers

Within the framework of this study, it was not possible to deepen the analysis of the effects on other producers and local actors. We can however underline that the development of contract farming has had some positive effects regarding training, by inciting other producers to adopt some techniques to be profitable (broadcasting of organic practices) and by encouraging other companies to propose production contracts (stimulation of the sector, competition between companies in the case of SUNSTAR).

However, the networks of producer organizations consulted, such as the ROPPA (Network of Rural Organisations and Producers of West-Africa) and the FTA-WAFN<sup>13</sup> fear the negative effects of contract farming in terms of competition:

- Contract farming is often carried by foreign importers which have a bigger accessibility to the external market. Producer organizations that work on the same sectors do not have the same advantages in terms of outlets, working capital or information. In the case of COFA, the difficulties of access to capital are important and its research for markets is difficult.
- The competition with local companies from the point of view of the supply of raw materials, or for the control of first processing, is translated by a weakening of the local economic network, involuntary unemployment and a reduction of the capital gain of the local processing companies. In the case of SUNSTAR, the first processing of rice is assured by the company in huge centralized units close to the capital city, which allows economies of scale and makes it very difficult for other processing initiatives to exist, since they would be less competitive.
- Contract farming can also favour the export of foodstuffs or the giving-up of food production for the benefit of profitable contract farming, which is a risk for food security and sovereignty. In the case of SUNSTAR, producers of a certain area exclusively produce rice to sell and small plots of land to grow wheat for home consumption, but often in insufficient quantities (they have to purchase wheat).

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<sup>13</sup> FairTrade Africa - West-African Network: network of PO IT of West Africa.

- Finally, these networks consider that there is already a large number of organizations involved in fair trade that deserve to be strengthened. The fact of supporting sometimes strongly the creation of new producer group structures is perceived as a dilution of the support effort that has been already granted to existing PO that were created endogenously. The competition is thus also seen in terms of the global support capacity.

The analysis of the effects shows:

- The benefit of the commercial relation for producers if price negotiations enabled guaranteed minimum prices to be obtained that are satisfactory compared with production costs and paid prices that are advantageous with regard to the local market. **Negotiation capacity is superior when producers are organized.**
- The interest of the commercial relation for producers if it enables them to secure the market with significant volumes. To limit the consequences linked to problems with a purchaser's orders and not to depend on a single purchaser, it is necessary to develop other business connections. The need to sell other products on the market appears and justifies the interest to diversify business connections. **The existence of an organized structure facilitates the development of new commercial connections and internal capabilities to sell the product to different purchasers.**
- The interest for the company to be able to secure its supply and be sure of the quality. **The strengthening of the levels of organization facilitates technical support, quality control and collection**, and allows the federation of producers. The strengthening of the organization allows some control and **internal pressure on members to fulfil contracts (collective interest beyond individual interests).**
- The interest for the company to strengthen the levels of organization of producers **to limit the support costs.** The more structured organizations can progressively give responsibilities regarding quality control, collection and technical support.
- Effects on gender if the support allowed to create awareness and fomented the constitution of female base groups and the participation of women. Progress is to be made to create awareness in the support bodies (NGO and company) on these aspects and on the need to increase the participation of women (respecting cultures), in the decision instances.
- Effects on the local development **when organizations have a good internal governance and representativeness** that allow a relevant choice of actions but also when the organization is connected to other actors to co-finance projects and amplify the effects of the premium. **The existence of structured producer organizations facilitates these partnerships.**
- The interest of networking, which allows producer organizations to be recognized and to have support from NGOs and public authorities (supports which would not be available to

companies).

Beyond the effects previously analysed, the process of strengthening of producer organizations in the fair trade sectors remains the central challenge within the method of contract farming, as it is within the more classic modalities of fair trade (except contract farming):

- organizations are one of the main drivers in the strengthening of the role of farmers in the food-processing sectors and in the development of their territories.
- The improvement of quality and the increase in the quantity of products by the PO foment the access to more stable and remunerative prices, which are made possible thanks to grouped marketing and a better capacity of negotiation.
- Rural organizations seem capable to assure a fundamental role of representation of rural families (and more especially of marginalized actors of the development, such as women) and of defence of their interests.
- The PO supported by fair trade have a better potential to negotiate sectorial policies (via their networking capabilities).

However, the present study shows **heterogeneous processes regarding the emergence and strengthening of producer organizations** within the framework of fair trade contract farming (two cases out of three remain fragile). These results lead us to **question the efficiency of the method of contract farming within fair trade regarding the multidimensional consolidation of producer organizations**.

## 5. Drivers that favour the strengthening of organizations

The analysis of case studies accentuates some factors that facilitate or limit the organizational and institutional strengthening of producer groups. These factors can be classified in 3 categories:

- Those linked to local contexts and to sector specific features
- Those linked to the opportunities and the constraints of companies or project leaders
- Those linked to the standards

### *5.1. Drivers regarding contexts and sectors*

The organizational strengthening is facilitated when:

- There is already a basic level of organization, a network of local groups that can be federated. The strengthening of producer organizations that already exist but are weak can sometimes be more effective than the creation of new groups.
- When producers are far from each other, isolated, the need to gather them in an organization to be able to technically supervise them, organize the collection and the quality control seems more obvious. Companies have no interest in working with each producer individually; distances create a need for organization.
- The presence of other companies and intermediaries makes the market active, and the competition increases the need to develop the loyalty of producers by inserting them into types of organizations with which the company will develop strong links.
- In some sectors, the possibilities of evolution and strengthening of organizations are more important when producers can participate in the first processing process and become independent from processing companies. The capital gain allows them to develop their commercial and financial capabilities. On the contrary, in the sectors where the first processing asks for an important technicality and for investments that make difficult the participation of producers, the capacity of evolution of organizations is limited.

### *5.2. Drivers set up by project leaders*

The nature and appropriate initiatives of project leaders can facilitate organizational strengthening:

- When project leaders and producers have been connected for a long time, so has the support work ; it does not simply answer the standards requirements but shows the strong will of the commercial partner to help the producers get organized.



- When the support operator is a NGO, a support structure (a non-profit structure) its work is part of its institutional mission. The structure shows a more asserted will to move forward in the medium term to give producers responsibilities. It also gives more priority to this work and the roles are clearer.
- When the operators are support structures, they have more experience, skills in techniques and tools of institutional strengthening and follow-up. They set up organizational diagnoses, more structured action plans, training for the strengthening of capabilities (and sometimes the functional elimination of illiteracy). Sharing experience with other producer organizations are or can be proposed and are very stimulating for the institutional and organizational strengthening. Gender is also taken into account more often.
- When the support structure has no commercial interest, it can more easily help and incite producers to develop commercial skills and use them to be in charge of the collection and quality control, or to get some knowledge of the market and connections with other purchasers. Sometimes, it can also work with them on other sectors (marketing of other products).
- The strengthening is facilitated when the production contract company has financial, human and technical means and mobilizes them to finance the supervision and the activities.
- When the support structure is a NGO, it can manage to mobilize external funds to finance its own support work and thus amplify it, perpetuate it and also finance activities (co-financing of investments with the development premium) or the staff of organizational structures.
- When the support staff (whether it be of the company or the NGO) belongs to the local context, they have a stronger legitimacy to encourage producers getting organized and a good knowledge of the local economic problems (constraints, difficulties) and social conflicts (local conflicts, battles for power, actors etc.).
- The networking with external partners is an asset and inserts the organization in local development processes. The networking of producers (organized or in the process of organization) is more easily taken care of by support structures than companies.

### *5.3. The drivers of the standards (requirements)*

The organizational strengthening is also the result of some standards requirements:

In the case of the Fairtrade standards:

- The obligation to support the producer groups, which is mentioned in the 2008 standards and stressed in the 2010 standards and in the new 2011 standards, enables to progress, not

to consider this aspect as an appendix or minimize it in front of the difficulties. There is a will to get winner/winner effects but there can be conflicts of interests when the support structure has commercial interests. This is the reason why it is crucial to select carefully the project leader and maintain in the standards this obligation so that eventually, fair trade plays a function of structuring of the rural environment, of strengthening of producer organizations as actors of the economic and social development in their territories.

- The requirements and progress indicators underline (in a direct way) the temporary aspect of the method, which has to lead in the medium term (6 years) to a structured and independent producer organization respectful of the SPO standards. These requirements, with their deadlines, give a vision of the evolution wished and the objectives to reach.
- The request for the elaboration of an organizational development plan is a structuring factor to plan the support (even if this requirement should be more detailed: institutional initial diagnosis, objectives, roles and mission of the groups, capabilities to acquire).
- There are requirements regarding technical training (on the environmental aspects in particular) and administrative strengthening, which is a structuring factor. It should be completed by trainers training / internal promoters of organizations or groups to encourage them to increase and broadcast their training and thus acquire a role of technical support.
- The recourse to a third actor is asked, if there is no progress regarding institutional strengthening in due time, and in cases of conflicts of interests for example.
- The requirements of good governance exist in the standards and enable to protect the representation of producers on several levels. They must be applied to the several levels of the organization (base level, 2<sup>nd</sup> level).
- The requirements regarding the management of the development premium allow to improve governance (although they do not systematically imply the mobilization of producers in the decision-making process, only their representatives), to develop capabilities of administration and planning and sometimes, networking with other structures.

In the case of the ESR standards:

- The requirement for the contract production company to demonstrate its constant efforts to create a structure of dialogue allowing producers to acquire autonomous modes of decision is crucial for the empowerment of producers. We can only regret that the reference table mentions a possibility and not an obligation for this structure "*to create a producer organizations economically autonomous*" (§ 1.5.3 of the ESR reference table of ECOCERT on February 15<sup>th</sup>, 2010).
- The request of elaboration of an action plan normally has to allow the planning of the support of the organizational strengthening of producers (even if it seems that this requirement should be more detailed: an initial institutional diagnosis has to be made, the detailed goals in terms of structuring have to be specified, the results aimed in terms of capabilities to be acquired have to be specified).



- Moreover, the clear mentioning of the obligation of the CPC to establish with producers an action plan to create a participative instance representing producers on the first year, must entail a certain awareness of the importance of this result within the plan. However, we can regret that the articulation between this action plan and the action program is not clearly explained. Finally, if, as mentioned, this authority must be effective at the end of the third year, it is necessary to specify the criteria that may be used to evaluate this effectiveness.
- Furthermore, asking the project's promoter to make regular field missions to coordinate the development actions identified with the beneficiaries and to draft annual activity reports must give some legibility to the process of strengthening capabilities. It may be necessary to list a few subjects to evaluate the progress realized in terms of transmission of technical, institutional, representative, administrative, commercial and financial know-how, and as regards advocacy and participation in the local development.
- The mission given to the CPC to structure and support non- organized producers to achieve autonomy has the merit of giving responsibilities to the CPC in terms of organizational strengthening. However, we can regret that the results indicators are not detailed and do not explain on which bases we can assert that an organization is autonomous. More details seem necessary. Indeed, the actions to strengthen the autonomy of producer organizations are mentioned in § 1.3.2.2, but the activities described remain relatively general and do not explain exactly what "*autonomous organization*" means.
- The request to use the fund to allow producers and their families a better quality of life (collective equipment, educational and health social services) and the promotion of activities that generate income in the villages and communities involved (cooperative stores, transport) induces normally an implication of producer organizations in the processes of local development and an improvement of their management capabilities.

## 6. Impediments to the strengthening of organizations

### 6.1. *The constraints of contexts and sectors*

Some constraints of contexts and sectors limit institutional strengthening:

- Many producers are illiterate, which aggravates the concentration of power at the level of leaders, limits participation and even transparency. Often, there is also a lack of written culture. In fact, all the information supplied during training courses or strategic meetings (regarding the use of the development fund for example) has not been registered yet in any written format, which does not favour their faithful communication to the base and on the contrary, foments forgetfulness.
- Women are often illiterate and speak only in the vernacular tongue. Some people, for cultural reasons cannot easily travel to attend meetings (distances are huge). Furthermore, social relationships often exclude women and restrict their participation in public meetings. Improving their participation requires fomenting the training of female base groups (which exist informally) to create a space for dialogue and specific moments, representation mechanisms and places for meetings.
- The concentration of power and leadership is also the result of laminated social relationships, which are difficult to overcome (system of castes, social clans). The modalities of representation have to take into account the existence of these social relationships (which induces an understanding of the environment requiring a fine diagnosis of the context). It seems essential to try to understand and question these social relationships.
- The emergence of producer organizations can be slowed down by negative associative past experiences. Past failures need to be analysed to understand their causes and they need to be compared with successful experiences.
- Administrative procedures to legalize the structures require time; the chosen legal nature presents limits, constraints and advantages. The choice of the legal nature must be thought according to the mission chosen by the producer organization.
- The deadlines are important in all the processes, in particular in the emergence and the strengthening of producer organizations. Without will or methodological and strategic skills to make these processes advance, change takes place slowly.

### 6.2. *Internal limiting factors of project leaders*

The breaches, weaknesses and internal constraints of project leaders are:



- One of the key limiting factors identified during this study is the truncated vision some project leaders have regarding the goals and principles of fair trade. It seems that some operators forget one of the major objectives of fair trade, which is to achieve the structuring of strong producer organizations so that they can play their multidimensional role: bring technical and organizational support to their base members, foment advocacy to defend their interests, be involved in the processes of local development as a leading player in civil society (non-profit company), etc. Some companies limit their support to the strengthening of the PO production functions to guarantee their supply and support producer groups within structures whose only collective activity is managing the development premium. At this level, the risk of setting up "ghost POs" is real.
- In the same logic, the development fund/premium, which use is a major lever in the structuring of the PO, is sometimes used for commercial purposes, by integrating it into the price paid to producers (ESR case). In doing so, there is a risk of deviation from this FT tool that was initially designed to finance community or collective actions chosen by the producers themselves to contribute to the development of their territories, strengthen their internal and entrepreneurial management capabilities (equipment, infrastructure) and their legitimacy in the eyes of other local actors (local authorities and central government, support structures, etc.). It shows that production contract companies are not always willing to use the development premium to contribute to the strengthening of capabilities and the involvement of producers in local development activities.
- The absence of a specific action plan on organizational and institutional strengthening can constitute a first important impediment. Although this program is required in the standards, it does not exist yet or it is not sufficiently developed. No program specifies the initial weaknesses, the goals or the main results expected per period of time (at the end of every year for example), the responsibilities of each person in the leading of the activities or the estimation of progress in the process of the strengthening of capabilities (the analysis of the discrepancies often allows to improve the contents of the activities so that they are more adapted to the context and more particularly to the needs of the producers).
- There is also a lack of reporting and documentation practice. The lack of action plan and annual reports limits the follow-up of the processes.
- The fact that contracts with producers are not translated and that no copy is given to them is an important impediment to their empowerment and to the strengthening of their commercial capabilities.
- The resources mobilized are often focused on the transmission of technical skills and quality, but few focus on the empowerment of producers so that they can assure a more direct role of popularization, quality control, collection and other downstream actions in the sector. It is difficult to aspire to the organizational strengthening of producers but give them no responsibility as regards internal control, collection or technical support.
- When the structure has a commercial interest, there is a conflict of interests that restricts the role the project leader wishes to give to the producers. The strengthening of capabilities on quality control and commercial capabilities is not looked for and the support

does not aim at the empowerment of producers. There is often a lack of vision of the mutual advantages (winner/winner) that this strengthening of capabilities could bring.

- The desired change in the roles and responsibilities of each actor is not clear. The support structure does not have to act as a substitute for producers (for technical advice, quality control, collection) but try to transfer skills and lead them towards their autonomy, which implies a clear vision of the role of each actor (which has to disappear or evolve).
- Companies have no skills as regards institutional strengthening, which is different from technical supervision. The staff involved is often technical (agronomists) and hardly has specific socio-organisational skills. The mode of support and its efficiency are more determining to explain the difference in the skill level of producers than their collective real-life experience or their ethnic origin, which are often quoted by several operators as the first impediment to dynamism. The presence of a third actor, competent and volunteer, is an asset. Indeed, the experience shows that training and support initiatives based on a thorough diagnosis of the context, well-planned and adapted to the learning speed of the farmers, are successful in the majority of the cases.
- Although the interface role assured by a third actor (NGO) is an asset in terms of the strengthening of capabilities, it can also limit the dialogue between producers and the purchaser, as well as the producers' knowledge of the market. The third actor has to be aware of the objectives and of his progressive withdrawal from the support.
- In many cases, there is no financing to implement actions against illiteracy, which is nevertheless vital to strengthen producer capabilities. Several actors have stressed the impossibility for producers to assure the functions of financial management of their organizations. If illiteracy is considered an immutable parameter of the environment, in many cases the experience showed that the functional elimination of illiteracy was effective to bring producers to assume functions requiring the control of writing and calculation.
- The relation of exclusive dependence to the company (purchaser) associated with a kind of paternalism from the commercial operator does not favour autonomy. The opening to other partners, local actors, the exchanges of experience are necessary to break this isolation and this exclusive relation.
- The structuring of organizations, wished and supported by project leaders, is sometimes led "from the top". There are still no efforts to understand and take into account the games of local actors, internal social relationships etc. The company tries to strengthen its relation with the leaders with mutual trust, but the rotation of leaders is not spontaneously sought.
- The experience shows that in terms of advocacy, defence of the interests of farmers and promotion of fair trade with the national or regional decision-makers, it is essential that producer organizations integrate networks that are focused on these objectives. In the case of contract farming, we can wonder if the participation of companies in these networks with producers' representatives with which they have a contract, is coherent with the

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defence of the producers' interests (as regards the empowerment of producers compared to other economic actors of the sector).

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### ***6.3. The weaknesses of the standards (lacks)***

Some weaknesses appear in the standards:

In the Fairtrade standards:

- The standards show strengthening requirements of producer organizations but do not directly request to establish, arrange or plan the evolution of the roles that will bring mutual advantages for the actors involved. There is a need to specify the evolution of the roles wanted, and the objectives of the transfer of responsibilities (negotiated/granted). If the responsibilities and roles of some organizations are strengthened, the intermediate structure (PB) has to give up some functions and the direct control on some processes or links of the sector.
- The reflection is insufficient or rather not explicit as regards the evolution of the commercial relation once the organization will be strengthened and capable of negotiating better its contracts or developing other business connections. There is a need for winner/winner relations to protect the interests of the project leader if necessary (the development of the customer loyalty of producers, the cutting of support costs) while allowing producers to improve their negotiation and income capabilities (commitment on the long term, gaining of commercial shares). The evolution of the roles must be clarified, particularly in situations where there are possible conflicts of interests between producers and the intermediate organization (when it is a commercial structure).
- Even if the evolution towards an autonomous PO is aimed at (in the Fairtrade standards) and the transfer to the SPO standards in year 6 is specified (in the new standards enforced in 2012), the requirements are not explicit in terms of transfer of capabilities and empowerment (development of skills as services to the members, in particular technical support, quality control and management of the commercial relation). The requirements regarding the strengthening of the commercial capacities of the PO that existed in the 2008 standards do not exist in the 2011 standards.
- Even if the Organizational Strengthening Plan (ODP) and its annual updating are required, in reality the ODP is sometimes brief and can be mistaken with the Fairtrade Development Plan, which concerns the use of the premium and does not necessarily tackle the strengthening of the internal capabilities of the organization. Indeed, the requirements on organizational strengthening that must be included in the ODP do not precise the results that must be reached progressively to fulfil the SPO standards within 6 years, nor any calendar.
  - Globally, the standards do not mention enough detailed indicators to evaluate precisely the evolution of the progressive process of empowerment of producers. The standards have requirements of means (ODP) but not enough results.



- The requirements in terms of strengthening of administrative capabilities (the functional elimination of illiteracy in particular) and of strengthening of commercial capabilities (knowledge of market prices, empowerment for the collection) are insufficient and lack details.
  - The application of standards does not guarantee any pre-financing for producers (for the collection and marketing in particular), which means there cannot be any significant evolution of the role of producers within the sector beyond primary production.
- Even if the 2010 and 2011 standards propose to resort to a third actor where the progress of the organizational strengthening plan is delayed, it is not however specified who can judge these delays in progress (in particular in the case of conflicts of interest), and who can control the obligations of the project leader to request and finance the work of a third actor.
- The requirements concerning the participation and representation of women are insufficient. The fact that there are "democratic election" criteria in the standards does not guarantee the access of women to the instances of decisions and services. It is advisable to specify more requirements of means regarding the mechanisms of strengthening of capabilities of women to decrease the disparities of access to information, services, participation (through female and mixed groups) and results requirements.
- Even though the requirements enable a move forward to democratic governance, the standards do not specify any obligation in terms of rotation of the representatives (to avoid a relation that would be too personalized and a concentration of powers in the long run).
- The mode of calculation of the premium received by producers is hard to know when the sector has so many processing units (for cotton for example: spinning factory, weaving factory etc.). The certification of each actor makes process long and expensive: some purchasers think that it would be better to have more flexibility and pay a development premium directly to producers.
- The standards do not detail enough the necessity of developing the advocacy capabilities of the organized producers, while a key element of the objectives of fair trade is the representation and the defence of the interests of small producers on behalf of their organizations; it must be in the centre of the guidelines of the guarantee systems.
- Until 2011, the controls of the inspectors were focused on the technical and quality aspects as well as on traceability (according to producers). There was no real structured control on the goals established (or should be established) or regarding the margins of progress of institutional and organizational strengthening<sup>14</sup>.

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<sup>14</sup> With the reform of the Fairtrade standards on 2011, the inspectors of FLO-Cert were trained and made aware of the aspects of organizational strengthening, which should allow to improve the follow-up.



- The fulfilling of the SPO certification within a reasonable deadline does not seem to be followed / controlled enough. The legalization of the organization can take a long time, sometimes unjustified, and not give rise to the fulfilling of the SPO certification. (The new 2011 criteria specify a passage to SPO within 6 years maximum, which should enable to improve this aspect if the requirement is controlled properly).
- No information appears in the standards regarding the penalties or measures where the requirements regarding organizational strengthening are not respected. The entity in charge of the certification is responsible for the control but the consequences in terms of the renewal of the certification, corrective measures or new requirements should be more explicit, more readable.

In the case of the ESR standards:

- The objective of an autonomous and responsible PO is not explicit enough in the ESR standards; this dimension exists but is sometimes discussed / questioned by actors involved in the process.
- Just like the Fairtrade standards, the ESR standard does not mention enough detailed indicators to evaluate exactly the progressive evolution of the process of organizational strengthening of producers.
- The fact that no contract is compulsory between the project leader and the producers takes away the PB from the producers and their reality, which limits the communication and the dialogue between them (in the studied case, there is no contractual link between the project leader and the producers involved in the action) .
- The possibility of integrating the development fund into the price paid to producers or for individual actions could imply the impossibility to finance part of the functioning and organizational strengthening, which is so necessary in the context of contract farming. If we add to that the fact that the CPC do not pay systematically the organizational costs of functioning and structuring, producers may not be capable of covering these costs, and thus not stimulate the organic life of their emerging organizations (beyond the punctual management of the development fund).
- As observed in the FLO standards, the requirements in terms of strengthening of administrative capabilities (the functional elimination of illiteracy in particular) and strengthening of commercial capabilities (knowledge of market prices, empowerment for the collection) are insufficient and not detailed enough.
- Inspector controls remain focused on technical, quality aspects and traceability. The absence of an action plan in the cases studied prevents any kind of control of the objectives that should be established in terms of structuring producers and margins of progress of the organizational strengthening process. The lack of indication of the guidelines of the contents of the action plan does not help the project leader to elaborate



this program. Furthermore, the application of the ESR standards does not guarantee the direct obtaining by producers of a pre-financing (for the operations of collection and marketing in particular), which limits the function of producers of the sector to primary production activities.

- The standards do not specify the consequences of producers not having a clearly defined democratic structure within three years of certification. On this point, the standards mention a *"participative instance representing producers"*, which can be interpreted in different ways by the actors involved. This point lacks precision. More generally and in the FLO standards, no information appears on the penalties or the measures that must be taken should requirements regarding organizational strengthening not be respected. Consequently, a project leader with no established action plan can still sell an ESR certified product.
- The absence of any obligation concerning the covering of the meeting costs and producer training within the framework of their organizational strengthening process constitutes an important weakness.
- Finally, the ESR standard does not contain any requirement to develop the advocacy capabilities of organized producers to strengthen their function of actors in the local development.

## 7. Conclusions and recommendations

### 7.1. *The teachings of this study*

The present study concerned the analysis of the progress realized in terms of strengthening of producer organization in three case studies of contract farming within fair trade with both Fairtrade and ESR labelling systems, **to identify the drivers and impediments to organizational strengthening**, and find elements of reflection and recommendations.

The progress of institutional and organizational strengthening of the case studies was **evaluated objectively according to 8 variables** based on the skills necessary to producer organizations involved in fair trade.

The information obtained and discussed with producers and the representatives of the intermediate structures involved in the processes show that:

1. The strengthening of capabilities **was effective in a particular case** where the project leader was a **development** body that tried very quickly to transfer technical capabilities, but also commercial, financial, administrative and of networking, allowing the producer organization **to pass on to the standards for small producers organizations** (SPO and Fairtrade standards) after a few years.
2. In two other cases, producer organizations were **legalized** but the **transfer of capabilities remained limited** and the organizations were **dependent** of the intermediate structure. In these two cases, this structure had a **commercial** nature and some **conflicts of interests** limited or delayed the capacity of the organizations to play a more important role in marketing in particular.
3. The development of the sector was effective but **fragile** in the case of producer organization with the SPO standards because of the **lack of working capital** and the **difficulties of development** of the market (limited demand). It was more **consequent** when the project leaders were commercial structures that had a more important access to working capital and a bigger presence on the international markets.
4. The **role of the producer organization** within the sectors was **strengthened** in the case where the organization was supported by a structure of development and passed onto the SPO standards (production, quality control, organization of the processing service, marketing). This role was **more limited** in the two other cases where the project leader had commercial interests and continued to **assume the functions** of quality control, collection, processing, marketing and export.
5. The role of producer organizations in terms of local development and advocacy strengthened in the case of the organization that respected the SPO standards thanks to the **networking** and to **new partnerships**. The participation in local development is also

effective in one of the two other cases but producers remained **quite isolated** from other actors, in an exclusive relation with the project leader, and did not lead actions of advocacy.

6. Several drivers and impediments to the organizational and institutional strengthening were able to be identified either in connection with **contexts** and **involved actors**, or in connection with the **standards requirements**. On this basis several recommendations have been formulated.

## ***7.2. General recommendations***

As it was expected, the study brings elements of reflection on three levels:

1. The results of the study and the concerns of several actors involved in fair trade show that it is important to **resume the debate** to clarify the arguments that justify the incorporation of contract farming into fair trade, and which question the relevance of the development of this method and its implications in a system that focuses on producer organizations, according to:

- the fundamental principle of fair trade to allow the insertion of PO in the market,
- reports of heterogeneousness of the processes of emergence and strengthening of producer organizations in the already certified cases,
- of the existence of numerous PO with weak capabilities inserted into fair trade and PO not inserted into fair trade to insert and to strengthen,
- of a possible competition between production contract companies and producer organizations working in fair trade (access to more financial capital, already settled commercial capabilities, etc.),
- existing conflicts of interests in terms of organizational strengthening and transfer of responsibilities on behalf of the companies involved, unresolved conflicts of interests within the framework of the reference tables considered, and other questions mentioned in a non-exhaustive way at the beginning of this document.

2. On the basis of the diagnosis of the case studies (which illustrate several existing fair trade situations), **reflections are to be pursued to contribute to the evolution of the cases of contract farming that have already been certified** towards the emergence and the consolidation of producer organizations:

- They must concern the supplements and modifications to be proposed in the standards to improve the current organizational processes of the existing cases of contract farming.
- They must concern the needs of follow-up of contract farming processes and of strengthening of the controls to make sure that organizational and institutional strengthening remains a key objective within the initiatives of fair trade (follow-up of about twenty FLO cases and the Ecocert cases).

3. Because of some difficulties, unwanted effects (dependence of producers among others), of the heterogeneous processes of producer organizations observed in this study and the reluctances of several producer organizations and other actors involved in fair trade, it is advisable to **formulate recommendations for the examination and promotion of alternatives** to contract farming within fair trade, and to feed the reflection on the extension of contract farming within fair trade.

### *7.3. Recommendations on the guarantee systems*

The guarantee systems and their respective specifications have an important role in the processes of organizational strengthening because they define the frame of contract farming in fair trade and guarantee the respect of criteria and values. **The strengthening of the requirements of the reference tables seems indispensable** with regard to the results of this study, even if the frequent modifications of reference tables and the increase in the number of requirements can also limit the development of the initiatives.

The following recommendations are proposed:

#### **1. Reflections on the method of contract farming within fair trade**

- Discuss internally the teachings of the present study,
- Analyse internally other cases within each standard system (using the available information or leading other studies),
- Clarify the evolution of the roles wished by the actors involved and the principles of the winner-winner relation looked for, to reach the empowerment of producer organizations according to the fair trade principles.

#### **2. Reflections on the current experiences**

- Incorporate new requirements into the standards in the short term:
  - ✓ A more explicit requirement of transfer of responsibilities to foment a more important role of producers in the sectors, in particular regarding harvest, processing, packaging and marketing.
  - ✓ Requirements of transfer of responsibilities from the project leader or promoting body to producers in the course of organization, so that eventually, the producer organization is able to meet the FT standard requirements applicable to organizations (SPO for the Fairtrade system, generic for ESR), by transferring the necessary technical, commercial and financial skills.
  - ✓ A requirement on the legal nature of the organization, which has to answer the objectives of producers and authorize an economic and commercial activity.



- ✓ Clear progress requirements (requirements regarding means and results), with controlled progress, realistic but sufficiently challenging deadlines to foment progress, even if there are constraints and limiting factors.
  - ✓ The requirement of a plan regarding specific and institutional organizational strengthening, which must be implemented, followed, evaluated and updated. It has to specify the goal, the objectives to reach progressively (planning), the means to be mobilized and the activities to be planned. It also has to be based on an initial organizational diagnosis.
  - ✓ In the case of project leaders with commercial interests, if the guarantee systems wish to continue to allow such mishmash despite the conflicts of interests underlined in the study, the requirement on the intervention of a third independent actor for (at least) the elaboration and the follow-up of the action plan on institutional strengthening, which enables to facilitate mediation, mobilize specific skills (that a commercial structure does not always have), have an independent glance on the progress realized and search and mobilize other means and partnerships.
  - ✓ The need to mobilize external funds to facilitate the implementation and the follow-up of the plan.
  - ✓ A requirement of rotation of the leaders to avoid an exclusive relation between some members and the commercial or support structures.
  - ✓ Requirements of means and results to incite / facilitate the participation of women and their representation in the decision instances.
  - ✓ Requirements of connection between new producer organizations and other actors, with external development partners, etc., to increase networking.
  - ✓ Requirements of connection between other producer organizations to exchange experiences and with FT networks of PO.
  - ✓ While maintaining its function of democratic and collective management tool for groups of producers under consolidation, part of the development premium or fund should allow the strengthening of the producer organization within the framework of the method of contract farming, where companies do not systematically finance the functioning of such organizational structures, and where the challenges of organizational strengthening are particularly important, and where producers do not participate systematically or equally to the decisions concerning the use of this premium or fund. The project leader / the contract production company must however be responsible for the support of organizational strengthening and finance the activities of structuring of the PO independently from the premium.
- Explain these requirements to the involved actors and accompany them in their application.

- Establish for every current contract farming situation an assessment shared with the actors involved (on the basis of the variables proposed in the study) to identify the strengths and the weaknesses and define a specific accompanying program.
- Try to mobilize external support for these situations and set up a specific follow-up.
- Strengthen the follow-up by guarantee systems:
  - ✓ Once this precision is made, establish and apply clear measures and penalties when effectively functional producer organizations do not respect the deadlines set.
  - ✓ Strengthen the follow-up and the control of these organizational aspects from the clarified and completed objectives of the standards and the specific evaluation of the implementation of the organizational development plan.
  - ✓ Make aware and train the persons in charge of the follow-up and the control of FLOCERT and ECOCERT to analyse better the organizational and institutional aspects.

### 3. Reflections concerning the extension of the method of contract farming

- **Keep a careful and demanding attitude** concerning the extension of the agriculture within fair trade according to :
  - o questions concerning the presence of the method of contract farming in fair trade,
  - o the heterogeneousness of the organizational processes and the other limits of the certified cases,
  - o the need of improvement of the standards and the follow-up of their implementation on behalf of the guarantee systems,
  - o the means to be displayed to develop the current cases towards an effective producer organization and their empowerment.
- **Do not spread the method before seeing the evolution** materialize in current situations and learning from it.
- To incorporate more producers into the modalities of fair trade, it is important to study which **alternatives to contract farming should be promoted** to impulse the emergence of new PO that could be involved in fair trade. This reflection can be based on the elements of analysis mentioned in the present document as well as on successful past experiences of support for the emergence of producer organizations through endogenous creation.
- For the development of the sectors, deepen the analysis of contexts and actors on a territory linked to the sectors to better identify the existing forms of producer organizations, those that could be strengthened and the actors who could be mobilized.

- With the PO from the sectors involved, create networks of PO involved in fair trade, structures of support and strategies of development for the sectors.
- Try to privilege the training of a triangular relation: producers / development structure / commercial company (without setting up a dynamics of contract farming).
- Define as indispensable the participation of a support structure with no commercial interest, with skills in institutional strengthening, with a clear mission limited in time to bring organized producers to play a more downstream role in the sector. The requirements must be very clear and controlled.

It also has to enable to lead a more global reflection on the relevance and coherence of the current dynamics of fair trade including contract farming.

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

Two proposals are set out below below to feed reflection and the discussions that should follow:

- Avoiding competition in FT markets on the one hand and regarding the access to available finance to strengthen the current FT producer organizations and to include more current POs in fair trade, would suggest not considering extending contract farming into fair trade in sectors where producer organizations exist, regardless of producer or product origin<sup>15</sup>.
- Avoiding any competition in the same area between FT production contract companies and producer organizations (whether fair trade certified or not) so as not to weaken these organizations, would imply not considering the extension of FT contract farming in areas where producer organizations exist. This way, a FT initiative would not serve to weaken producer organizations, in a manner consistent with its fundamental objectives (contribute to the strengthening of producer organizations).

#### *7.4. Recommendations for the PFCE and its members*

The PFCE sponsored this study and must decide how to promote and use its results. It must also define how to share these reflections with the structures that took part in the study.

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<sup>15</sup> The recent consultation led by FLO concerning the extension of contract farming for cocoa in the Indian Ocean illustrates the foundation of this proposal: many certified FT cocoa POs (in Africa, Latin America and elsewhere), are finding it difficult to fit into the market and sell their volumes, while many uncertified FT cocoa POs are willing to enter the system and are asking for the necessary support to do so.

The following recommendations are proposed:

### 1. Reflection on the method of contract farming within FT

- **Share the results of this study with the members of the PFCE,**
- **Resume an internal debate** on contract farming, taking these teachings and reflections into account,
- **Agree and take a positioning** on contract farming within FT,
- **Support contact and the sharing of information and reflections between the different guarantee systems** on this matter.

### 2. On the current experiments

- Carry out **similar studies** (on specific situations to enrich considerations),
- Suggest setting up **monitoring of developments in current experiments** in conjunction with the guarantee systems,
- Look for **financing** for these studies and their follow-up,
- Invite companies involved in contract farming within fair trade to participate in **awareness-raising activities and training** on the dynamics of rural development in the south and the challenges of strengthening producer organizations.

### 3. On the extension of contract farming

- Agree and **demonstrate a stance** on the challenges presented by the extension of contract farming within FT,
- Develop considerations of **other methods** to strengthen sectors and producer organizations:
  - o Hold sessions gathering different actors to analyse actors and strategies to develop the sectors according to their context. Formulate recommendations on the strengthening of the sectors,
  - o Facilitate the link between producer organizations, development structures and commercial operators to enable triangular relations (without resorting to the method of contract farming),
  - o Try to mobilize financing for the development of these triangular relations as well as sectors.

Beyond the system of fair trade, and in view of the expansion of the contract farming method worldwide, consideration of the need to strengthen producer organizations should also concern mainstream sectors. Some fair trade tools and principles can serve as a basis for this consideration. Any possible regulation measures taken by the authorities regarding international commercial policies would also provide a guarantee to rural families, through their organizations, that some of their interests would be protected within the framework of contract farming.

## Appendices

Appendix 1: study reference terms

Appendix 2: study methodology

Appendix 3: production contracts bibliography

Appendix 4: evolution of the Fairtrade standards production contract

### Other document of appendices (restricted broadcast)

Appendix 5: COFA cotton case study, India

Appendix 6: Sunstar Basmati Rice case study, India

Appendix 7: Burkinature sesame case study, Burkina Faso

Appendix 8: Elements of the Rice case, Urmatt Jasmin, Philippines