Contract Farming: Business Models that Maximise the Inclusion of and Benefits for Smallholder Farmers in the Value Chain

Ayelech Tiruwha Melese *

I. – INTRODUCTION

Contract farming (CF) is increasingly gaining prominence in the eyes of development actors as more and more empirical evidence highlights its role in maximising the inclusion of and benefits for smallholder farmers [1] in the value chain. While this holds true primarily for governments and NGOs, contract farming has also caught the attention of the private sector, as it has manifold advantages and provides tools that enable the private sector to respond efficiently to changes in the global arena. These changes, driven by competition, consumer demand, technology and domestic policies, require, among other things, stringent quality standards and corporate social responsibility for the business to retain its viability. As a result, the private sector has pioneered various transaction governance structures to respond efficiently to these changes. Contract farming is one such structure, offering opportunities to agribusinesses to lower transaction costs by gaining a degree of control over the production process and by ensuring traceability without necessarily requiring ownership. Contract farming is one of various governance structures that lie in between the two extreme structures: spot market and vertical integration.

As documented in the specialist literature, transaction costs are a focal point for analysis when deciding on governance structures / institutional arrangements. Transaction costs are simply defined as costs incurred before

* Independent researcher, <atmelese@gmail.com>. This paper reproduces the author's contribution to the UNIDROIT Colloquium on "Promoting Investment in Agricultural Production: Private Law Aspects", held in Rome (Italy), 8-10 November 2011.

1 This paper uses the terms "smallholder farmers", "smallholders" and "farmers" interchangeably.

and after the transaction when a firm is engaged in an exchange process.[2] All transactions incur search costs due to the need to find the appropriate supply with the right quality and quantity at the required time, and contracting costs after the right supplier is identified. Moreover, every transaction involves costs for negotiation and agreement, monitoring and enforcement to make sure the transaction is enforced as agreed. These transaction costs are exacerbated by transaction risks. As posited by different authors,[3] transaction risks emanate from different factors such as asset specificity, uncertainty (opportunism and bounded rationality [4]), performance and coordination.[5] It is not the purpose of this paper to discuss these issues in detail, but rather to (briefly) explore contract farming business models that can maximise the inclusion of and benefits for smallholders in the value chain.

The next section (II) provides an overview of contract farming by discussing CF business models and their potential advantages and disadvantages for both contracting parties (farmers and agribusinesses) as presented in the specialist literature. By referring to empirical literature, the paper also touches upon the question of whether smallholders are included in the practice of CF. Section III goes on to discuss contract specifications as one of the determining factors to ensure that CF business models are inclusive of and beneficial to smallholders. This is illustrated by three cases. The final section (IV) provides some concluding remarks and recommendations that stress the role of other actors (third parties) in rendering business models inclusive of and beneficial to smallholders. Suggestions for possible interventions by UNIDROIT are also discussed therein.

2 C.A.B. DA SILVA, The Growing role of Contract Farming in Agri-Food Systems Development: Drivers, Theory And Practice, Food and Agriculture Organization of the United Nations (2005).

3 G. MEIJERINK / D. EATON / J. BIJMAN, *Transaction risks in market chains*, Wageningen (2008); P. SIMMONS, *Overview of smallholder contract farming in developing countries,* Armidale, NSW (Australia) (2000).

4 This means that market participants cannot have or process all the information available to them. In other words, market participants are not "all-knowing".

5 S.E. MASTEN, "Transaction-cost economics and the organisation of agricultural transactions", *Industrial Organisation* 9 (2000), 173-195; O.E. WILLIAMSON, *Transaction cost economics and agriculture: an excursion*, Elsevier (2004), 19-35.

II. – CONTRACT FARMING

1. Contract farming business models

Eaton and Shepherd [6] have identified five types of contract farming (CF) models and Bijman [7] has discussed these further. Models are usually differentiated based on the intensity of vertical coordination, the type of product and the number of key actors involved. The five types of contract farming models are outlined hereunder.

(i) *The centralised model*, in which an agribusiness buys from a large number of smallholders under strict quality control conditions and in predetermined quantities. The involvement of the agribusiness can vary from merely providing the seeds to providing different services and technologies at various stages. Nevertheless, the model usually involves the provision of extensive technical support, inputs and close control of the production process.

(ii) *The nucleus estate model* is a variation of the centralised model where an agribusiness owns the plantation adjacent to independent contracting farmers. The central estate is usually used to guarantee throughput for the processing unit but at times, it is used only for research and breeding purposes.

(iii) *The multipartite model* involves various actors in the contract such as governments, NGOs and service providers. It usually also involves dealing with farmers' organisations such as cooperatives as well as joint ventures between the government and the private sector. Contracts under this model may involve a varying degree of coordination. According to several case studies in Asia and Sub-Saharan Africa,[8] this is the model that best fits the poor and smallholders as the integrated effort of many actors eases the burden on individual contracting parties. For instance, in Vietnam, there are several examples where agribusinesses provide the necessary inputs, with local governments providing extension services, disseminating information,

6 C. EATON / A.W. SHEPHERD, *Contract farming Partnerships for growth*, Food and Agriculture Organization of the United Nations (2001).

7 J. BIJMAN, *Contract farming in developing countries: an overview*, Working paper, Wageningen University (the Netherlands) (2008).

8 Asian Development Bank, 30 cases of contract farming: An analytical overview. (2005). M.A. DAWES / R.M. MUROTA / R. JERA / C. MASARA / P. SOLA, *Inventory of smallholder contract farming practices in Zimbabwe*, Netherlands Development Organisation (SNV) (2007).

facilitating the formation of farmers' cooperatives and creating awareness about contract farming among farmers. As a result, besides minimising the cost of providing extension and other services, agribusinesses are able both to improve efficiency by using farmers' groups to deliver inputs and to ensure the application of appropriate technical standards. In addition, the third party (an NGO or the government) in the multipartite model can play an important role in dispute resolution and contract enforcement.

(iv) *The informal model* is usually characterised by individual entrepreneurs and/or small companies that enter into informal contracts, usually on a seasonal basis. Unlike the above models, this model has limited resources for strong vertical coordination, so that its success usually depends on the support provided by the government or other service providers. In this model, the provision of material and technical input is commonly limited to seeds and basic fertilisers, grading and quality control.

(v) *The intermediary model* involves intermediaries between producers and buyers who subcontract buyers. In this model, because of the absence of strong linkages with farmers, buyers run the risk of losing control over quality, quantity and price. For similar reasons, farmers operating within this intermediary model are not safe from market uncertainties.

In practice, the aforementioned models are not mutually exclusive; combined features of different CF business models may be found in one contractual arrangement. Hereafter, this will be illustrated with cases.

2. Pros and cons of contract farming

Many authors, such as Eaton and Shepherd [9] and Bijman,[10] discuss the potential advantages and disadvantages of contract farming for both farmers and agribusinesses. The latter will opt for a contract farming arrangement when they find it an effective and efficient mechanism to ensure a dependable supply for their business (export, processing and so on).

Some of the advantages that CF offers for agribusinesses are: (a) reduced transaction costs (spot market entails high product selection and screening costs among many sellers with opportunistic behaviour); (b) guaranteed product uniformity and high quality thanks to the provision of technical assistance to producers; (c) sufficient supply at the right time; (d) access to

9 See *supra* note 5.

10 See *supra* note 6.

cheap family labour (by contracting smallholders); (e) minimised constraints arising from investment in fixed assets such as land ownership. The expected advantages to farmers (smallholders), for their part, are: (a) reduced production and marketing risk; (b) better access to inputs, technical support and/or credit; (c) knowledge and technology transfer; (d) increased yield and crop diversification; (e) improved income and hence wellbeing.

However, CF also has potential disadvantages for agribusinesses and farmers alike.

Agribusinesses may face pitfalls such as: (a) side-selling by farmers. Farmers tend to breach terms of contract when other buyers offer a better price than that offered in the contract; (b) farmers may misuse the provided inputs or resell them; (c) high transaction costs in dealing with large numbers of farmers, investing in personnel and systems. Sometimes, however, this turns into an advantage since it provides opportunities to spread the risk of supply failure among many producers; (d) internalising the costs of support services as competitors elsewhere do not incur such costs due to government/NGO intervention.

Farmers for their part face the following potential disadvantages: (a) whenever the market situation changes, contractors may reject the produce on the pretext of quality conformity; (b) intentionally non-transparent pricing mechanisms and quality specifications; (c) agribusinesses may influence the prices paid to farmers by setting delivery schedules, particularly when prices are volatile, and then adjusting the delivery schedule to take advantage of that volatility; (d) loss of control and flexibility in deciding production mixes so as to benefit from market opportunities; (e) higher risks arising from monoculture such as diseases; (f) as access to credit improves, farmers face a growing risk of indebtedness.

3. Is contract farming inclusive of smallholders?

Bijman [11] cites various authors and summarises a range of experiences from different parts of the world to respond to the question whether smallholders are included in contract farming arrangements. Unfortunately, neither the literature nor practical evidence are conclusive in the matter. In some cases, *e.g.*, in Mexico and India, agribusinesses prefer to contract with large-scale farmers rather than smallholders because of the high transaction costs associated to dealing with smallholders, such as providing inputs, technical

11 See *supra* note 6.

support, product collection, and so on.[12] Other studies,[13] such as in Chinese horticulture, do not find any evidence to support this argument, however. Similarly, Pomareda [14] in Costa Rica found that agribusinesses did not pay too much attention to the size of farms; they were more concerned with the farmers' conduct.

In other cases, agribusinesses contract with smallholders rather than large-scale farmers because risks such as production failure can be spread over many smallholders; dealing with smallholders gives more flexibility to respond to changes in demand; smallholders, since they use family labour and have low bargaining power, tend to comply strictly with the production advice given by the agribusinesses.

In conclusion, then, it should be possible to maximise the inclusion of smallholders in contract farming by responding to the challenges that tend to discourage agribusinesses from working with smallholders. As discussed in respect of the multipartite model, involving other actors to support smallholders and reduce the transaction costs of agribusinesses can maximise the inclusion of and benefit for smallholders in the value chain via contract farming. The following sections will discuss this, and other issues that help to maximise the benefits of smallholders.

III. –CONTRACT SPECIFICATIONS AND BUSINESS MODELS

Contract specifications: One way of looking at whether a given business model is inclusive of and beneficial to smallholder farmers is to investigate the contract terms and specifications and how they safeguard the smallholders' interests. For instance, does the contractor/agribusiness provide all the necessary inputs and extension services at the right time and in the right amount? Are the inputs and services provided sufficient to enable the smallholder to comply with the required quota, quality and grading? Is the pricing method fair and are

12 N. KEY / D. RUNSTEN, "Contract Farming, Smallholders, and Rural Development in Latin America: The Organization of Agroprocessing Firms and the Scale of Outgrower Production", *World Development* 27(2) (1999), 381-401; S. SINGH, "Contracting out solutions: Political economy of contract farming in the Indian Punjab", *World Development* 30 (2002), 1621-1638.

13 Such as S. MIYATA / N. MINOT / D. HU, *Impact of Contract Farming on Income. Linking Small Farmers, Packers and Supermarkets in China*, IFPRI Discussion Paper 00742, IFPRI, Washington, DC (2007).

14 C. POMAREDA, Contract Agriculture: Lessons from experiences in Costa Rica, RIMISP, Santiago de Chile (2006).

payments made fast enough to address the farmers' desperate need for cash? Is there any land left for subsistence purposes? Is there a risk-sharing system?, and so on. Each specification should be viewed in relation to its impact on smallholders' capacity and livelihood. In doing so, the result should not only benefit farmers but also the agribusiness which will be able to reduce the transaction costs that arise from side-selling, dealing with defaulters, and so on.

Commonly found contract specifications:

- Duration of contract
- Contract quota
- Quality specifications and grading system
- Quality control (when, how, who is responsible, who pays)
- Cultivation / raising practices required by the contractor
- Time of delivery
- Conditions of delivery
- Logistic support
- Technical assistance
- Repayment term of input loan and timing of input credit supply
- Credit facilities to farmers
- Pricing formula (such as fixed prices, flexible prices based on particular (spot) markets, consignment prices, or split prices)
- Methods and time of payment
- Risk sharing system/insurance

When entering into or drafting contractual agreements it is essential to make sure that the responsibilities and obligations of each party are clearly spelled out and understood by both parties, and that appropriate dispute resolution and enforcement mechanisms are incorporated.

Many contracts fail because the farmers' misunderstand the specifications. Using language and terminologies that cannot be sufficiently understood by farmers can lead to distrust and default. It should be borne in mind that the farmers are likely never to have been involved in such business deals before, or that the farmers may lack the basic business skills and attitude needed to understand the requirements and consequences of entering into a contract. The following practical examples confirm this.

The findings of a wide-ranging survey covering a large number of contractual arrangements in the cotton, tobacco and horticulture sectors of Zimbabwe show that around 40% of the farmers did not fully understand the contract specifications.[15] Likewise, SNV (a Dutch NGO) conducted a survey in Zimbabwe's oil seed and cereal sector to determine why contracts with smallholders repeatedly failed despite the provision of "all they need". On the one hand, the agribusinesses generally indicate that the major challenges they face in contracting with smallholder farmers relate to low yields and poor

15 M.A. DAWES / R.M. MUROTA / R. JERA / C. MASARA / P. SOLA, *Inventory of smallholder contract farming practices in Zimbabwe*, Netherlands Development Organisation (SNV) (2007).

product quality because of inadequate farmer resources, poor management, poor timing of operations and side marketing. On the other hand, farmers feel that there is no transparency in the way prices are set by the contractors and that the output grading systems work against them.[16]

Frigoken, a vegetable processing company in Kenya, has been involved in several contract arrangements with smallholders in different parts of the country. It also tried to establish a similar scheme in Kisii, which however did not lead to the expected success. According to the company, the main reason for its failure in Kisii was the lack of entrepreneurial culture and the farmers' failure to regard farming as a business, unlike other regions such as the central region around Mt. Kenya where farmers are accustomed to growing crops for market.[17]

10 critical issues (Nijhoff, 2010)

1. Meeting quality criteria
2. Open communication with well-organized groups
3. Contract terms (complying with contractual terms)
4. Provision of extension, training and knowledge
5. Collection of produce (logistics)
6. Side selling
7. Access to credit
8. Access to input
9. Pricing and method of payment
10. Sharing risk

Nijhoff [18] uncovered a comparable situation in Ethiopia that can cause contract failure. Aiming to develop policy recommendations for the Ethiopian government, which is keen to promote contract farming as a means of linking smallholders to markets, he identified ten critical issues that determine the success of contract farming with smallholders. He ranked the issues based on a review of the literature, case studies and expert interviews and tested them in Ethiopia by asking smallholders and agribusinesses how important these issues were and who they expected to address them.

The result shows a difference in expectations and in terms of ranking, in the importance that was attached to each issue. For instance, agribusinesses ranked the first three issues as highly important and they expected farmers to address them. Farmers, on the other hand, ranked those three issues as less

16 S. MAUNZE, *Contract Farming in Zimbabwe … Business Unusual*, SNV Netherlands Development Organisation, Case Studies, Zimbabwe (2010), <www.snvworld.org>.

17 K. STROHM / H. HOEFFLER, "Contract farming in Kenya: Theory, evidence from selected value chains, and implications for development cooperation", *Contract*, Nairobi (Kenya) (2006).

18 H. NIJHOFF, It takes two to tango. Contract farming in Ethiopia: critical issues and policy recommendations for linking up small scale farmers with (inter)national markets, Wageningen UR Centre for Development Innovation, Wageningen (the Netherlands) (2010).

important, contrary to the remaining seven issues (4-10) which they deemed highly important and which they expected the agribusinesses to deal with. The agribusinesses for their part expected not to be responsible for providing services and materials; dealing with side-selling; renegotiating prices or payment methods

Business models – Even though there is no single recipe or 'one fits all' model to increase smallholders' inclusion in the value chain and to enhance their ability to benefit from it, as pointed out earlier, there is considerable evidence that shows it is possible, with appropriate action by different actors, to level the playing field and to strengthen the capacity and bargaining power of smallholders. Interventions such as lobbying for supportive policies, capacity-building for farmers and their organisations, providing materials (inputs) and services (technical, credit, market information) all play a vital role in maximising the inclusion of smallholders and the benefits they derive therefrom. This will be illustrated in the case studies (business models) below: one from Zimbabwe, which has relatively wide experience of CF, and two from Ethiopia where CF is at an incipient stage. These cases show how local or foreign direct investors run profitable businesses and promote sustainable development by establishing business partnerships with smallholders.

1. africaJUICE – passion fruit from Ethiopia [19]

The Dutch company, africaJUICE, is aiming to become a leading supplier of Fair Trade tropical fruit juice for the European market. For this reason, the company plans to establish at least three production locations across Africa by 2014. The first project, the Upper Awash Project in Ethiopia, has been operating since early 2009 after it took over an existing State farm (about 1,300 ha). The company intends to supply its passion fruit processing plant by means of 50% own production and 50% through contract farming with smallholders. The business model represented by africaJUICE is a hybrid of joint venture, nucleus and multipartite model, as explained below.

africaJUICE Tiliba Share Company ("aJ-TSC") offers ownership opportunities to local smallholder farmers in Ethiopia by selling shares. The ownership will be structured as follows: africaJUICE (81%), Ethiopian Government (14%) and the local community (5%). The Dutch Rabobank Foundation and ICCO (a Dutch NGO) will provide a loan mechanism to a local

19 africaJUICE – out-grower incubator project. Progress report (December 2011), unpublished material, The Hague (the Netherlands).

community organisation (once this is formed and has the required capacities) to buy community shares in aJ-TSC. Fair & Sustainable Participations BV (a new company established by ICCO) will hold the loan and shares on behalf of the smallholders (out-growers) cooperatives until they become established and have sufficient governance procedures in place to hold the loan and shares.

According to the annual report of the World Bank MIGA,[20] the africaJUICE operation in Ethiopia is deemed to be very beneficial for the community, which is already showing early signs of economic revival. The africaJUICE progress report (December 2011) confirms this: "… although some factors caused delay on planned operation, the performance shows notable success in improving income: ETB 10,000/month or $588/month vis-à-vis $550-$1100/annum (estimated income when the project started)." The report also estimated that with the current achieved level of average productivity, smallholders can attain an average of 45% gross margin. Furthermore, some individual farmers have reached remarkable productivity rates that are much higher than the average set by the company, which in turn enables them to plant additional passion fruit without financial support from africaJUICE.

Contract specifications and other aspects

Smallholders get organised as cooperatives per production area. At the startup phase, africaJUICE works with individual contracts, selecting high-potential farmers. The pioneer farmers receive more support than any others who join the scheme after its success has been proven. In drafting the contracts, the company refers to the farmers' previous contract experience with a view to making the contracts as simple and understandable as possible. Moreover, it involves a government cooperative agency to clarify the responsibilities and expectations of each party.

The company runs the so-called "out-grower incubator project" in its plantation, which is intended to serve as a capacity-building or coaching site for smallholders and to help them achieve the required quality. Next to africaJUICE, this process involves the integrated efforts of NGOs and other partner organisations. The "out-grower incubator project" also provides extension services, inputs and technologies for the farmers. Furthermore, the company provides soft loans for start-up capital until the cooperatives get established and are able to access and facilitate commercial loans for members.

20 MIGA (Multilateral Investment Guarantee Agency), The World Bank, *Annual Report* (2011).

As discussed by Nijhoff,[21] africaJUICE clearly specifies how and where quality checks and grading are to be carried out. However, the company may need to revise its method of collecting produce as the current plan (farmers carry their produce to a small number of collection points) may not be suitable once the volume of production increases.

The company plans to implement a Fair Trade pricing method, which is believed to be the ideal pricing mechanism to maximise smallholders' benefits and to provide a reliable, sustainable supply of fruit to africaJUICE's processing plant. In addition, africaJUICE uses a technology ladder as an incentive: higher performance is rewarded by access to better technology, while lower performance leads to stepping down a rung on the ladder of technology.

In terms of risk-sharing, the farmers carry the total production risk. The company supports local farmers in managing these risks through capacity-building and the employment of extension workers. It is important to note that africaJUICE encourages smallholders to carry on growing their traditional crops (tomatoes and onions) and intercropping with passion fruit. This practice itself mitigates the risks associated with monoculture as well as increasing the farmers' household security by sustaining subsistence farming.

In this model, however, both the company and the smallholder farmers are highly interdependent: on the one hand, there is no alternative local market for passion fruit to speak of (*i.e.*, africaJUICE is the sole buyer); on the other hand, these farmers are the only suppliers of the processing company (africaJUICE) since there are no other local farmers growing passion fruit. Therefore, reneging on the contract is too costly for both parties; amongst other things, asset specificity is one of the high transaction risks the contracting parties are facing.

2. Cottco-Cotton Company of Zimbabwe

Cottco is one of the largest cotton exporters in Zimbabwe. It has engaged in contract farming with 77,000 smallholders using the centralised model. It has assisted smallholders to organise into groups for the purpose of management, monitoring and ensuring compliance.

21 See *supra* note 16.

Contract specifications and other aspects

Woodend [22] discusses the features of the contract. The company has addressed coordination risk by providing the necessary inputs (seeds, fertiliser, chemicals, sprayers, picking bags, cotton bales) on credit. The amount of inputs is based on the smallholder's previous production history. Cottco also provides tillage and transport services. The contract specifies the credit limit for each farmer and the amount of cotton to be delivered.

Cottco uses an extensive network of loan and extension officers, not only to provide technical advice and extension services but also to closely monitor farmers and coordinate crop collection. The company takes care to strengthen its relations with farmers on a continuous basis and maintains a detailed database on all its contracted producers. As a result, Cottco was able to develop good communications with producers and minimise side selling.

The company also uses a peer-monitoring mechanism (producers monitoring each other) to ensure compliance and to enforce the terms of the contract. Farmers' groups are responsible for the repayment of loans by each member. If a member defaults or side sells, the whole group is penalised and excluded from the scheme. Before turning to the current effective mechanism, Cottco seized the smallholders' assets to enforce contracts, but the policy was changed when it was realised that it damaged the company's image.

Cottco does not concentrate on imposing penalties only but also provides incentives for the highest quality cotton by offering supplementary payment and cash bonuses. An annual award system has also been introduced.

3. Beza Mar – Honey from Ethiopia

According to primary data collected from SNV Ethiopia during my earlier work,[23] Beza Mar honey processor and exporter made a verbal agreement with smallholders to address the prevailing problems in obtaining a reliable supply. Previously, smallholders were not concerned about the quality of their produce and relied fully on traditional beekeeping methods which require very limited effort. In general, smallholders did not have any marketing problems thanks to the *tej* (traditional wine) producers who generated enough demand for their low-quality honey. As a result, Beza Mar was able to collect

[22] J.J. WOODEND, Potential of contract farming as a mechanism for the commercialization of smallholder agriculture: the Zimbabwe case study, Report for FAO (2003).

[23] A.T. MELESE, *Contract farming in Ethiopia. An overview with focus on sesame*, Development Cooperation Ministry of Foreign Affairs (the Netherlands) (2010).

only 38% of the total production and incurred huge costs to purify the product, which still left them with 30% of wastage. In order to address these problems, Beza Mar and SNV intervened in collaboration and got together with other local actors (*wereda* [24] development agents, Holeta Bee Research Centre), which imparted to the verbal contract the characteristics of a multipartite model.

Contract specifications and other aspects

After the problems were identified and analysed, selected actors (farmers with at least 5 bee colonies, *wereda* development agents, internal control staff, etc.) were trained. Their training was geared to increasing the beekeepers' productivity and to enable Beza Mar to source its supply at required quantity and quality so that it was suitable for export to the European Union.

Beza Mar established an outgrowers network, a system that allows internal control and traceability. The outgrowers received embedded services through close follow-up and technical assistance. The company's production manager spent several months supervising production and establishing a traceability system with the help of a *wereda* development agent as well as internal control staff. Beza Mar ensures the necessary follow-up and corrective measures.

Beza Mar has shown great dedication by actively participating in all interventions and by co- financing the training aspect. In order to strengthen its relationship with smallholders, the company also provided credit to farmers. The company introduced a premium price for best quality supply, which motivated farmers to increase the quality of their output. Holeta Bee Research Centre supplied effective, locally made beehives called "transitional hives" that helped greatly in improving quality at low cost.

All these combined efforts have led to success. Beza Mar has secured a reliable supply of table-grade honey and has reduced wastage from 30% to 3% while increasing its purchase of total production from 38% to 82%, as a result. This enabled Beza Mar to export to the EU for the first time.

IV. –CONCLUSION AND RECOMMENDATIONS

The task of maximising smallholders' benefit and increasing their inclusion via contract farming should begin by getting the fundamentals right. This should include narrowing down the gap in bargaining power between contracting

24 *Wereda* is the lower tier of Ethiopian Government.

parties, which stems from a lack of ownership and access to materials and services, knowledge, information, supportive policies, and so on. This can be achieved if the various actors pull together in relation to the determinant factors that will be discussed below. UNIDROIT might be one of the actors in this regard.

Market information

The situation that most benefits smallholders is the concurrence of high demand for their product and keen competition between buyers. In this scenario, the buyer (agribusiness) tends to put extra effort into building successful relationships with the farmers and providing the necessary services to ensure quality conformity. Under the pressure of competition, the agribusinesses also tend to pay higher prices for the produce in order to avoid side selling. However, if the smallholders are not able to access market information, they might be exposed to exploitation (buyers' collusion). Hence, it is important that the State or other agents provide market information to farmers. For instance, the Ethiopian Commodity Exchange (ECX) provides market information on products traded via ECX to farmers at local level (via farmers' organisations), so that farmers are protected from possible exploitation by buyers and middlemen.

Support for smallholder farmers

Needless to say, most smallholders are not sufficiently equipped to deal with (inter)national agribusinesses. If contract farming is to benefit smallholders, additional support by third parties is inevitable. This might include technical pre- and post-harvest support, input provision, training in basic business skills, organising the farmers into cooperatives (business groups), helping them to set up crop insurance mechanisms, awareness-raising in respect of contract farming, and so on.

Providing support on the negotiation front is another critical issue. Smallholders have relatively weaker bargaining power in dealing with agribusinesses. They should be assisted so as to be able to put forward contract terms that reflect their own interests and to ensure a clear understanding of all the terms, so that there is no room for manipulation.

Parties could use a kind of "contract template" that fairly incorporates the interests of both parties and especially that of the smallholders. Such a contract template should also specify conditions for such issues as re-negotiation, when arbitration is needed, and contract termination. It is here that there might be a role for UNIDROIT, together with other actors: to draft the "contract template" and soft law provisions that can serve as a guide for alternative arbitration and enforcement mechanisms (in the absence of an efficient and effective legal framework). This should be adapted to serve unwritten contracts as well.

Providers of support should give attention to gender as well. When a woman is the owner of the land or when she performs most of the farming tasks, she should be the one to take part in the contract (sign the contract) or at least, both husband and wife should be involved. Lessons can be drawn from the experience of the World Food Program (WFP) in their Purchase for Progress program in Ethiopia, where gender is dealt with as a crosscutting issue. The program enabled smallholders' cooperatives to boost their capacity to enable them to compete in a competitive market like the WFP's regular procurement. At the same time, it achieved considerable success with regard to gender.[25]

Enabling government and supportive policies

In the absence of supportive government policies, little can be accomplished towards maximising smallholders' benefit. Governments in developing countries should play not only a facilitation role but also a provisional role geared to maximising the inclusion of the poorest of the poor and of women, who tend to be screened out during CF arrangements.

The State also should provide the framework for entering into contracts with smallholders as well as enforcing it. For instance, in Zimbabwe, companies wishing to contract farmers to produce certain crops were required to sign a Memorandum of Understanding (MOU) with various departments within the Ministry of Agriculture. The MOU usually specified that contracting agribusinesses would provide farmers with extension services, farming inputs including seed, chemicals, tillage, harvesting, curing and marketing resources to a specified value. The agreement also addressed pricing, grower selection, contract documents and security of land tenure for the duration of the scheme.[26] Perhaps UNIDROIT could play a role in assisting governments to draft such MOUs that can ensure a minimum of benefits or resources to smallholders so that they may participate in contract farming.

25 WFP Ethiopia Country Office, *Purchase for Progress,* Case studies consolidated final report, Addis Ababa (Ethiopia) (2010).

26 DAWES *et al*, *supra* note 7.

Dispute settlement and enforcement mechanisms

Given the existence of an effective and efficient legal system, the courts can be used as a dispute resolution and contract enforcement mechanism. However, the legal systems in many developing countries tend to be cumbersome, and it might therefore make sense to formulate alternative mechanisms that are contextually feasible / acceptable. One such mechanism might involve third parties in the negotiations and drafting of contracts from the outset, by means of, perhaps, a committee comprising representatives of NGOs, government (area, legal and development agencies), community leaders, farmers and agribusinesses. Such a committee could steer the contract throughout the process and serve as arbitrator as well as enforcer. As mentioned earlier, soft law could play the same role here.

The aforementioned points should be considered as general level recommendations. Context-specific studies are needed to identify the exact determining factors to maximise the inclusion of and benefits to smallholders in the value chain. This will help to design tailor-made and effective interventions.