

**WFP WORKING SESSION ON CONTRACT FARMING SCHEMES
AND THE UNIDROIT/FAO/IFAD LEGAL GUIDE ON CONTRACT FARMING
Report on the WFP HQ session - 11 March 2016, h. 10.00 am – 1.00 pm**

The working session on contract farming schemes took place in the World Food Programme HQ in Rome. This session among Secretariat members of the participating organizations (UNIDROIT, FAO, IFAD, the IISD, and the WFP) aimed at sharing experiences and information on future actions in relation with contract farming schemes or related contract modalities with small farmers. Discussions focused on the recently adopted UNIDROIT/FAO/IFAD Legal Guide on Contract Farming, current implementation plans, and on how the Legal Guide may be used in field operations.

Introductory words and welcome remarks were made by Mr. Loutphi Madani and Ms. Frederique Mestre.

The session was divided into 3 main areas:

1. Overview of the experience of Organizations in designing and implementing contract farming schemes – or related modalities with small farmers

FAO's intervention: Ms. Marlo Rankin began by giving an introduction to the basic concepts of contract farming. She described the three common elements included in a contract farming agreement which place conditions on the production and marketing of the commodity under contract. These are:

- market specifications, which provide details of the quality, quantity and delivery requirements for the commodity;
- resource-provisions where the buyer may commonly provide the producer with inputs such as seed, fertilizer and financing;
- production-management where the buyer will have some involvement in the production process usually through the provision of technical assistance to the producer.

The FAO representative also showed how, over the years, interest in contract farming has increased due to several reasons (e.g. the industrialization of agriculture, the rise of supermarkets, new technologies, and dramatic changes in agriculture supply chains).

Ms. Rankin, then, described the FAO initiatives and activities carried out in response to the demand for information and technical support on contract farming issues. In particular, she described as FAO main activities:

- dissemination of contract farming information through the Contract Farming Resource Centre (www.fao.org/ag/ags/contract-farming), and the collection of contract samples and other relevant documents;
- technical assistance to farmers, mainly to small ones in order to link them with markets. (e.g. sugar beet production in Afghanistan and the Roots and Tubers Crops production in Malawi);
- provision of capacity building in contract farming by offering regional training for officials from Ministries of Agriculture, Commerce, Industry and Trade, farm extension agents, NGO staff, development project personnel, development practitioners, and agribusiness private sector representatives, among others. Furthermore, in an effort to expand the usefulness of training, FAO is developing a guide book for trainers;
- field visits and examination of existing contract farming templates. FAO also provides practical case studies on contract farming and is trying to bolster those case studies;
- promotion of responsible contract farming through the examination of existing regulatory framework (e.g. in Morocco and Malawi).

WFP's intervention: Ms. **Miatta Korpo** described the WFP program called "*Patient Procurement Platform*" (PPP) which was introduced last year. This PPP project was preceded by and builds on WFP's work through "*Purchase for Progress*" (P4P), which supports small holder farmers to include the private sector that plays a pivotal role in providing extra demand for their produce.

The partners of WFP in the PPP project include: AGRA, Bayer, GrowAfrica, the International Finance Corporation, Rabobank, Syngenta and Yara International.

The PPP project focuses on purchasing agreements, not on spot agreements, and it aims to take and benefit smallholders. This way, the fair principle of the platform ensures a fair playing field for small holder farmers by ensuring their build resilience and commercial viability. In short, the objectives of the platform are to:

- aggregate and leverage the market demand for small farmers so as to have easy access to financial markets;
- facilitate financing and inputs needed through partners;
- establish national platforms (until now, the platform is operational in three African markets i.e. Rwanda, Tanzania and Zambia and will then go to Asian and Latin America countries);
- ensure that small farmers engage with the process;
- give flexibility regarding contracts, their content and form.

The ultimate goal is to make this platform a functional and autonomous organisation. WFP buys US\$1.3 billion worth of food from small holder farmers and US\$160 million of that over the past 5 years has gone through P4P- maize, wheat, and sorghum.

IFAD's intervention: Ms. **Marieclaire Colaiacomo** developed her presentation with video testimonials regarding IFAD's experience in designing and implementing projects with value chain components, including contract farming schemes. Through its Value Chain Development Programme in Nigeria, IFAD has addressed problems experienced in rice value chains. The video highlighted that through the Programme, funding and equipment would be needed with IFAD facilitating strengthening of the necessary mechanisms.

The second video stressed the importance of trust within a contractual relationship and recognised the benefits of working together as prerequisites for effective contract farming. The video was a testimonial from IFAD's funded Rural Income Promotion Programme in Madagascar.

Finally, the third video showed organic and fair trade production of cocoa which revitalized the industry in Sao Tome and Principe. IFAD brokered the relationship between farmers and a French organic cocoa buyer who committed to buying the full produce of organic cocoa under a contract farming mechanism in the IFAD funded Smallholder Commercial Agriculture Project.

The three videos were chosen to demonstrate the steps that IFAD has taken in participating in the Working Group which developed the Legal Guide. Firstly a recognition of the need and relevant demand for assistance in setting up schemes. Secondly the basic elements to ensure the success of contract farming arrangements such as trust and communication; and thirdly the brokering element between smallholders and private sector players and the relevant contractual requirements for the scheme to work.

2. Legal Guide on contract farming – background and policy approach

Ms. Frederique Mestre noted that the Legal Guide focuses on transactional aspects, i.e. the farmer/contractor relationship, where the parties are linked with a variety of complex and interdependent obligations. In this type of relationship the imbalance between the parties' position is a critical issue, the farmer being in a weaker position and may often economically depend on the buyer. In addition, contracts are often informal. Besides, she pointed out that compliance and enforcement is also a real issue in most situations. Therefore, she noted that the Legal Guide comes in as a tool to promote long term relationships based on trust, partnership, cooperation and collaboration between the parties.

She presented an overview of the content of the Legal Guide. Besides, she argued that although the Guide develops different issues concerning the function and framework of contract farming, it is

not a one fix all solution, it is a soft law document meant to provide guidance to encourage fair and loyal dealings, transparency and cooperation between parties.

She concluded her discussion by observing that parties should be aware that contract farming should be mutually beneficial and should build the contract technically with this awareness within the applicable rules.

3. How to use the Legal Guide in practical operations: implementation plans, tools and materials being developed

Ms. Marieclaire Colaiacono explained how, following the publication of the Legal Guide, IFAD has allocated resources/funding to implement the Legal Guide. That is to say, to distill the guide into practical tools which can help implement the principles set out in the guide. Recently, IFAD approved a financing for the Government of Tanzania for a PPP in which IFAD's role will be to mobilize outgrower schemes around a sugar cane plantation. In its agreement with government IFAD has asked that smallholders be involved through contract farming mechanisms. The same government of Tanzania, recently requested a copy of the Legal Guide as it is drafting its Contract Farming Act.

Ms. Miatta Korpo observed that **WFP** is involved in analysing regulatory frameworks for contract farming and guiding countries that want to carry out legal reforms. She also talked about the WFP work on contract templates, which involves ensuring that the templates are flexible enough to fit in the national legal system of a given country.

Ms. Marlo Rankin and Ms. Carmen Bullon noted the various implementation plans and tools of **FAO**, for instance: i) the translation of the Guide into Spanish, ii) drafting of a 20-30 page guide that would be more accessible to non-legal people, iii) drafting of 3 to 4 pages of essential briefs (policy briefs) to regulators and farmers organisations that would extract core messages, iv) development of training materials and manuals, v) presentation of contract templates and analysis of the contract templates and samples.

Ms. Carin Smaller of IISD mentioned that the core work of **IISD** has been developing policy instruments for largescale land investments, which included a contract template, and that IISD had been invited to cooperate with FAO in the implementation of the Legal Guide to make contract templates for contract farming. Indeed, she mentioned that IISD had been asked by several Governments (including Lao, Vietnam, Burkina Faso, Ethiopia and Liberia) to prepare a contract farming template to be annexed to land investment contracts. An ensuing discussion touched upon how detailed and sophisticated should contract samples be, and the role of intermediaries.

Conclusion remarks of the session

Ms. Mestre and Mr. de Vito mentioned that UNIDROIT, FAO, IFAD have established - within the framework of the Global Forum on Law, Justice and Development (GFLJD) - a **Community of Practice on Legal Aspects of Contract Farming** (CoP).

The CoP has the main objective of promoting a favourable legal environment for contract farming operations through knowledge sharing and dissemination, as well as projects pursued individually by the partners and members or on the basis of joint initiatives.

A dedicated internet webpage has been created on UNIDROIT website (<http://www.unidroit.org/community-of-practice/home>), and it serves as a repository of information and a platform for the exchange of knowledge among partners, and the dissemination of tools and projects in furtherance of the objectives of the Community of Practice.

The CoP provides an opportunity for partners and members to give visibility to their activities and build synergies with potential partners, including sponsor and financing institutions, for the development of products and projects.

Mr. de Vito stressed that the CoP represents a precious tool for stakeholder for share experiences and feedback on the use of contract farming models and of the Legal Guide. The Members of the CoP may support the divulgation of the Guide and the active participation into the CoP.

Participants

Food and Agriculture Organization of the United Nations - FAO

- Marlo Rankin, Agribusiness Economist, Agricultural Development Economics Division ESA
- Carmen Bullon, Legal Officer, Development Law Branch, LEGN
- Costanza Rizzo, Consultant, ESA

International Fund for Agricultural Development - IFAD

- Marieclaire Colaiacomo, Programme Officer, East and Southern Africa Division
- Christa Ketting, Rural Markets and Enterprises

International Institute for the Unification of Private Law - UNIDROIT

- Frederique Mestre, Senior Legal Officer
- Ercole de Vito, Research Assistant
- Shideh Bozorgzadeh, Intern
- Marcela Mollinedo, Intern
- Richard Muliika, Intern

International Institute for Sustainable Development - IISD

- Carin Smaller, Advisor on Agriculture and Investment

World Food Programme - WFP

- Loutphi Madani, Head of LEGM Branch, Legal Office
- Miatta Korpo, Legal Consultant LEGM
- Louis Moussie, Legal Officer LEGM
- Florencia Celasco, Legal Officer LEGC
- Lucas Martin Romero, Legal Officer LEGC
- Giulia Macri, Legal Consultant, LEGC
- Tamima Boutel, Legal Consultant