

# **Contract farming and out-grower schemes**

Appropriate development models to tackle poverty and hunger?

**Policy discussion paper** March 2015 .....



## Summary

**Out-grower schemes (often referred to as contract farming in academic and other literature) are an important component of many current public-private partnerships (PPPs) in developing countries, including the G8's New Alliance. Such schemes often appeal to farmers because the company often provides inputs and production services. In addition, farming incomes can rise and such schemes often open up new markets and provide new technology.**

But they also present several major problems. Out-grower schemes and contract farming often exclude precisely the groups that ActionAid works with most: the poor, women, the landless, and marginal or subsistence farmers.

Out-grower schemes offer access to land that would not otherwise be available to a company and can also be a disguised form of land grab. Such a project (with a plantation) is being implemented in a community in Tanzania that ActionAid has worked with for many years. People will be displaced, and land often used for growing food is being taken despite opposition from some local people. ActionAid found that many within the community had no details of the associated out-growers scheme. Overall, many believe they have not been adequately informed or consulted about the impacts the project will have on their livelihoods and their rights to food and land. This means that the whole project is a 'land-grab' under existing definitions.<sup>1</sup>

Criticisms of out-grower schemes and contract farming reveal the unequal power relationship between a company and farmers. Farmers often provide both the land and cheap labour, and at the same time carry most of the risk. An analysis of contracts found that many only include basic details that are unlikely to promote the interests of small farmers. For example few contracts stipulate the duration of the partnership or provide details on the specific inputs provided to farmers. Schemes are almost invariably geared towards (often non-food) crops for export or large urban markets. They therefore tend to consolidate and promote the role of large corporations in global agriculture supply chains.

The evidence reveals that most existing contract farming and out-grower schemes are not an appropriate development model to tackle poverty and hunger; they rarely meet any of what ActionAid believes is the minimum requirements that would allow them to do so (see Box 2).

National government support to agriculture - especially public investment targeted at the poor, small-holder farmers and women rather than partnerships with large private companies – is proven to be one of the most important ways to achieve food security and alleviate poverty. ActionAid is not against all private investment in sustainable agriculture – small-scale producers and co-operatives, for example, are part of the private sector and have been instrumental in successfully tackling hunger in a number of countries.<sup>2</sup> The world's 500 million small farms produce the majority of food, particularly in developing countries, while simultaneously employing the most undernourished people in the world. Farmers themselves must be central to any strategy aimed at increasing the quantity and effectiveness of agricultural investment.

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1. ILC, 2011. Tirana Declaration [http://www.landcoalition.org/sites/default/files/aom11/Tirana\\_Declaration\\_ILC\\_2011\\_ENG.pdf](http://www.landcoalition.org/sites/default/files/aom11/Tirana_Declaration_ILC_2011_ENG.pdf) International Land Coalition

## Introduction

This briefing is a literature review of out-grower schemes and contract farming to inform ActionAid's perspective.

### ► Contract farming and out-grower schemes as 'new' development models

Out-grower schemes and contract farming are seen by many policy-makers and analysts as in effect a 'new' development paradigm for linking small-holders to markets. A recent study by the Organisation for Economic Co-operation and Development (OECD) states that "contract farming appears to be the main road towards making African agriculture more market-oriented".<sup>3</sup> Indeed, contract farming and out-grower schemes are a key model envisaged in the wave of public-private partnership (PPP) strategies launched in recent years under the auspices of the G8, the World Economic Forum and its corporate backers as well as other donors.

#### **Box 1: Out-grower schemes and contract farming**

Contract farming is the generic term that covers various types of contract between companies and farmers. Agricultural production is carried out according to a prior agreement in which the farmer commits to producing a given product in a given manner and the buyer commits to purchasing it. The vast majority of contract farming projects are out-grower schemes and the terms have become synonymous. Under one of the most common forms of contract farming, a centralised processor and/or packer buys from a large number of local farmers where products often require a high degree of processing (crops grown under such schemes include tea, vegetables, cotton and tobacco).<sup>4</sup> Another form of contract farming is a variation on the centralised model; here the company has a nucleus plantation estate but also buys from local small-holders. Crops often associated with this type of scheme are perennial trees such as oil palm and rubber.<sup>5</sup> The terms of the contract – for example the price of the product and the supply of extension services – will vary from project to project.

The literature makes little or no distinction between the two terms - contract farming and out-grower schemes - and as a result the terms are often used interchangeably, but in the main the term contract farming is more common. Therefore, for clarity in the rest of this briefing, the term contract farming will be used wherever possible.

2. *Framing Hunger*, 2013. <http://smallplanet.org/sites/smallplanet.org/files/Framing-Hunger-SOFI12-12-2.pdf>. See also IAASTD, 2009. *Agriculture at the Crossroads*. [http://apps.unep.org/publications/pmtdocuments/-Agriculture%20at%20a%20crossroads%20-%20Synthesis%20report-2009Agriculture\\_at\\_Crossroads\\_Synthesis\\_Report.pdf](http://apps.unep.org/publications/pmtdocuments/-Agriculture%20at%20a%20crossroads%20-%20Synthesis%20report-2009Agriculture_at_Crossroads_Synthesis_Report.pdf)
3. Felgenhauer K., and D. Wolter, 2009. *Outgrower Schemes – Why Big Multinationals Link up with African Smallholders*. [www.oecd.org/dev/41302136.pdf](http://www.oecd.org/dev/41302136.pdf)
4. FAO, 2001. *Contract Farming : Partnerships for Growth*. <http://www.fao.org/docrep/014/y0937e/y0937e00.pdf>
5. TechnoServe and IFAD, 2011. *Outgrower Schemes – Enhancing Profitability*. <http://www.technoserve.org/files/downloads/outgrower-brief-september.pdf>

In relation to the G8's New Alliance for Food Security and Nutrition, for example:

- Senegal's New Alliance Cooperation Framework states that "particular attention will be paid to investments through contract production" and various projects outlined in the Cooperation Framework involve contract farming.<sup>6</sup>
- Malawi's Cooperation Framework outlines contract farming projects in oil palm and tobacco and states that the "government will foster a favourable enabling environment for contract farming". It also calls for 'fast-tracking' a contract farming strategy.<sup>7</sup>
- One of Ethiopia's policy commitments in its Cooperation Framework is to "refine land law, if necessary to encourage long-term land leasing and strengthen contract enforcement for commercial farms".<sup>8</sup>

Individual projects within the New Alliance framework also involve contract farming, for example in Tanzania and Nigeria.

More broadly, "building out-grower schemes" is also a key aspect of the agriculture strategy outlined in the World Economic Forum's New Vision for Agriculture and its associated 'Growth Corridors' concept,<sup>9</sup> which provides a basis for the new public-private partnerships (PPPs) now being promoted in various countries, for example:

- In Mozambique, the Beira (Growth) Corridor project envisages 25 new commercial farm investments in the first five years (2010-15), "all with associated out-grower/serviced block schemes". This includes projects in mango, banana, citrus, horticulture, sugar and rice.<sup>10</sup> The widely-criticised Prosavana scheme in the northern region of the Nacala Growth Corridor calls for the spreading of contract farming schemes along the corridor. In its 32 projects, contract farming is seen as the favoured model, with seven out of eight quick impact projects involving some type of contract farming.<sup>11</sup>
- Out-grower schemes are also a key part of the Southern Africa Growth Corridor of Tanzania (SAGCOT) project. SAGCOT's *Investment Blueprint* describes out-grower schemes as a "proven model for integrating large scale and small-holder farmers with mutual benefits". Indeed, most SAGCOT projects are envisaged to involve contract farming in commodities such as seed potato, avocado, soya, sugar, banana and citrus.<sup>12</sup>
- In Kenya, various projects envisaged under LAPSSSET (the Lamu Port–South Sudan–Ethiopia Transport Corridor project linking Lamu Port to markets) also involves contract farming.<sup>13,14</sup>

6. New Alliance, undated. *Cooperation Framework to Support the New Alliance for Food Security and Nutrition in Senegal*, p.6, <http://new-alliance.org/resource/senegal-new-alliance-cooperation-framework>

7. New Alliance, undated. *Cooperation Framework to Support the New Alliance for Food Security and Nutrition in Malawi*, pp.6, 8, <http://new-alliance.org/resource/malawi-new-alliance-cooperation-framework>

8. New Alliance, undated. *Cooperation Framework to Support the New Alliance for Food Security and Nutrition in Ethiopia*, p.5, <http://new-alliance.org/resource/ethiopia-new-alliance-cooperation-framework>

9. See WEF, undated. *Putting the New Vision for Agriculture into Action: A Transformation is Happening*, p.10, <http://www.weforum.org/reports/putting-new-vision-agriculture-action-transformation-happening>

10. Beira Corridor, 2010. *Beira Agricultural Growth Corridor: Delivering the Potential*, pp.28-31, [http://www.beiracorridor.com/?\\_\\_target\\_\\_=resource-centre](http://www.beiracorridor.com/?__target__=resource-centre)

11. Nogueira de Morais, I., 2013. *Inclusive Growth in Africa: Measurement, Causes and Consequences*, Draft conference paper for UNU-WIDER Conference, September, [www.unige.ch](http://www.unige.ch)

12. SAGCOT, 2011. *Investment Blueprint*, January, pp.37, 58-9, [http://www.sagcot.com/uploads/media/Invest-Blueprint-SAGCOT\\_High\\_res.pdf](http://www.sagcot.com/uploads/media/Invest-Blueprint-SAGCOT_High_res.pdf)

13. Grow Africa, undated. <http://growafrica.com/initiative/kenya>, accessed 24 August 2014

14. Grow Africa, undated. <http://growafrica.com/initiative/kenya>, accessed 24 August 2014



## ► Prevalence of contract farming

Contracts between firms and farmers using their own land have existed for the last 100 years or so. But contract farming has expanded in recent decades and is widespread in developing countries in certain crops:<sup>15</sup>

- In Latin America, over 70% of Brazil's poultry production and 30% of soya production is produced under contract farming while banana multinationals such as Dole and Del Monte all have contract farming operations.
- In Asia, Indonesia, Malaysia and China are among other countries with significant contract farming operations and in Vietnam, over 90% of cotton and fresh milk and over 40% of rice and tea comes from contract farming.
- In Africa, contract farming is significant and on the increase. All cotton and tobacco in Mozambique is produced through contract farming, and almost 12% of Mozambique's rural population is involved in this type of farming. All the paprika, tobacco and cotton in Zambia and 60% of Kenya's tea and sugar are produced under contract farming.

## Advantages and disadvantages of contract farming

The advantages can be summarized as follows:<sup>16</sup>

- **Inputs and production services are often supplied by the company.** This is usually done on credit through advances from the investor. Farmers can also use the contract agreement as collateral to arrange credit with a commercial bank in order to fund inputs.<sup>17</sup>
- **Contract farming can introduce new technology** and enable farmers to learn new skills.
- Farmers' **price risk is often reduced** as some contracts specify prices in advance.
- **Such schemes can provide higher incomes.** A study in Zambia concluded that out-growers achieve higher incomes in comparison to non out-grower households but not enough to take households out of poverty.<sup>18</sup>
- Contract farming can **open up new markets** which would otherwise be unavailable to small farmers. A study of one sunflower project in Tanzania concludes that production increased and that farmers secured better access to markets.<sup>19</sup>

But there is certainly a long list of potential problems for farmers in contract farming and related schemes, many of which outweigh and sometimes contradict the advantages listed above.

15. Prowse, M., 2012. *Contract Farming in Developing Countries – A Review*, February, p.13 <http://www.afd.fr/webdav/shared/PUBLICATIONS/RECHERCHE/Scientifiques/A-savoir/12-VA-A-Savoir.pdf>; see also Adjognon, S., undated. Contract farming as a tool for poverty reduction in Africa, ISID Research to Practice Policy Briefs, No.4 [www.mcgill.ca/isid/sites/mcgill.ca/isid/files/adjognon.pb4\\_.pdf](http://www.mcgill.ca/isid/sites/mcgill.ca/isid/files/adjognon.pb4_.pdf)

16. FAO, 2001. *Op cit.* p.8

17. FAO, 2001. *Op cit.* p.10

18. Gumbo, D., undated. *Do outgrower schemes improve rural livelihoods? Evidence from Zambia*, [www.oicrf.org/document.asp?ID=9208](http://www.oicrf.org/document.asp?ID=9208)

19. Ndongole, E., 2014. *Sunflower Value Chain Development in Tanzania: The Case of SHADECO in Village Based Contract Farming Arrangement in Iringa Region – Tanzania*, <http://www.plaas.org.za/event/AIGLIA2014/presentations>

Critically, as summarised by the UK's Department for International Development (DFID),<sup>20</sup> contract farming schemes often **exclude the poorest farmers**, and people with whom ActionAid works – the landless, marginal and subsistence farmers and women. The poor are excluded because, as noted by DFID “small-holder participants in contracting schemes are from the wealthiest strata of rural communities”. Whilst contract farming seeks to enable farmers to access value chains, research has found that this is only successful for 2-10% of small-scale producers<sup>21</sup> and that only 5% have the resources and capital to integrate into such value chains.<sup>22</sup>

The costs for companies of providing inputs, credit and extension services and carrying out product collection and grading are disincentives for firms to contract with small-holders, so they often prefer to engage with medium or large-scale farmers.<sup>23</sup> A recent World Bank/UNCTAD analysis of investments in large-scale land acquisitions notes that “out-grower schemes tended only to be accessible to larger, better-off small-holders”, partly since many investors stipulated a minimum landholding as well as sometimes small-holders' own access to transport.<sup>24</sup> One example is rice contract farming in Cambodia, which has been found to be not inclusive of the poorest farmers and requires public sector support to lower the transaction costs of working with them.<sup>25</sup>

Many mainstream analysts see contract farming as a response to the wave of criticisms of land grabs, and thus as a possible alternative to the threat they pose.<sup>26</sup> The justification for this is that under contract farming, small-holders are meant to keep control of their land. Companies promoting contract farming can escape the accusations of displacing farmers and avoid the risk of being seen to exploit farmers through plantations. The Food and Agriculture Organization (FAO) notes that “contract farming with small farmers is more politically acceptable than, for example, production on estates”. Since many governments are reluctant to have large plantations, contract farming, particularly when the farmer is not a tenant of the sponsor, is less likely to be subject to political criticism.<sup>27</sup> Thus contract farming can be good “to strengthen the business image”.<sup>28</sup>

But it has been reported that **land acquisition and expropriation** does take place in contract farming schemes that involve resettlement or the creation of new plots (see case study in Tanzania below), and when schemes expand over time; this can encourage further land and resource acquisition and concentration.<sup>29</sup> The literature commonly points out that an advantage for companies of contract farming is that it can help

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20. DFID, 2014. *Agriculture and the Private Sector*. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/318353/AG\\_and\\_private\\_sector\\_final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/318353/AG_and_private_sector_final.pdf)
21. Vorley, B., Cotula, L. and M. Chan, 2012. *Tipping the balance: policies to shape agricultural investments and markets in favour of small-scale farmers*. IIED/Oxfam, London/Oxford
22. Seville, D., Buxton, A. and B. Vorley, 2011. *Under what conditions are value chains effective tools for pro-poor development?* IIED/Sustainable Food Laboratory, London/Hartland
23. De Schutter, O., 2011. *The Right to Food*, UN Special Rapporteur on the Right to Food, UN General Assembly, 4 August, [http://www.ohchr.org/Documents/Issues/Food/A.66.262\\_en.pdf](http://www.ohchr.org/Documents/Issues/Food/A.66.262_en.pdf) p.7
24. World Bank/UNCTAD, 2014. *The Practice of Responsible Investment Principles in Large-Scale Agricultural Investments: Implications for Corporate Performance and Impact on Local Communities*, p.28, <https://www.responsibleagroinvestment.org/node/805>
25. Junning Cai et al, 2008. *Rice Contract Farming in Cambodia: Empowering Farmers to Move Beyond the Contract Toward Independence*, ADB Institute, June, <http://www.adbi.org/discussion-paper/2008/06/05/2582.rice.contract.farming.cambodia/>
26. See, von Braun J. and R. Meinzen-Dick, 'Land Grabbing' by Foreign Investors in Developing Countries: Risks and Opportunities', *IFPRI Policy Brief*, April 2009
27. FAO, 2001. Op cit. p.18
28. Anseeuw, W., undated. 'Contract Farming Rationale for Small-Scale Farmers and Agri-Businesses', *Contracting Arrangements*, Vol.1 No.2, USAID/NEPAD Business Foundation, undated. p.4 <http://www.fao.org/ag/ags/contract-farming/ags-library/library-document-detail/en/c/171630/>
29. Smalley, S., 2013. *Plantations, Contract Farming and Commercial Farming Areas in Africa: A comparative review*, April.,p.53, [tp://www.future-agricultures.org/component/docman/doc\\_download/1710-plantations-contract-farming-and-commercial-farming-areas-in-africa-a-comparative-review](tp://www.future-agricultures.org/component/docman/doc_download/1710-plantations-contract-farming-and-commercial-farming-areas-in-africa-a-comparative-review).

them secure access to land. The FAO notes that one advantage to companies is that contract farming “overcomes land constraints”. The FAO continues: “Most large tracts of suitable land are now either traditionally owned, costly to purchase or unavailable for commercial development....Contract farming, therefore offers access to crop production from land that would not otherwise be available to a company”.<sup>30</sup>

More worrying, contract farming can also be a form of disguised land grab. ActionAid has recently conducted an analysis of a sugar out-growers scheme in Tanzania which also involves a nucleus plantation at the centre of the project (7,800 hectares). In the first phase, despite opposition from some local communities, some 1,300 people will lose their homes or land, land that is often used for growing food. Many felt that they had not been adequately informed or consulted about the impacts the project will have on their livelihoods and their rights to food and land.<sup>31</sup>

Some of these resettled people might be included in the associated out-growers scheme (3,000 hectares) involving 1,500 small-holders but of those interviewed by ActionAid, none had any information about the scheme. This is critical since it is those farmers who stand to lose most from the project’s immediate impacts. Aside from basic information on the company website, ActionAid is not aware of written material in the public domain on this scheme. Free, prior and informed consent (FPIC) has not been demonstrated and the communities concerned cannot possibly assess whether the project will be positive or not. The absence of FPIC makes the whole project a land grab.

Criticisms of contract farming often focus on the **unequal power relationship** between a company and farmers, the latter providing a **form of cheap labour** and the company passing over production risks to small-scale producers.<sup>32</sup> There is great potential for trapping small-scale farmers in cycles of **debt**. Contracts create dependence by small farmers on the technology, credit, inputs and services provided by their contracting companies. Because contract farming mostly involves the use of intensive technologies in industrial agriculture, farmers may have to risk borrowing money to invest in agricultural production. They then may not earn enough money to cover their debts, a risk that is heightened when the contracting firm is the only buyer.

**Contracts have often been found to be inequitable** because of this power asymmetry. One recent review of 19 contracts from a FAO database shows how poor contracts are from the farmers’ perspective. Of the 19 contracts examined (in Brazil, Afghanistan, China, Honduras, South Africa, Thailand, Uganda and Zambia), only seven stipulated the duration of the partnership, and only five stated that the farmer had legal ownership of the land. The review found that: “The contracts contained few details on the specific inputs provided to farmers” although pricing details were clear in most cases. The review concludes: “Firms frequently fail to include basic detail in contracts, so that farmers are frequently not fully informed about the nature of the agreement they are entering into”.<sup>33</sup>

Olivier de Schutter, the former UN Rapporteur on the Right to Food, has outlined a number of further concerns over contract farming:<sup>34</sup>

30. FAO, 2001. *Op cit.* See also Prowse, M., 2012. *Op cit.* p.22. See also Anseeuw, W., undated. *Op cit.*

31. ActionAid, 2015. *Take Action: Stop EcoEnergy’s Land Grab in Bagamoyo, Tanzania.* [http://www.actionaid.org/sites/files/actionaid/take\\_action\\_-\\_stop\\_ecoenergys\\_land\\_grab\\_embargoed\\_report.pdf](http://www.actionaid.org/sites/files/actionaid/take_action_-_stop_ecoenergys_land_grab_embargoed_report.pdf)

32. FAO, 2001. *Op cit.* p.10

33. Prowse, M., 2012 *Op cit.* p.34

34. De Schutter, O., 2011. *Op cit.* p.8-12

**Adverse gender effects.** Women have less access to contract farming than men. The World Bank/UNCTAD's recent review of 24 agricultural investments in developing countries concluded that "virtually all out-growers were men" - only 1.5% were women.<sup>35</sup> Studies in Kenya, Uganda, Malawi and Senegal all found little or no female participation in various contract farming schemes.<sup>36</sup> In a sample of 59 contract farmers for French beans exported from Senegal, only one was a woman.<sup>37</sup>

Olivier de Schutter notes that "unless the framework for contract farming respects women's rights and is gender sensitive, it will undermine gender equality".<sup>38</sup>

Another review of contract farming notes: "The consequences for women can be quite negative. Local men might allocate land for contract farming that was customarily used by women, or muscle in on crops that were previously a female domain. Often, women, and other less powerful household members such as young men, are excluded from community discussions about contract farming schemes and have less chance of registering and participating".<sup>39</sup>

**Overspecialization and unsustainable export-orientated agricultural practices.** Olivier de Schutter remarks: "Contract farming is generally associated with the production of commercial crops for export, mono-cropping and forms of production that rely heavily on chemical fertilizers and pesticides, often with adverse repercussions for human health and for soil".

A critical point here is that "contract farming cannot serve as a broad-based strategy for rural development because it only makes economic sense for certain commodities in certain markets".<sup>40</sup> Contract farming is usually deemed to be viable with high-value, perishable crops bought by large buyers such as horticulture for processing or export, tea, tobacco, cotton and other commodities such as seed, dairy, poultry, rubber and oil palm. It is often deemed non-viable for staple grains, roots and tubers, pulses and horticulture for local consumption.<sup>41</sup> ActionAid strongly believes that participation in highly specialised supply chains does not often benefit the most vulnerable because it is capital intensive and often at the expense of local needs such as food security and local markets.

**The vulnerability of small-scale farmers to food insecurity.** Contract farming can lead the producer to shift from food crops to cash crops. Adverse effects on local food availability are reported from schemes in Kenya, Tanzania and India.<sup>42</sup>

That said, a recent comprehensive review of contract farming states that there is some evidence to support, and some evidence to refute, the argument that cash crop production under contract farming erodes food security and self-sufficiency. However: "There appears to be little evidence that contract farming actually

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35. World Bank/UNCTAD, 2014. *Op cit.* p.24

36. Schneider K. and M. Gugerty, 2010. *Gender and Contract Farming in Sub-Saharan Africa Literature Review*, University of Washington, March, pp.1-2

37. Maertens M. and J. Swinnen, 2009. *Are modern supply chains bearers of gender inequality?* Paper presented at the ILO-FAO workshop on Gender and rural employment: differentiated pathways out of poverty, 2009.

38. De Schutter, O., 2011. *Op cit.* p.11

39. Smalley, S., 2013. *Op cit.*, p.46

40. Minot, N., 2007. *Contract Farming in Developing Countries : Patterns, Impact and Policy Implications*, p.1, [cip.cornell.edu/dns.gfs/1200428173](http://cip.cornell.edu/dns.gfs/1200428173)

41. Minot, N., 2011. *Contract Farming in Africa: Opportunities and Challenges*, Presentation, 22 April 2011, <http://fsg.afre.msu.edu>; Holmes, S., 2012. *Key success factors and best practices in outgrower schemes*, Presentation, [www.emrc.be](http://www.emrc.be)

42. Smalley, S., 2013. *Op cit.*



improves food security contrary to the expectations of those who advocate commercialization of small-holders in developing countries".<sup>43</sup>

**Transformation of small-scale farmers into wage-earning agricultural labourers on their own land.** Olivier de Schutter notes that contract farming may not only lead to a loss of control over production, including which crops to produce and how to produce them, but "cause farmers to become essentially wage-earning agricultural labourers on their own land, but without the benefits associated with paid labour, such as minimum wages, sick leave and other legislated benefits".

Further concerns are identified in the literature:

**Some studies question whether incomes do indeed rise.** A recent study of maize contract farming in Cambodia concluded that contractors and middlemen are likely to gain but the income of farmers is not helped by contract farming.<sup>44</sup> A study of three sugarcane contract farming projects in Kenya found that farmers retained only 31-34% of the gross income, while the companies retained the rest. Their income was reduced by company-driven deductions over which farmers had no control. The study says: "It is widely acknowledged that low economic returns, high cost of inputs, poor road infrastructure and delayed responses to cane fires are directly controlled by the company to significantly depress farmers' incomes".<sup>45</sup>

### **Box 2: Key minimum requirements for appropriate contract schemes**

Broadly, the project must:

- not result in farmers' overspecialisation in certain crops to the detriment of building resilience and contributing to local food security;
- promote sustainable farming practices and not promote reliance on chemicals or expensive seeds, or lead to excessive debts;
- lead to higher incomes for farmers than they would otherwise earn, and compared to alternative models;
- substantially include women farmers and promote their rights;
- promote the land rights of farmers;
- apply free, prior and informed consent of those affected in terms of project design and implementation.

In relation to contractual terms, the project should:

- be negotiated transparently and fairly among the parties, providing adequate information at all times on the financial aspects of the project and the risks and likely impacts;
- consider alternative contract farming models;
- be regulated by a written contract spelling out the details and obligations of both the company

43. Smalley, S., 2013. *Op cit.*

44. Poch Kongchheng, 2010. *Transboundary Production in Agriculture: A Case Study of Maize Contract Farming in Cambodia* <http://www.mekonginstitute.org/our-publications/completetion-report-menu/10-research-paper-2006-2010/1-transboundary-production-in-agriculture-a-case-study-of-maize-contract-farming-in-cambodia.html>

45. Waswa, F., 2012. Contract Sugarcane Farming and Farmers' Incomes in the Lake Victoria Basin, Kenya, *Journal of Applied Biosciences*, <http://www.ku.ac.ke/schools/environmental/images/stories/research/potential2.pdf>

and the out-growers, and which must be written in a clear and understandable way with out-growers given sufficient time to review it;

- be transparent about how the price is determined, the duration of the project and how production inputs and other services are to be supplied and used by farmers;
- build in a clause for the renegotiation of the contract at agreed intervals, and specify the sharing of production and market risks among the parties;
- track and communicate performance to affected stakeholders to build accountability at the operational level;
- prevent unfair practices in buyer-farmer relations, and not prohibit or discourage farmers from associating with other farmers to compare contractual clauses or to address concerns or problems;
- have clear mechanisms for settling disputes.

The government should:

- act as a third party, or mediator, between the parties and not be a mouthpiece for the company sponsor;
- have appropriate legislation to ensure that farmers' rights can be enforced.

While proponents of contract farming often say it promotes **technology transfer** to farmers, a recent World Bank/UNCTAD study notes: "In some investment projects involving out-grower schemes and contract farming...the actual transfer of technology is seldom up to the level announced by the investors".<sup>46</sup>

Contract farming could be seen by governments as an **excuse to neglect their duty to support farmers** with the provision of public goods.<sup>47</sup> This is a major concern with current big projects such as SAGCOT and the Beira Corridor where much faith is being put in the private sector to deliver gains to small-scale farmers.

## Conclusion

The evidence reveals that most existing contract farming and out-grower schemes are not an appropriate development model to tackle poverty and hunger. National government support to agriculture - especially public investment targeted at the poor, small-holder farmers and women rather than partnerships with large private companies - is proven to be one of the most important ways to achieve food security and alleviate poverty.<sup>48</sup>

46. World Bank/UNCTAD, 2014. Op cit. p.34

47. De Schutter, O., 2011. Op cit. p.7

48. See for example ActionAid, 2010. Fertile Ground: How governments and donors can halve hunger by supporting small farmers. [http://www.actionaid.org.uk/sites/default/files/doc\\_lib/fertile\\_ground.pdf](http://www.actionaid.org.uk/sites/default/files/doc_lib/fertile_ground.pdf). Also ActionAid, 2014. Sowing the Seeds of Success: The Case for Public Investment in African Smallholder Agriculture. [http://www.actionaidusa.org/sites/files/actionaid/aa\\_sowing\\_seeds.pdf](http://www.actionaidusa.org/sites/files/actionaid/aa_sowing_seeds.pdf)



**ActionAid** is a global movement of people working together to achieve greater human rights for all and defeat poverty. We believe people in poverty have the power within them to create change for themselves, their families and communities. ActionAid is a catalyst for that change.

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### **Contract farming and out-grower schemes**

Appropriate development models to tackle poverty and hunger?  
ActionAid, March 2015.

The initial research for this briefing was conducted for ActionAid by Mark Curtis.

**COVER PHOTO: Consolata Amboka** is one of very few women involved in an outgrower scheme, growing sugar in Kenya. But she says that she has not received any real benefit from her labour.

PHOTO: STEPHANO MARIUS VAN GRAAN/ACTIONAID