

# **Training for Contract Farming Coordinators and Field Agents**



# Introductions

# Session 1: Objectives

By the end of the session participants will be able to describe:

- the advantages and potential risks of contract farming for farmers & companies
- the prerequisite factors for successful implementation of contract farming
- different types of contract farming
- different types of price fixation and pricing policies

- duties and responsibilities of company coordinators/ field agents
- selection criteria of lead/ individual farmers
- techniques of evaluating lead/ individual farmers
- the key points of agreements between company & farmers
- techniques of monitoring performance at all stages
- key issues to consider for successful procurement

# *What is Contract Farming?*

- Contract farming can be defined as an agreement between farmers and companies for the production and supply of agricultural products under forward agreements, frequently at predetermined prices.
- The arrangement also invariably involves the purchaser in providing a degree of production support through, for example, the supply of inputs and the provision of technical advice.

- The basis of such arrangements is a commitment on the part of the farmer to provide a specific commodity in quantities and at quality standards determined by the purchaser and a commitment on the part of the company to support the farmer's production and to purchase the commodity

# What are the advantages of contract farming for farmers?

- Inputs often supplied by the sponsor
- Introduces new technology and varieties (resulting in improved yields and income)
- Enables farmers to learn new skills (that can be also be applied to other crops)
- Price risk reduced
- Assured market
- Opens up new markets which would otherwise be unavailable to small farmers

# Example of Benefit for Farmers (tomato production in India)

- Hindustan Lever contracted with 400 farmers in northern India to grow tomatoes for paste. Through the introduction of hybrid seeds and an assured market, yields and incomes of the contracted farmers were 64 percent higher than those outside the CF operations.

# What are the potential risks of contract farming for farmers?

- Farmers face risks of market failure and production problems
- Inefficient management from sponsor company or changes in markets can result in manipulation of quotas
- Sponsoring companies may be unreliable or exploit a monopoly position
- Staff of sponsoring organizations may be corrupt
- Farmers may become indebted because of production problems and excessive advances

# What are the advantages of contract farming for companies?

- More consistent quality can be obtained than if purchases were made on the open market
- More reliable source of supply than with open-market purchases or imports
- Working with farmers overcomes land constraints
- Production risk is shared with the contract farmers
- Contract farming with small farmers can be more politically acceptable than estate farming

# What are the potential risks of contract farming for companies?

- Farmers may sell outside the contract
- Farmers may divert inputs supplied on credit to other purposes, thereby reducing yields
- Poor management and lack of consultation with farmers may lead to farmer discontent and jeopardize the CF operations
- Contracted farmers without control of the land may run into problems with landowners that can affect sales to the company

# What are the key preconditions of successful contract farming?

- Profitable Market
- Physical and Social Environment
- Government Support

# A PROFITABLE MARKET

## The company

- Must have identified a market for the planned production
- Must be sure that such a market can be supplied profitably on a long-term basis

## The farmer

- Must find potential returns more attractive than returns from alternative activities

# THE PHYSICAL AND SOCIAL ENVIRONMENTS

- **The physical environment** (climate, soil fertility, topography, etc) must be suitable for the product to be produced in Contract farming
- **Utilities and communications** must be suitable (feeder roads, water, electricity for processing, etc.)
- **Land availability and tenure** – contracted farmers require unrestricted access to the land
- **Input availability** – sources of inputs need to be assured

# GOVERNMENT SUPPORT

- Suitable laws of contract are required as well as an efficient legal system
- Governments should provide services such as crop research and new varieties
- Government can provide incentives for companies to engage in contract farming (tax breaks, special access to seeds, etc.)

# What are the different types of contract farming?

- **Centralized Model**
- **Nucleus Estate Model**
- **Intermediary Model**

**Contract farming usually follows one of these broad models, depending on:**

- **the product**
- **the resources of the company, and**
- **the intensity of the relationship between farmer and company that is necessary**

# The centralized model

- Involves a centralized company contracting directly with large number of individual farmers
- Is typically used for high value export crops, tree crops, poultry, and dairy.
- Products often require a high degree of quality and need to meet international specifications

*Do you know any examples from Bangladesh or elsewhere?*

# The nucleus estate model

- The company owns and manages a large estate plantation that gives them a percentage of their required production
- To meet their total requirements they also carry out contract farming

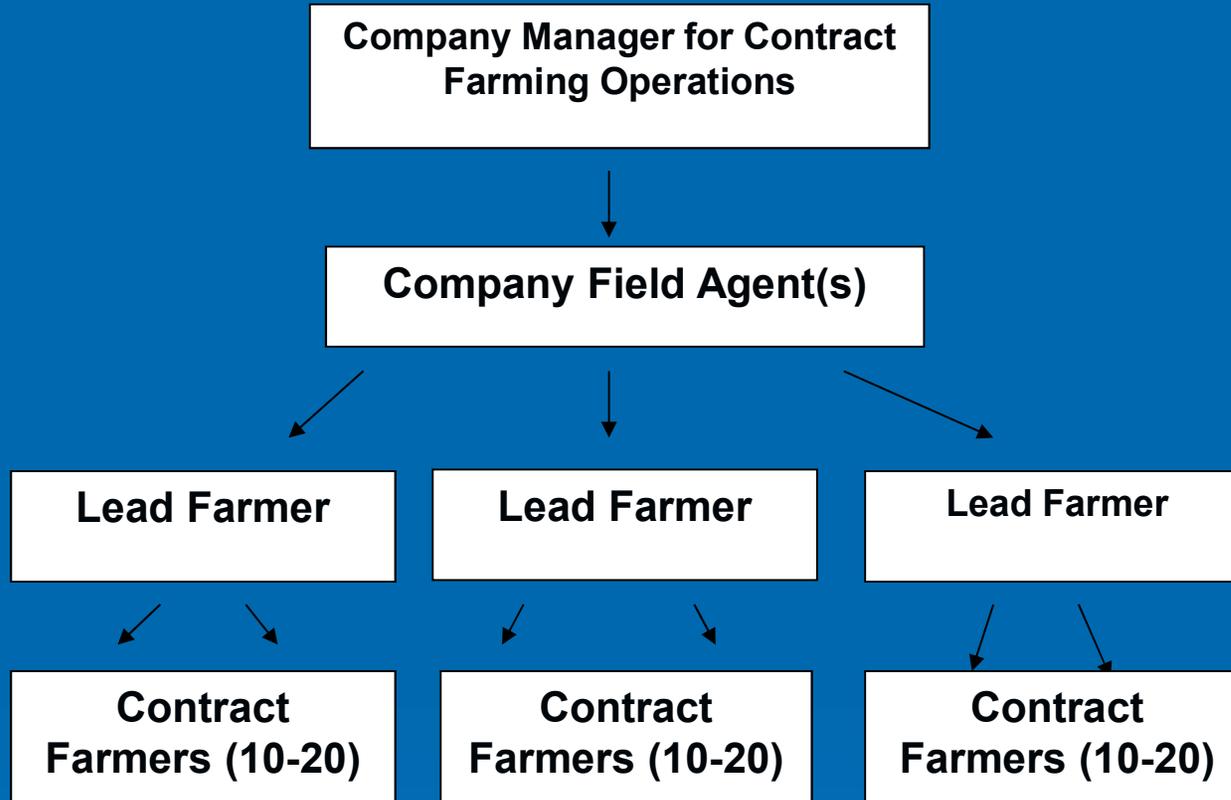
*Do you know of examples from Bangladesh or elsewhere?*

# The intermediary model

- Company contracts with lead farmers (intermediaries) who in turn contract with individual farmers

*Do you know of examples from Bangladesh or elsewhere?*

# INTERMEDIARY MODEL OF CONTRACT FARMING



\* Local office in production zone can evolve to include accountants, warehouse staff, other workers, etc.

## What are the advantages and disadvantages of the different models?

- Centralized model provides greater control over the production process but is more expensive to implement
- Nucleus estate model gives company complete control over their plantation but this entails high investment and management challenges
- Intermediary model is less expensive and entails less investment and financial risk but ability to control quality and production is less (also difficult to control what goes on with the individual farmers)

# Contracts and their specifications

# Three Types of Contract Agreement

- **Formal agreements** - legally endorsed contracts which detail obligations of each party
- **Simple registrations** - farmer signs a register indicating their agreement to participate
- **Verbal agreements** - no documentation

## What should be included in a contract agreement with a lead or individual farmer?

- The duration of the contract
- The quality standards required by the buyer
- The farmer's production quota
- The cultivation practices required by the buyer
- The arrangements for delivery of the crop
- The way in which the price is to be calculated
- The quantity of seed or other inputs given as a loan (including price of these inputs)

# What are different strategies that companies can use to set purchase prices with contract farmers?

- Fixed prices
- Spot market pricing
- Split pricing

# Fixed prices

- Price specified in the contract at the beginning of the season
- Different rates for different grades can be specified

# Prices determined on spot- market price

- Determined by a price fixing committee at specific times after the harvests
- In many cases the price that is fixed is slightly higher than the market price

# Split pricing

- An agreed base price is paid at the time of purchase
- Final price is calculated (and paid) once the commodity is sold by the company

# Mock Drama

Company field agent meeting with lead farmer

***What are the advantages and disadvantages of each pricing strategy?***

# Fixed Pricing

- Easier for company to do financial planning
- Farmer has guaranteed price
- Company may have to pay price higher than market price (farmer receives higher price)
- Company may pay price lower than market price (farmer receives lower price)
- Farmers may refuse to sell if market price is higher

# Spot Market Pricing

- Companies can be assured of getting production from farmers by paying price slightly higher than market price
- Farmers price will vary depending on market – could be high and could be low (compared to cost of production)
- Company expenditures will vary – could be high or low (high costs could affect profits)
- Requires establishing a price fixing committee / could be debate over market prices

# Split Pricing

- Farmers receive final payment at a later date
- Shares risk between company and farmer based on final market price received by company
- Calculations could be complicated and questions could be raised about the reliability of figures
- Company may have to share market price information that is confidential

# *What are the responsibilities of the company CF Coordinator?*

- Report to company management
- Supervises day to day jobs of CF field agents
- Monitors the lead farmers activities
- Coordinates with all stakeholders including government, agriculture officials + private sector (input providers, transporters, warehousing facilities, etc.)
- Approve logistical support to field agents
- Prepare budgets for CF operations

## CF Coordinator Responsibilities (cont)

- Financial arrangements, particularly during procurement
- Sourcing and distribution of seeds
- Monitoring and participation in training activities for contract farmers
- Promote linkages between contract farmers and third parties (input suppliers, banks, etc.)
- Sign contract farming agreements
- Participate in price fixing

# *What are the responsibilities of the company CF Field Agents?*

- Reports to CF Coordinator
- Participate in identification of lead farmers and land selection
- Coordination and documentation of seed distribution
- Regular monitoring/meetings with lead farmers and contract farmers
- Coordination + monitoring of demonstration and experimental plots
- Evaluation of lead farmers

# Field Agent Responsibilities (cont)

- Assist in preparation of budgets for CF operations
- Participation in organizing and delivering training activities for contract farmers
- Promote linkages between contract farmers and third parties (input suppliers, banks, etc.)
- Maintain amicable relationships with local officials
- Assist in organizing procurement + post harvest activities

## ***What are the skills and attributes required of both CF Coordinators and Field Agents?***

- Knowledge on general crop production and post harvest practices
- Ability to motivate farmers, maintain good relations, and disseminate knowledge to achieve desired production
- Ability to coordinate logistics of input procurement, distribution, production monitoring, farmer training, post harvest handling, and transportation

- Amicable personality and leadership quality
- Ability to develop and negotiating contract agreements with lead farmers
- Ability to develop cost effective solutions to CF operations (transport, packaging, etc.)
- Ability to compile progress reports and communicate through email

# Management of Contract Farming Operations

- **“Poor management can cause potentially promising contract farming ventures to fail”**

# Contract Farming Management Includes:

- **Selecting Contract Farmers**
- **Monitoring and Evaluation of Contract Farmers**
- **Sourcing and Distributing Inputs**
- **Training and Field Extension**
- **Farmer/ Management Relations**
- **Procurement Arrangements**

# Selecting Farmers

- Management must decide how many farmers should be offered contracts and the criteria for their selection.

## *How can you identify lead farmers?*

- Farmers can be approached individually, through the offices of agriculture departments, through community leaders and farming cooperatives, or by an open invitation to apply.

## ***What are criteria for selecting lead farmers or individual contract farmers?***

- Practical experience on the targeted crop
- Resource (fund & equipments) to cultivate selected crop
- Track record of success with the targeted crop
- Residence in the target area
- Suitability of his (and group members) land for targeted crop
- Good reputation in the community (honesty, integrity, etc with local community, leaders, and businesses)

- Contract farmers must have their own land or acceptable leasing arrangement (not arrangement where farmer must give percentage of production to owner)
- Ability to read, write, and record simple figures.
- Not involved with competing companies for targeted crop
- Have time to devote to contract farming activities and his group (if lead farmer)
- Ability to communicate clearly

# *What are criteria for the evaluation of Lead Farmers?*

- Success in delivering agreed upon production quotas (for himself and his group)
- Success in delivering products according to company quality specifications
- Success in respecting the agreed upon production and procurement schedule

- Success of lead farmer in distributing inputs (provided by company) to contract farmers
- Timely and accurate dissemination of information to farmers
- Good monitoring of group members fields
- Maintenance of good relationships with farmers and company agents

# *Lead farmer remuneration*

- **Commission for different CF activities such as**
  - **seed distribution**
  - **produce collection**
  - **CF field monitoring**
  - **organizing ICFs for training**
  - **Gift/Souvenir etc**

## ***What can be done to ensure timely and quality distribution of seeds or use of other inputs?***

- Timely arrangements for the ordering and supply of inputs and provision to farmers (with development of schedules)
- All inputs should be ordered and supplied to the farmer well in advance of sowing/ transplanting
- Planning of logistical support for input delivery and product transport
- Promote linkages with reputed input suppliers (possibility of assuring good quality, discounts, engaging suppliers in farmer training, etc.)

## *Seed Distribution*

- **Seeds should be given to the farmers either on credits or by cash sales.**
- **Preferred to distribute on the day of training.**
- **If distributed later, Field Coordinator should be there at Lead farmers premises from where ICFs will collect the seeds.**
- **Money for seed sale should immediately be deposited to the company's account.**

## ***What Are Examples of Field Extension and Training Activities for CF Operations?***

- Introduction of new varieties, new production techniques, application of inputs, drying and post harvest management, etc.
- Use of demonstration and experimental plots
- Training activities at different phases of production at different sites in the CF area
- Development and communication of cropping schedules to farmers to ensure the correct timing and sequencing of activities

# *Demo and Trial Plots*

- **Special Care and Effort should be provided.**
- **Should be sown in time.**
- **Intercultural operations including irrigation should be done as and when necessary.**
- **Sowing should be done in line at proper moisture level.**
- **Plot should be along side of the main road.**
- **Size of the plots should be smaller or manageable.**
- **Data should be collected timely for each observation.**
- **Lay out of the plot (s) should be followed.**
- **Demo plot visit materials should always be kept ready for demonstration.**
- **There should be definite work plan for the Demo and Trial plots.**

## *Data collection*

- **Data from Demo and Trial plots need to be collected in time for each observation.**
- **Date and quantity of each operation should be recorded.**
- **One ICF's plot will be defined and all data to be collected in addition to Demo and Trial plots.**

## *Training for the JCF*

- Three phases of the training should be done at right time.
- Training venue should be near to the Demo plot.
- Initiative should be taken so that all/most Participants can attain the training.
- Food packs for trainees should be reasonably identical.
- Orders for the foods can be given from the hotels that is/are nearer from the training venue.
- Initiatives to be taken so that all trainees could come in time.
- No of trainees per batch should be reasonably within 30.
- Always use flip charts to make it more participatory.

## *Miscellaneous.....*

- Always think positively. Before placing any problem to higher officials, think 1<sup>st</sup> and provide some alternative solutions to that problem.
- Follow Lead farmer-ICF ratio as 1:25.
- Updates all formats/registers regularly.
- Select LF and ICF based on selection criteria.
- Use coaching team (Expert farmer) more frequently.

- **Develop strong linkage with local input suppliers.**
- **Test representative soil from CF areas so that farmers can be advised proper and right doses of fertilizer.**
- **Test the seeds for germination before planting.**
- **Prepare different sample grades for different price before procurement for better understanding of the farmers.**
- **Advice farmers to put sticks in the field for birds (natural pest control)**

# *What can be done to promote strong Farmer-Company relations?*

- Farmer-management forums which link management and farmers for purposes of interaction and negotiation
- Company participation (by field coordinator/ agents) in community affairs and social events which creates a positive atmosphere of partnership

# *How can monitoring be conducted and why is it useful?*

- Extension staff need to carry out routine visits to farms, the frequency being determined by the nature of the crop, the number of farmers, and the CF model being used
- Formal monitoring of the crop at all stages can help to address problems in advance and ensure success
- All field activities, with dates, should be documented (field movement register)

# *What can be done to promote good procurement arrangements?*

- Development of strategy for pick-up/delivery - several options including:
  - lead farmer delivers production to company factory or warehouse
  - company agrees to pick up at lead farmer premises
  - delivery by lead farmer to transit warehouse)
- Development of procurement schedule (conducted by CF Coordinator together with lead farmers and field agents)

# Promoting good procurement arrangements (cont)

## ➤ Arrangements of logistics

- Bags
- Trucks
- Buying staff
- Warehousing
- Packing materials
- Payments (see next slide)
- Etc.

## ***What are different ways that payments can be arranged for lead farmers and farmers in their group?***

- Payment to lead farmer only
- Direct payment to all participating farmers
- Cash payments
- Payment by check
- Payment by bank voucher

# ***PROCUREMENT ISSUES***

- **Training of staffs (Including procurement)**
- **Schedule of procurement**
- **Unavailability of produce at the procurement place**
- **Availability/unavailability of transport**
- **Transit store management**
- **Loss incurred due to penalty of trucks, staff movement**
- **Cost, procurement duration extended**

# *Responsibilities during procurement*

## Responsibilities for the company

1. **Develop procurement Schedule in a team of different crops mentioning LF wise area, period, intake quantity, quality parameters, procurement centre etc.**
2. **Make arrangement of all buying logistics and ensure availability of the procurement materials beforehand such as gunny bags, twin, needle, Bonga (sample drawing appliance), and most importantly the moisture meter.**

**Continued.....**

# Responsibilities during procurement

*Continued.....*

3. Selection and deployment of procurement team for different crops/locations.
  - For overall management (supervising systems and disciplines, managing situation, decision giving, quality monitoring, day to day planning, acts as 2nd signatory etc.). In absence of Coordinator-need one person to perform.
  - For fund management/disbursement (Temporary deployment of one accounting staff from the company)
  - For stocks maintenance and shipment.
  - Staffs for quality assurance.
  - Security
  - Buying and handling gang (2/3, seasonal and rest on daily basis)

*Continued.....*

# *Responsibilities during procurement*

*Continued.....*

4. Training of the procurement team on
  - Quality aspects
  - Testing the quality
  - Weighing methods
  - Tagging the bags
  - What to be done if materials are at high moisture content, admixing and presence of foreign particles and so on

*Continued.....*

# *Responsibilities during procurement*

*Continued.....*

5. Accommodation of temporary buying staffs at the location.
6. Fixing the price of the crop with price fixing committee.
7. Reviewing the price periodically and re-fix if necessary.
8. Transport management
  - Decide whether own transport. If it is how it can be synchronized with other company function
  - Whether it is hired, make sure availability on time for the transportation. Fix rate for a period/individual shipment
9. Easy and quick movement of the procurement staffs.
10. Arrangement of fund and allocation of fund according to Procurement schedule

*Continued.....*

# Responsibilities during procurement

*Continued.....*

11. Bank accounts open in different crop growing areas for payment of the crop and selection of signatory (s) for operating the accounts.
12. Arrange of funds and allocation of funds according to procurement schedule as agreed between Co and Bank.
13. Payment system should be developed and should be transparent, ensuring that the farmers get their actual dues.
14. Receiving: Decide whether procured material will be dried preliminary at the buying point and there after send to the factory or procured material to be sent directly to the factory. In that case care should be taken for preliminary drying and storing. There should be a receiving team following the quality, weight etc.
15. Storing: Storing should be done in well fashioned manner so that periodical checking can be done easily and reconciliation can be done at low cost and faster and fumigation can be done more conveniently.

*Continued.....*

# *Responsibilities during procurement*

*Continued.....*

## Responsibilities for the lead farmers

1. Assist and organize in crop procurement. Ensure all fairness during procurements. Ensure achievements on target quantity, specified quality.
2. Ensure all outstanding loans are realized.
3. Educate ICF about the quality parameters of the crop.
4. Ensure strict discipline is maintained in procurement point.
5. Ensure competition is not taking away company contract farmers produce.
6. Organize contract farmers to bring their quality produce in time
7. Help in scheduling procurement like area, period, intake quantity, procurement centre etc.

*Continued.....*

# *Responsibilities during procurement*

*Continued.....*

8. Ensure availability of procurement materials beforehand such as gunny bags, twin, needle, bonga etc together with the FA.
9. Ensure proper weight of the materials.
10. Help in fixing the proper price of the produce.
11. Help in re-fixing the price if necessary.
12. Advice the ICF's about money receiving system

*Continued.....*

# *Responsibilities during procurement*

*Continued.....*

## For the individual contract farmers

1. **Harvest crop at the proper maturing stage.**
2. **Dry and clean the crop properly.**
3. **Prepare goods according to the set quality parameters.**
4. **Bring goods according to the schedule.**
5. **Follow advice of lead farmers and company staffs.**
6. **Receive money for the sold goods in time.**
7. **Check whether the lead farmers charging extra money.**

# CONTRACT FARMING APPROACH

- Selection of general geographic area
- Selection of lead farmers  
(including information on group members)
- Signing of agreements with lead farmers
- Distribution of inputs
- Monitoring of production
- Procurement of production
- Payment
- Storage and Shipment

# Review of Objectives

By the end of the session participants will be able to describe:

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