

Five Key Points

1. Challenges and constraints the 'Contract Farming' addressed:

- Rural smallholder farmers lack linkages to markets;
- Lack access to agriculture advisory services and information on buyer/market requirements;
- Inconsistency in supply of produce
- Low price offered in the open market.

2. Objective

- Link rural smallholder farmers to markets, secure income source and food supply, and improve livelihood.

3. Methodology

- i) Capacity development
- ii) Negotiation between farmers and buyers.
- iii) Designing and signing of Contract
- iv) Stakeholder engagement/ consultation

4. Highlights of the result

- Contract Farming practice benefits rural smallholder farmers, through a signed agreement with a buyer;
- Proper consultations and trainings enabled farmers to access the right information, knowledge and support required to engage in Contract Farming agreement;
- Contract Farming formation phase involves transparency, that secures trust and confidence of both parties leading to signing of an agreements.;
- Contract Farming uses participatory approach, that involves women and youths in the Contract formation phases, and also fully engaged in farming activities, maintaining records, and monitoring of the agreement.

5. Recommendation

- Contract Farming is a Good Agriculture Practice (GAP) to be taken seriously and replicated by rural smallholder farmers, to achieve sustainable production, improved income, access markets, and raised living standards and livelihoods.

“Smallholder farmers benefit from Contract Farming”

Introduction

- At the heart of 'Contract Farming' lies an agreement between farmers (producers) and buyers: both agree in advance on the terms and conditions for the production and marketing of farm products.
- Contract Farming has been successfully practiced by a group/cluster of smallholder farmers, named 'Drekenivuci Ginger Farmers', located in the Naloto District of Tailevu Province, Central Division on the South Eastern part of the main island of Viti Levu.
- Drekenivuci Ginger Farmers consist of ten members, age 20 to 50 years, seven males and three females.
- Members of the Drekenivuci Ginger Farmers participated at an FAO funded Contract Farming training, organised by the Fiji Crop Livestock Council in 2017.
- The training helped raise awareness and understanding of the Contract Farming concept, that led to coordination, linkages and negotiations between interested farmers and buyers to have a formal business partnership arrangement.
- A one year agreement was signed in April 2018 by the 'Drekenivuci Ginger Farmers', with a reputable Ginger buyer and exporter, Kaiming Agro Processor Limited (KAPL). The one year Contract Farming agreement was successfully carried out, that led to a three year extension of the existing agreement to expire in 2021.
- KAPL has built a solid reputation as one of Fiji's leading agricultural exporters of ginger products to the USA, EU, Australia and NZ markets (Picture 1)



Picture 1: KAPL Managing Director Kaiming Qiu at his Ginger factory, Navua, Fiji

- Rural smallholder farmers in Fiji have little knowledge on Contract Farming practice, and relied more on open market selling, from the farm gate, local markets or through the middlemen/ agents.
- The Drekenivuci Ginger Farmers were initially engaged in grazing and livestock farming, and shifted to ginger farming after attending the Contract Farming training in 2017 (Picture 2).



Picture 2: Drekenivuci Ginger Farmers at the farm.

- Total land planted was 3 acres, under the first Contract agreement of 2018. Total volume of ginger produced and sold to KAPL was 11,506 kg. Drekenivuci Ginger Farmers raked an income of 13,424.48 dollars (FJD) within six months from the agreement.
- The second Contract agreement was signed in April 2019, for a three year period. Total land size to be planted is 5 acres, with projected income of 110,000 FJD. There are lessons learned from the first harvest, which KAPL and Drekenivuci Ginger Farmers have rectified in the three year agreement, in order to raise production and income level for the farmers.

- Under the 3 year agreement signed in April 2019, KAPL will provide agriculture advisory services such as land preparation, planting method, and post harvest process.

Challenges, constrains, needs or gaps the Contract Farming practice is trying to address

- Contract farming has been practiced or implemented to address challenges arising from the impact of Globalization processes that led to significant transformations within the agribusiness sector and changes in the demand for agricultural products worldwide.
- As poverty is more prevalent in rural areas and at the same time smallholder farming is central to food security, Contract Farming practice has increasingly been seen as a key mechanism to address these aspects as opposed to traditional, open-market procurement strategies.
- Through Contract Farming, rural farmers can secure reliable markets, access information on buyers/market requirements, including biosecurity laws and regulations of overseas markets.
- Agriculture advisory services (AAS) are specifically focused on technical aspect of farming, with lack of commercial, financial literacy, business management and climate smart farming practice advice. Contract Farming enable farmers to access these support services and advice from the buyer including technology innovation.
- A buyer of agricultural products need to work more closely with the farmers or partners in the supply chain in order to ensure that they can consistently and sustainably source sufficient quality raw materials/produce.

Methodology

i. Capacity development

- Fiji Crop Livestock Council, in coordination with the Ministry of Agriculture conducted four trainings on Contract Farming in 2017 & 2018, targeting farmers, farmers' organisations, buyers, agri-food processors, and exporters in the Central, Northern and Western Divisions of Fiji, funded by the UN FAO.
- Purpose of trainings was to educate the participants and raise awareness on the Contract Farming concepts and principles, types, costs and benefits, associated risks and how to mitigate risks. Training methods used are classroom

lectures, case studies group work exercises on real life experience on Contract Farming, plenary discussions and field excursions to commercial farms that practiced Contract Farming.

- Notes on Contract Farming principles were translated in Fijian (iTauke) Language by the Fiji Crop Livestock Council, ensuring all rural farmer participants fully understand the concept.

ii. Negotiation between farmers and buyers

- Follow up meetings were organized for the farmers and buyers, who expressed interests in Contract Farming practice. Fiji Crop Livestock Council act as facilitator between the Drekenivuci Ginger Farmers and the buyer (KAPL) at the initial negotiation for a 'win-win' arrangement for the two parties.
- The Drekenivuci Ginger Farmers were involved in discussions with KAPL, from the beginning of the negotiation and contract formation phases, to make sure they understand all the conditions included in the contract, and to ensure that their interests and rights are considered (Figure 1).

Figure 1: Importance of the negotiation phase

- Negotiation stage is important as during this phase, the buyer provides the offer to farmers, which outlines the conditions of the contract. This offer should be presented to farmers in writing, allowing several days for reviewing the document, so farmers have enough time to understand the proposed conditions and, if needed, consult with advisors for support.
- It is important that farmers need to understand well all the conditions they are about to agree to, and they should be prepared to ask questions and request changes to certain clauses related to pricing, quality, payment and product delivery if they seem unfair or impossible to achieve.

iii. Signing of the Agreement between farmers and buyers

- Signing of the contract between Drekenivuci Ginger Farmers and KAPL was made after a full agreement on all the conditions had been reached by both parties, following the negotiation and exchange of information, buyer offers presentation, farmer acceptance and contract preparation phases (Figure 2).

Figure 2: Contract formation stages



- It took three months for KAPL and Drekenivuci Ginger Farmers to complete the Contract formation stages and sign the agreement.

iv. Stakeholder Consultation & Engagement

- Consultations were held with the key stakeholders, namely the Ministry of Agriculture to provide agriculture advisory services (AAS), Fiji Development Bank for financial support services, leader of the Fiji Ginger Farmers Organisation and Fiji Crop Livestock Council who facilitated the Contract Farming formation process.
- Drekenivuci Ginger Farmers have prepared a Business Plan for the three year agreement with KAPL, in consultation with the Fiji Crop Livestock Council, and Fiji Ginger Farmers Organisation.

Key Findings

- General results achieved from Contract Farming practice include long lasting trust and business partnership between the farmers (Drekenivuci Ginger Farmers) and buyer (KAPL) as reflected in the three year agreement they signed.
- As part of the Contract Farming best practice the whole contract formation process has been carried out in a fair and transparent manner and in good faith.
- Both parties understood the principles, benefits, risks and how to mitigate risks, before signing the agreement.
- Drekenivuci Ginger Farmers were initially consulted for decisions and the choice of farm land, soil type, soil depth and quality, land slope and water resources, previous land usage and possible crop rotation system. With the deeper understanding of the farmers' environment, KAPL can assess the farmer's production capacities as well as possible impacts on the environment. For the success of Contract Farming practice, the willingness of the buyer to learn from farmers' experiences and knowledge is crucial.

- Engaging in Contract Farming open up a potential market for rural smallholder farmers, with pre-agreed pricing, agreed quota/volume of ginger and type, agriculture advisory services (AAS) include new planting techniques, increase production and revenue.
- The major advantage to the buyer is the consistent supply of produce, conforming to quality and safety standards. Production under Contract Farming agreement is usually more reliable than in open market purchases and the buyer faces a lower risk.
- Rural or smallholder farmers may find it difficult to understand the clauses included in a contract, and assistance is to be provided in explaining the contract terms in detail. It is also important to seek legal advice before signing a Contract agreement.
- Ongoing monitoring of the contract farming activities is imperative, to identify new developments or discrepancies that needs contractual amendments, technological modification or reorganisation of the agreement structure.

Recommendations and Conclusions

- Contract Farming practice has been proven as an effective model connecting rural smallholder farmers to the buyers/markets, secure more stable income, reduce price related risks and improve production and management skills for the Drekenivuci Ginger Farmers.
- Clustering the rural smallholder farmers is appropriate for Contract Farming model, as they can consolidate resources and consistently supply significant volume of raw materials, that meet buyers demand and requirements, in terms of consistency in supply of produce/raw materials, and conformity to quality and safety standards.
- Government through the Ministry of Agriculture, Fiji Crop Livestock Council, Fiji Ginger Farmers Organisation, donor funding implementing agencies (UN FAO) have provided relevant support in driving Contract Farming as a more inclusive business model for agricultural investment, and a tool with which to redress economic power imbalances in relationship between small- scale rural farmers/ producers and agribusiness.
- Participatory and inclusiveness of women and youths are practiced in Contract Farming. Women are very good in recording yields, keeping books in order, and monitoring every transactions and farming activities.
- Contract Farming practice is highly recommended to be replicated by rural smallholder farmers in Fiji, to follow the contract formation phases successfully implemented by the Drekenivuci Ginger Farmers.

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