Facilitating a fair and socially responsible contract farming scheme in the rice sector in Myanmar

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1. Introduction

Contract farming is a well-known mechanism to coordinate agricultural production and trade. It helps agricultural producers, processors, traders and distributers to plan and improve their production and procurement systems. For agricultural producers, contract farming can offer improved access markets, technologies, agricultural inputs and credit facilities. It has the potential to reduce risk of fluctuating prices or natural disasters and can significantly enhance productivity. And for traders, processors and distributers of agricultural products, contract farming becomes more and more a means to secure continued supply of high-quality agricultural produce.

Usually contract arrangements define quantity and quality of produce, timing of delivery and pricing modalities. It may also specify the desired processes for agricultural crop production and postharvest management. Recent transformations in food and agricultural systems make it increasingly difficult to meet consumer demands based on open-market procurement. And through increasing food safety requirements and growing competition for land and water, contract farming is further gaining importance (UNIDROIT, FAO and IFAD: 2015).

This study is a mandate of the Climate Smart Rice (CSR) Project that is implemented by the United Nations Environment Programme (UNEP), Sustainable Rice Platform (SRP), Helvetas Myanmar and Prime Agri and is funded by Norwegian Agency for Development Cooperation (NORAD) and Swiss Agency for Development and Cooperation (SDC). The objective of the study is to support the facilitation of fair and socially responsible contract farming arrangements in the rice sector in Myanmar, particularly in the project target areas. The report consists of the following components:

1. Legal framework for contract farming in Myanmar
2. Lessons learned on fair and socially responsible contract farming systems globally and from Myanmar
3. Key elements of a contract farming agreement
4. Guidance for discussion on contracting terms: options for key elements of a contract (for discussions between producers and buyers)
5. A sample contract farming agreement adapted by the contracting parties (rice millers and farmers)

These components shall support contracting parties and facilitators to define contract farming arrangements that are fair for both, the producers and the companies, inclusive as well as scalable to a higher number of rice producers in the project area.

1.1. Methodology and Process

The first step of the study was **review of the legal context for contract farming** in Myanmar**,** particularly focusing the Standard Operating Procedures (SOP) developed by the Ministry of Agriculture, Livestock and Irrigation (MoALI) and the region level contract farming bill from Bago Region. This review was based on interviews and consultation with experts both from the public and the private sector and the producers.

In parallel, the authors assessed **lessons learned and experiences from a fair and socially responsible contract farming globally and from Myanmar**. This step based on literature research and was enriched by an expert meeting of the Swiss Forum for Rural Advisory Services[1] on contract farming. One of the insights is that a comprehensive contract is a precondition for a fair contract farming scheme, as it is the basis for an informed decision and realistic assessment of the opportunities and risks. Therefore, and for a general overview for facilitators of contract farming

[1] https://www.shareweb.ch/site/Agriculture-and-Food-Security/focus-areas-overview/ras/sfras

processes, in the subsequent part the study describes the **key elements of a contract farming agreement.**

Taking into account the lessons and the key elements, the study team also conducted interviews with rice farmers and rice millers in the project target areas. Due to the Covid-19 pandemic, these interviews were conducted individually and by phone, instead of the originally planned focus group discussions. The objective of the interviews was to assess the interests, expectations and critical thoughts of rice producers and buyers on a potential contract farming scheme.

Another lesson is that the contracting process (open and bilateral discussion between the signing parties) is crucial rather than a *"one size fits all product"* such as a model contract agreement template. That's why we developed **a range of options for defining the terms related to the key elements.** This will help facilitators and producers and buyers to have open discussions and agree on the key aspects.

As the final step, the team presented the options to the rice millers and farmers and based on that, the parties decided on the content of the contract. This served as a basis for the team to develop **a sample contract** adjusted to the requirements and priorities of the contracting parties - rice farmers and rice millers. The sample contract can be specifically adapted based on the selected options.

As a result of the entire process, this study compiles the following elements:

- PART A – Key lessons and experiences from fair and socially responsible contract farming schemes (see chapter 2)
- PART B – Contract faming agreement with options for contracting terms - a basis for the discussion on the contract terms between the signing parties (see chapter 4)
- PART C: Sample of contract farming agreement (see chapter 5)
- Annex 1: Summary of Standard Operating Procedure for Contract Farming
- Annex 2: Contract Farming Bill Bago State – unofficial translation
- Annex 3: Review of the Bago Contract Farming Bill
- Annex 4: Checklist for interviews with farmers
- Annex 5: Checklist for interviews with rice millers

2. PART A: Lessons Learned from Contract Farming Schemes

2.1. Contract farming – a definition

At the heart of a contract farming lies an agreement between producers and buyers. These contractual agreements usually specify several or all of the following aspects (compiled by the author, based on Prowse, 2012, FAO 2020 and Vermeulen 2010):

1. **Market conditions**, such as pricing modalities, timing of delivery of producer, quality and quantity of produce to be supplied and purchased, exclusivity for the produce
2. **Resource provisions**, such as pre-agreed supply of production inputs, provision of agricultural expertise in form of trainings and advise, loans, support to farm mechanisation,
3. **Production specifications**, such as compliance to production and labour standards, adherence to specified production methods, use of pre-agreed and supplied production inputs, adherence post-harvest management procedures, agricultural innovations
4. **Risk sharing mechanisms**, such as assurances or conditions to deal with production risks related to force majeure
5. **Jurisdiction processes**, such as the definition of the applicable law, the responsible authorities and processes in case of breach of agreements

There is a multitude of definitions of contract farming that refer to one or several of above aspects, but none covers all of them. One of the definitions covering the first three aspect is given by the FAO Contract Farming Resource Centre:

The buyer and producer "agree in advance on the terms and conditions for the production and marketing of farm products. These conditions usually specify the price to be paid to the farmer, the quantity and quality of the product demanded by the buyer, and the date for delivery to buyers. In some cases, the contract may also include more detailed information on how the production will be carried out of if inputs such as seeds, fertilizers and technical advice will be provided by the buyer" (FAO, 2020).

For enhanced comprehensiveness, the author proposes the following complementation of this definition:

In addition, the parties may agree on specific **risk sharing mechanisms** to address unequal allocation of risks. As with any other contract, contract farming underlies explicit or implicit jurisdiction processes in the case of breach of agreement by any one or both parties.

This study uses the above complemented definition of contract farming. It further uses the terms **producer** and **buyer** in a broad way: the term producer refers to any agricultural producer owning the necessary land-use right for the production of an agricultural good, independently of the farm size and labour structure. The term buyer stands for any party that buys the product. It includes agro-processing companies, traders, state-owned firms, or parastatal firms. The study also uses the term **third party**, which is jointly agreed by the producer and buyer, can be a leader of producer organisation, a designated public entity or institution (e.g. business membership organisation, civil society organisation or non-government organisation) supporting the contracting process, and sometimes even co-signing the contract as a witness.

2.2. Legal context for contract farming in Myanmar

The Ministry of Agriculture, Livestock and Irrigation (MOALI) sees the potential of contract farming to trigger investment in the agricultural sector and to improve profitability of agriculture. It has recently developed and released the Standard Operating Procedures (SOP) for contract farming to "systematically improve cooperation and functioning between farmers, growers and private companies, entrepreneurs and their organizations or associations" (Annex 1). The SOP have three different sections that includes: a. instructions for farmers, b. instructions for private companies, entrepreneurs, organizations and associations and c. instructions for relevant departments of the government[2].

The rules for the farmers are:

- Show land ownership/right certificates, working collectively in at least a group of five and select Key (Lead) farmer
- Know the provisions of contract as well as discuss and renew the contract yearly
- Follow the agreed production methods
- Follow standard good agricultural practices to meet the agreed products quality and quantity
- Use inputs only for the agreed land-area and crops as stated in the specific contract and not allow to use for other purposes
- Participate in the trainings and workshops and exactly follow the instructions
- Make any amendment and add additional agreements in presence of the concerned stakeholders and witness if necessary
- Sell either the amount of crop equivalent to the value supported, or all of the produced crops, to the contractor for the guaranteed price according to the agreed contract. However, surplus crops over the amount set can still be sold freely.
- If farmers face circumstances beyond their control (e.g. natural disaster) during the contracting period, farmers must immediately report to the company and all the relevant third parties including the government departments and seek assistance. All the mentioned activities must carry on according to the contract.

The rules for companies, businesses owners, and associations, are:

- Discuss and agree between both parties to take crop insurance if there are crop insurance services able in the region and as it describes in the contract. Insurance fees must be paid by the companies.
- Explain the detailed procedures of business, profit, rules and regulations to the farmers, and also to the relevant government departments and organizations before finalizing a contract.
- Explain about quality seeds and other inputs that will be provided as well as other production expenses for clear understanding of the producers
- Provide agreed quantity of quality seeds, other inputs and production expenses in time
- Support agreed technologies for improving production and quality in collaboration with relevant stakeholders
- Agreement on the price between both the parties after discussion and taking into account the market and price fluctuation
- Buy the agreed quantity and quality of product at the agreed (guaranteed) price
- Buy the agreed quantity and quality of product within the agreed period
- For the seed production business, all the seed produced must be checked by the relevant department(s) in order to apply for seed certification. Companies are responsible to cover the cost seed testing and certification as needed.
- Keep record of all production expenses. In case of loss due to natural disasters, discuss and jointly agree to reschedule the repayment of input to the next successful season or from sales of other commodities.
- Both the parties must sign the agreement in front of responsible person(s) from relevant departments of Myanmar government before the production season. If needed, amend the agreement in presence of the relevant department and witness.

- **The rules for the government include:**
- Coordinate with relevant departments and supervise to ensure that the contract follows all the laws of the country.

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[2] *https://www.mmtimes.com/news/myanmar-govt-sets-rules-contract-farming.html*

- Coordinate between both the parties when amending the agreement
- Provide technical assistance to the farmers
- Issuing quality/standard certificates for product after inspection. Monitor the quality of inputs provided by the company.
- Without being bias, supervise both the parties to follow the contract agreement.
- If any party breaks the agreed rules, the relevant Township department has the responsibility to coordinate and solve the issue according to the terms and conditions of the agreement. If it cannot be solved, a legal course of action as per the existing laws and policy should be followed.
- For the seed production business, the relevant department have to ensure that the quality standard is met and the companies follow the seed law, as per the rules and regulations, guidance, notification and procedures laid down by the government.
- Relevant departments must monitor in line with the participation of all the stakeholders.
- Announce the information of accepted quality standard, rules and regulations by the local and export markets

According to the SOP, any contract farming agreement that applies to five acres or more, must be registered by the respective government entity and follow the SOP. The contract farming law for the implementation of the SOP are currently being developed at the State and Regional level.

Bago Region has developed and approved a contract farming bill for implementation. The unofficial translated version of the bill given is given in Annex 2 and a critical review of the bill done by "Ananda" and is given in Annex 3.

2.3. Success factor for fair contract farming – a compilation of lessons learned

Various discussions with companies[3] engaged in contract farming and facilitators of contract farming[4] as well as literatures[5] highlighted a range of success factors or key considerations for fair contract farming schemes. The following provides an overview of these factors.

2.3.1. Contracting process and involvement of a third-party

The process of developing, negotiating, discussing and ultimately agreeing on the contract terms is key for the success and fairness of the contract farming arrangements. There are several practical steps the parties can take to enhance fairness and transparency of this process and ultimately increase the likelihoods that the parties will adhere to the contract provisions. Usually, the initial offer is made by the buyer who is interested in a specific product. The buyer should provide this offer in written form to the producer and give him/her enough time to consider it and seek independent, preferably legal advice on specific terms (FAO: 2018).

Full understanding and transparency of the terms is a precondition for an informed decision of both parties. Therefore, the contract shall necessarily include a clause for the producer to confirm that he/she has read and understood all terms, and that he/she has discussed them with an independent third party (FAO: 2018). Particularly when a producer is constrained by low education levels or poor literacy, or if there are considerable power imbalances, an independent third-party facilitation is crucial for a fair, transparent and balanced contracting process (SFRAS: 2020). The third party can be a producer organisation, a sector-based entity, a designated public entity, a finance institution or an NGO supporting the contracting process. The role and contributions of the third party are to emphasize and ensure that the terms are fully understood by all involved parties, to enhance trust and confidence of the parties and to balance power relationship (SFRAS: 2020).

[3] *Prime Agri, Nature Bio Food, rice millers and traders, rice seed companies*
[4] *Caritas, Swisscontact, Helvetas, Swiss Forum Rural Advisory Services (SFRAS)*
[5] *See references*

The co-signature of the contract by the third party as a witness is an important means to emphasise the importance of transparent information and mutual agreement on the terms (FAO: 2018).

2.3.2. Principles to ensure an informed decision making by producers

An informed decision by the producers is the basis for any fair contract farming arrangement. This requires full clarity on the terms and conditions of the contract. The following principles can guide the producers or the third-party facilitator through the negotiation process to contribute to an informed decision ("cited" and adapted based on Hamilton 2008, in Prowse 2012):

1. "The firm that wrote the contract ensured that its own interests would be fully covered. In other words: there is no reason to assume that the terms are fair or even advantageous to the farmer." (Hamilton: 2008)
2. Farmers need to read all terms of the contract and understand their meaning. «If there is anything farmers do not understand regarding the terms of a contract, they should ask the firm for clarification."
3. "Farmers should never assume that failure to meet the specified requirements will not be penalised. Farmers need to understand the repercussions of not fulfilling their requirements in the contract. If a farmer is not likely to meet her/his obligations, s/he should communicate this to the firm as early as possible. "
4. Farmers should know the firm they are dealing with and particularly assess its ability to pay them the agreed price.
5. "Farmers should try to evaluate the opportunity costs of entering into a contract, particularly for novelty or speciality crops."
6. Contracts can and shall be renegotiated if the terms are not accepted by both parties. "The ability to do this is increased if the farmer is part of a producer organisation, and just before signing the deal."
7. Farmers and/or facilitators "should ensure that any changes to the contract are in writing; they should not rely on any oral communication with the firm."
8. Farmers and/or facilitators "should keep notes of as many details about the contract as possible, including communications with the firm and all resources and activities related to the crop in question."
9. "Farmers should keep communication channels open to prevent misunderstandings from arising."

2.3.3. A comprehensive contract document – including clarity of roles and responsibilities

Producers can only make an informed decision if all terms and conditions are defined. Thus, a comprehensive contract document is a precondition for a fair contract farming arrangement (Prowse: 2012, FAO: 2018). An important element of a comprehensive contract is that it provides clarity of the roles, responsibilities and duties of each party. The agreement shall be clear on all investments that shall be made by the parties. These include not only the pre-financed production inputs (farm advance) and output markets provided by the buyer, but also the labour, land water and other resource investments from the producer. It further shall describe the role of a potentially involved third party or at least the definition of the third party that shall support non-juridical dispute resolution procedures. Key elements that should be specified in such comprehensive contract are further described in chapter 3.

2.3.4. Potential role of the Government

In addition to the signing parties, the national and local government also play manifold roles to contribute to fair contract farming schemes. It is beyond the scope of this study to provide and analytical overview of these roles, however, the following points give a brief overview, of roles and interventions typically fulfilled by government actors with the goal to influence the way how contract arrangements are set up.

1. The government usually provides an explicit or implicit **legal framework** for contract farming arrangements. In Myanmar, this is given by the recently published SOP, and the contract farming bill at Regional level.
2. Some governments provide **financial incentives** for the farmers to adapt specific production methods and/or quality evaluation systems required by international / national markets (Barrentes: 2007 in Prowse:2012).
3. The government can **set a floor price** for the concerned crop and therefore raise prices offered by buyers, reduce conflicts related to transparency or power imbalances in price discussions (Prowse: 2012).
4. Minten et al. (2009) (in Prowse: 2012) highlights how specific **tax incentives** (in export zones) can attract contract-farming initiatives for crops that are especially beneficial to smallholder farmers.
5. The government itself can act as **a third party** for contract farming, which is for example the case in Myanmar.

Context specific information:
In Myanmar, the role of the government is specified in both SOP and Bago Regional Bill. The roles include:

a. Establish and lead supervisory committees at township, district and regional levels
b. Coordination and supervision to ensure that contract follow the law
c. Providing technical assistance to farmers
d. Inspection and monitoring the quality of inputs and the product
e. Act as a dispute resolution when any party don’t follow the agreed rules
f. Ensure production protocol is followed and inspect quality of seed
g. Provide information on quality standard and regulation in the local and export markets

2.3.5. Integration of the value chain

Market failure and thus the buyer’s inability to purchase the products under the agreed conditions is more likely if contract farming includes only the lower level of a supply chain (Fisnik Recica; in SFRAS 2020). Thi Mar Win:2019 states accordingly that “Contract farming will work well if the working process consider the entire value chain - from seeding to transplanting, from growing to harvesting, from milling to packaging, and from exporting to marketing to produce quality assurance and food safety rice”. **A higher degree of integration of the value chain** is thus a means to reduce marketing risks related with contract farming. This is particularly important for specific crops aimed at processing or export only, without an established alternative domestic market.

2.3.6. Producer organisations

In the case of smallholder farmers, **a certain degree of organisation of producers** is key to balance power between the contracting parties and to reduce transaction costs for the buyer stemming from smallholder interactions. For Prowse (2012) producer organizations are even seen as “major institutional innovation for overcoming threats to contract farming”. Farmers can organize themselves in smaller producer groups or in more formal producer organizations. These groups or organizations are a valuable way to enhance empowerment of an individual farmer, and to provide a certain security through collective interactions (Danko et. al. 2016). Joint discussions on the contract terms and collective bargaining are among the key benefits of a producer organisation (Prowse: 2012). Moreover, organized farmers are more likely to communicate their dissatisfaction for instance on prices or trainings, and their claims are generally better recognised by the buyer. (Prowse: 2012)

In addition, M4P (2005; in Prowse 2012) highlights that a producer organisation allows for cross-ownership between the buyer and the producer organisation. This can be an incentive for long-term co-operation and an important basis to build trust. The leadership capacity of farmers’ organisation is however paramount for any value it can bring to the farmers (AFD 2012), and there is often room for improvement (Manuela Stiffler at SFRAS: 2020). Another less obvious benefit is that producer organisations can provider peer-embedded incentives for members to repay the loans, but on the other hand, also a collective risk.

Besides the positive aspects of producer organisations, there are also certain risks that require careful consideration. As stated above, the leadership capacity of the producer organisation is key. However, experience show that capacities are often weak (Kaegi et al. 2017). Further, producers may fully rely on the producer organisation's recommendations and refrain from understanding the contract. In addition, the buyer risk to be partially disconnected with production activities and therefore may ignore important changes regarding production. Both are linked to lower performance of the intermediate producer organisation and increases the risks for the buyer and the producer related to contract farming (Prowse: 2012).

To address that, FAO (2018) suggests that producers either sign the contract together with the producer organisation, or that the producer organisation gets a formal approval for signing for and on behalf of the producers.

2.3.7. Inclusiveness

As mentioned above, a certain degree of organisation is key to allow smallholder farmers entering a contract agreement and to avoid relatively high transaction costs for the buyer. Another important aspect to foster inclusiveness is the selection of crops that can be produced on small landholdings, for instance on marginal lands, by low-endowed farming households or in remote areas (transportable crops) (Carter: 2012). Carter (2012) rates the crops based on their economic potential and the potential of smallholders to produce it in a beneficial way.

Further, de Schutter (2011) suggest that the buyer shall carefully assess how producer performs most of the work under the contract. This person should at least co-sign the contract. This ensures or at least reinforces that the person – often the women of the household – that implements and must deal with the change at farm level is aware on the contract terms. This is particularly important as a contract farming agreement may affect food production, which should be carefully considered by all household members. Buyers and/or third parties should be aware of these issues and 1. assess the household situation and 2. provide enough time for the co-signing women to study and understand the contract terms (FAO: 2018).

2.3.8. Trust

Trust between the parties is key for that producers and buyer can make the investments to improve agriculture production, for that situation specific adaptations of the contract can be discussed openly, and critical considerations can be are shared in time (SFRAS: 2020 and Prowse: 2012). Non-price factors play an important role in creating trust (Prowse: 2012):

These include regular evaluation meetings, potentially together with the third party can enhance confidence of the parties. Long-term contracts provide incentives to invest and security for planning. (Bijman: 2008 in Prowse: 2012). Risk sharing arrangements as described in chapter 3.5 further help the producer to build trust into the contracting scheme, particularly if the investments are relatively high compared to the household budget.

Prowse (2012) states that the knowledge and reflection on the agronomic suitability of the good to the local context and the awareness that the rural elite tend to dominate contract arrangements further help to build an understanding for the producers' perspective and concerns – an important trust building factor.

2.4. Lessons learned from Myanmar

Contract farming has received attention from agribusiness firms as well as the government for more than two decades in Myanmar. Although agribusiness companies see contract farming as an instrument for managing raw materials, the government considers it as an avenue to develop markets, to transfer technology and to provide inputs including credit to smallholder farmers. Several agribusiness firms have undertaken contract farming for different agricultural products throughout the country. Whereas some of them are working smoothly, others have experienced difficulties because of improper design or ineffective implementation of the contract farming process. Companies specialized on rice have been introducing larger scale contract farming in Myanmar since 2008. Only a few companies practice formal written contracts with individual farmers while others apply written or verbal contracts with group of farmers. Generally, rice farmers receive rice seeds, fertilizers, credit and technical support from the contracted companies, and they have more stable market access as compared to the conventional production system.

Based on the significant interest on contract farming, the Grow Asia Program, Myanmar Agriculture Network (MAN) and AgriProFocus Myanmar jointly organized a learning event on contract farming schemes in 2018. During the event, multiple stakeholders discussed key points such as the roles of producers, buyers and government in the contract farming system, how to handle breaking of the contract terms, abuse of power, capacity building program for the out-growers, roles of financial institutions (access to credit), environmental and gender issues. The following recommendations have been made to the actors: 1. producers should organise in groups, ensure that they understand the contract terms and the product requirements, 2. buyers should design and implement a fair risk sharing scheme, provide appropriate inputs and technologies to the producers, build good relationship with producers, and 3. the government should acts as the third party to review and settle disputes, develop SOP and ensure legislation to protect the producers’ right and facilitate access to finance.

One of the rice contract farming companies, Myanmar Agribusiness Public Cooperation (MAPCO) shared their experience in the event. They have been working closely with the farmers to produce rice, both for seed and grain under contract growing scheme in different regions of Myanmar. They recommended that the crop (varieties) should be selected according to the climate variation, involvement of the government, improvements in farm mechanization systems and to establish only a demand driven contracting scheme (MAPCO:2018)

In addition to the event, a study on rice contract farming was conducted by the Myanmar Rice Federation (MRF) with support from the Rice Seed Sector Development (RSSD) project. The study analysed contract farming mechanisms based on a set of 10 critical issues for a successful contract farming arrangement. According to the study, the following are key issues for a successful contract farming in the rice seed sector (Ohnmar Khaing: 2019)

- Support from government is critical and should focus on general sector development policies and certification of the contract, while the support from development projects should include farmer coordination and technical support.
- Governance structure of the Company is the key for efficiency and effectiveness of contract farming.
- Extension services provided by the company should focus not only in training and technical advice but should also provide on-the-job coaching to the producers.
- A good collaboration and ability to organise between farmers helps to reduce the transaction costs for both parties.
- Some upfront incentives for farmers to join such as credit scheme, access to inputs can be used as a pre-condition for engaging in the contract farming scheme and to join in an alliance for production. These initial supports help to build stronger linkages between the Company and the farmers.
- A fair price setting process with participation of farmers, company and third party helps to protect the rights of the farmers.
- Given the price volatility, the price benchmarking should be flexible and enable to make quick decisions.

Along with the review of literatures, the study team also interviewed companies[6] and rice millers who are involved in contract farming to learn their experiences, lessons and suggestions on the contract farming practices. The interviews highlighted the importance of mutual trust between the farmers and the company, higher risk of marketing, poor infrastructure especially for harvest and drying facilities, lack of clear government policies and support in the contract farming process. They also suggested government to consider the whole value chain from the sustainability issue, including the incentives scheme for example longer term finance for contract farming programs. Moreover, they also proposed the rice sector umbrella organizations like MRF to set the standard for rice and develop export promotion strategies.

The study team also conducted interviews with rice farmers and rice millers in the project areas (see annex 4 and 5 for checklist of questions for interviews). The farmers expected to get quality rice seeds and fertilizers, machineries, technologies for improving production as well as to have a clear and open discussion for determining the contractual agreement. Both the millers and the farmers mentioned the importance of maintaining transparency in the contract farming negotiation process and the clear roles and responsibilities of third parties. Suggested third parties were leader of a producer organisation, a designated public entity or an institution who are supporting the contracting process. They also highlighted the enforcement of laws and regulations in case one side breach the contract. Both agreed that the risk sharing might be a difficult topic to agree between the producers and the buyers.

According to the various contract farming schemes in rice in Myanmar, followings are the key points to consider while facilitating a fair and socially responsible contract farming agreement.

- The role of both public and the private sector and partnerships between them for the sustainability of supply chain
- The role of the Government can be to put in place effective and efficient dispute resolution mechanisms and to create an enabling environment for contract farming
- Flexibility, trust and relation building with farmers are required to minimise side selling
- Smallholders should have increased access to credit and production inputs
- Government should consider the investment in infrastructure development
- The contract should include a clause which protect farmers from force majeure such as natural disasters and pest outbreak
- Contract farming should focus on building a long-term business partnership between the producer and the buyer
- Contract farming works better if the company considers the entire value chain (higher degree of vertical integration).
- The government support should focus on providing regulatory enforcement at pre-contracting, contracting, production, and post-harvest stages, as well as during delivery of the produce.

Overall rice contract farming has the potential to generate benefits for the farmers such as getting quality inputs and technical support from the contracted companies, higher yield, market access, etc. and the buyers can get specific quality products, increase product traceability and market share, etc.

2.5. How do we define a fair and socially responsible contract farming?

The definition of contract farming given in chapter 2.1 applies also for a fair contract farming scheme. However, as a result of the above lessons, the study team suggests defining fair and socially responsible contract farming by adding the following elements and processes that characterize how the contract is being developed, how the parties agree on it and implement it

[6] Myanmar New Aye Yar Agriculture Co. Ltd., Prime Agri, Aung Naing Thitsar Group of Companies

jointly, and how trust can be created. A fair and responsible contract farming scheme is thus characterized by:

1. An informed decision making based on an open discussion, mutual agreement, and underlined by a comprehensive contract document.
2. The parties have enough time for consideration of all contract terms and reflect on them together with a neutral third party in case of need.
3. The contract is signed or at least co-signed by the person in the household that does the main part of the work in the field and/or is affected most from the change through the contract.
4. The benefits and risks are shared equally. It shall aim at allowing the producer to at least pay the production costs and to get a living wage in any market situation.
5. It clearly defines the roles and responsibilities (including the provision of any input) of all involved parties, this also as a basis for an informed decision
6. It defines what a breach of contract is and how the parties shall deal with it
7. It aims at building trust and longer-term business partnership. Regular exchanges of the parties are therefore foreseen in the contract.
8. It aims at a high integration of the value chain to reduce market risks and enhance finance capacities of the involved stakeholders
9. It fosters ecologically viable agronomic practice, thus reducing the risks for farmers and the environment.

3. Elements of a comprehensive contract farming agreement

A lesson described in chapter 2.3.3, is that a comprehensive, transparent and detailed description of the rights and duties of each party along the production process are the basis for a fair contract farming system. Only a comprehensive contract allows the producers to fully understand the opportunities and risk that come along with a contract farming agreement and based on that make an informed decision.

This chapter therefore provides an overview of elements that should be covered in a contract. The chapter bases on the Model agreement for fair contract farming that has been developed by FAO[7] (2018) and has been complemented by context specific resources or additional approaches, e.g. for risk sharing. The model agreement is a recommendable and comprehensive document for developing any contract. This chapter describes the key elements of a comprehensive contract farming agreement. A sample of an comprehensive agreement with options that can be used for discussions and negotiation between the rice farmers and rice millers / traders is given in the chapter 4)

3.1. Parties of the agreement

Any contract starts by identifying the contracting parties, including the name and contact information. Contracting parties are at least the primary buyer of the produce and the agricultural producer. Some contracts involve additional parties, such as upper supply chain participants a neutral third party for overviewing the contract processes or even insurances stepping in to contribute to the risk sharing. The contract shall specify them equally. Further, producers are often organised in a group or a more formal producer organisation (FAO: 2018). If the producers sell the crop through their organisation, the contract shall name the producer organisation on behalf of the

[7] *The document can be downloaded from http://bit.ly/templategeneric.*

producer. This contract has to be complemented with sub-contracts between the producer organisation and the concerned members, specifying the conditions based on which the producer organisation can sign sales contract for the good on behalf of the members.

3.2. Duration, Renewal, Termination

The contract shall describe the duration of the agreement. For seasonal crops this is often a season or a year, for plantations and orchards or other long-term investments, it is recommended to foresee a longer contract duration in order to offer the parties a certain planning certainty.

The contract shall further describe the modalities for contract renewal and the grounds for termination, such as renewal be agreement of both parties, automatic renewal, respectively, a) termination following a breach, b) termination by mutual consent, c) termination by one of the parties. In the latter case, the contract shall specify the notice period, whereas long-term contract should foresee a longer notice period than seasonal contract (FAO: 2018)

3.3. Produce

The contract shall specify three aspects of the product: the quantity, the quality and the production methods that are as well influencing the product's quality.

3.3.1. Quality of produce

Related to quality, this study offers four recommendations:

A. Ensure mutual understanding on good or required quality:

Manifold research cases about contract farming have identified that one of the critical aspects of failures in contract farming schemes are either misunderstandings or insufficient exchange or training about the quality specifications laid out in the contract (e.g. Sun, S.M., Chen, Li, J. 2009, Han, Trienekens and Xu 2013 or Rüsch, Ohlde and Jankin 2013).

Typically, the product quality has an impact on pricing or if the quality is below the minimum requirement of the buyer, affects the guaranteed purchase quantity.

Therefore, the contract shall include specifications on quality requirements and related classifications. Quality specifications may be set out in the contract A) with a detailed list of quality aspects influencing the pricing or purchase of the product together with the respective consequences on price and purchase, or B) by referencing to external standards.

A vague definition of the quality requirements and related consequences on prices and purchase, is a common source of dispute and should be avoided – particularly as it may give undue authority to the buyer to reduce the price of amount of purchased product. (FAO:2018)

For any quality parameters that are defined, the contract shall **specify the respective measurement method**, the equipment and responsible party or entity for quality control. (Will 2013)

B. Refer to a renowned and recognized quality standard

Prowse (2012) indicates that a certain recognised and standardized quality factor of the crop increases the likeliness that the parties adhere to the contract and that this benefit both parties. The more widespread a product and its production is in a particular region, the more reasonable it becomes to have a quality reference accepted by all involved stakeholders. Such quality definitions might be a local, a national or even an international quality standard (Thevsen, Spiller and Peupert 2007). Ideally such a standard defines different grades thereby aiming to adhere to different production conditions on the producer side.

C. Integrate the quality aspect into the producer extension and training

In case the quality reference is a renowned and publicly available quality standard, the quality standards as well how to reach it, can become a defined module within any producer training. This aspect turned out as crucial even in Contract Farming schemes in the Northern countries (e.g German Dairy industry Gerlach, Spiller and Wocken 2007).

D. Define production methods

It is typically in the interest of contract farming parties to specify production methods, as they influence the quality of a product and therefore the grading and, in addition influence the working environment of the producers and the ecological footprint of a product.

Production method requirements can be part of a production standards, as for example in organic production, Fairtrade or a commodity standard as the Sustainable Rice Platform (SRP). These standards are usually certified by a third party. Some buyers also have their own production standards, or they refer to national regulations.

The contract shall give clear instruction of the relevant production methods and respective certification processes (FAO: 2018).

3.3.2. Quantity of produce

The contract shall give a clear indication on the quantity of produce the buyer will purchase from the producer, respectively the producer is expected to deliver. On can distinct between exclusive and non-exclusive purchase arrangements.

In an **exclusive purchase arrangement**, where the buyer intends to buy the whole produce, the contract shall define the meaning of whole produce. Either it refers to **the entire production on a specified production site or the entire production of the provided inputs** according to the provisions in the contract. In such arrangement the contract should offer an exception for a defined quantity of the produce for the producer's own consumption.

In a **non-exclusive purchase arrangement**, the buyer guarantees the **purchase of only part of the production**. In such arrangements, at least a certain quantity shall be defined e.g. as a (minimum) quantity or the produce, a percentage of the whole production (with definition of whole production (FAO: 2018). In a fair contract farming scheme, the contract should foresee the purchase of at least the quantity of produce that allows the producer to ensure the coverage of the production cost and a living wage.

Inspecting the quantity of the crop at the delivery point bears potential for disagreements. Balances may be manipulated; unstandardized baskets or other measurement tools may lead to differing measurement of the delivered product quantity. Therefore, it is recommended that the contract specifies the specific measurement tool and - if available - the respective standardization or third-party control.

3.3.3. Pricing mechanisms

Pricing mechanisms are among the most discussed terms in contract farming processes, and the most contagious. A clear, transparent and well-understandable definition of the pricing mechanism is crucial and help avoid later disputes and unforeseen risks.

There are several options of setting the price, each of it with it's own risks and benefits. Independently of the selected pricing mechanism, the producers should in any case have access to market prices for internationally traded commodities or to reference prices set by the respective governments for nationally traded goods. This is the only way to address the risk associated with the asymmetry of information between the parties (de Schutter: 2011). The following pricing options are common in contract farming schemes:

A **fixed price** is set at the beginning of the season and usually includes price categories based on quality grades and/or delivered quantities. The mechanism provides the producer and buyer with a certainty for budgeting and market. In such pricing schemes, the parties however refrain from any benefits from market price fluctuations. Side-selling is a regular breach of contract practiced in such systems, as increasing market prices compete with the fixed price.

Setting a **minimum or guaranteed price** is a recommended option to address the risk of side selling, while ensuring a certain degree of planning certainty. The price shall be calculated to meet production costs and to ensure a living wage, which shall be discussed and agreed on with the producers. The final price paid to the producer can be adjusted to incorporate an increase in market prices but shall not go below the set minimum or guaranteed price. The Fairtrade certification scheme bases on that pricing mechanism.

A **partly flexible price** follows the market price fluctuations in a pre-defined price range. The parties either benefit or bear the risks of price fluctuations. When prices heavily decrease at the time of marketing, producers may not be able to get a living wage or even to cover production cost. This may lead to indebtedness of the producer. For this reason, the study, does only recommend a partly flexible pricing scheme, except the production costs and labour input to produce the good is relatively low compared to the producers' resources.

For any of these pricing mechanisms, **a premium can be added for additional quality aspects or standard compliance.**

If the parties nevertheless go for a flexible market price, two aspects shall be considered in the contract:

The contract should include a clause for the producer to confirm that he/she has access to the relevant market price information and – if applicable - has understood the fluctuations of the market price in the past years.

The contract should define the following aspects of the market price:

The following aspects need to be considered when using market price indications:

- **Time (frame):** The contract can refer to an average market price of a defined period or the market price at the date of sales as defined in the delivery schedule.
- **Location or reference market price**: This could be the market price in a township, state, or a defined marketplace, or it could be the reference prices given by a trade association, or the national government. In Myanmar e.g. Myanmar Rice Federation (MRF) sets the price floor for all varieties. Although, general enforcement of the price floor is weak, it could serve as a reference for a contract farming agreement (Thi Mar Win: 2019).
- **Quality of produce**: As described in chapter 3.3.1, the contract shall clearly define the quality parameters that influence the sales price.
- **I**ndependently of the pricing mechanism, each contract needs to define the **time and method of payment**. Usually, payment is linked to the delivery of the good. Split payment is an option, where the producer gets a part of the payment in advance, e.g. at time of sowing, harvest or delivery, whereas he/she gets the other part once the buyer has on-sold the good. Split payment is a method to address investment constraints, first at the producer side, later at the buyer side (FAO: 2018).

3.4. Responsibilities of the parties - Provision of resources, inputs and services

On the one hand, the provision and pre-financing of production inputs and agricultural services by the Buyer is a key feature if contract farming aims to drive agricultural innovation that typically require increased investments. On the other hand, if production investments are comparably high and profitability increases not as expected – possibly also due to force majeure events – the Buyer's provision of inputs bears a considerable risk for the producer who may get locked into unsustainable debt levels and dependency. (FAO: 2018)

Further, the production of the Good requires basic inputs from the producers, such as land, water, labour and time. These shall be specified as well in order to allow the Producer calculating the opportunity costs of entering the contract.

The contract shall thus **define the responsibilities of each party for providing resources, work load related to the production, providing or purchasing inputs, quality and amount of inputs, timing of delivery, how to use the inputs correctly and related paying or re-paying mechanisms** (FAO: 2018). So it is key the contract defines the responsibilities of each party related to the production. These can be summarized as follows:

a. **Producer** – land, labour, agricultural inputs, production practice and sales, re-payment of inputs
b. **Buyers** – know-how and extension services, farm inputs and uptake of product
c. **Third party** – before, during and after signing contract, breach of agreement

The following chapter provides detail for major aspects of these responsibilities and resources provided by the producer and the buyer.

3.4.1. Land resources

The **contract shall define the land under production** with respect to the particular contract terms. This is particularly important, if the buyer supplies production inputs or if the quantity of good is determined with reference to the land under production, or if the crop shall be certified according to a standard. An accurate definition of the land includes the area (acre, ha or other), as well as the location (GPS data or if not available, nearby village).
According to FAO (2018) the producer should be a legitimate tenure right holder of the land, whether formal or informal, to account for customary land tenure systems (FAO 2012) . In the Myanmar Context, the SOP Myanmar specifies that the producer must show either the evidence of Land ownership certificate or Land utilization document.

3.4.2. Labour resources

The contract shall be clear on the labour resources needed to produce the product. This is particularly relevant if the contract foresees enhanced requirements for monitoring or the complying to a standard. Chapter 3.3.1 describes the need to define the production methods. This is a further responsibility of the producer that may lead to a change in the workload.

3.4.3. Paying and re-paying mechanisms for inputs and services

Besides the clear outline of the services and inputs foreseen for the production of the good, the contract shall describe a clear mechanism for paying and re-paying these inputs.

There are several levels of investment by the Buyer:

1. No investment: The contract does not include any input or service provision
2. No investment: The contract describes selected inputs that the Producer shall buy on the market or a specific place
3. Medium investment: The Buyer provides the agricultural extension services related to the use of the inputs, while the producer buys the inputs on its own.
4. High investment: The Buyer provides extension services, as well production inputs (possibly including mechanisation services)

The latter two demand a definition of the payment mechanism. There are basically three options:

1. Services and inputs can be provided for free to the farmers (respectively implicitly included in the pre-agreed sales price)
2. The producer pays part of full input and service cost at the time the inputs/services are delivered

3. The producer pays part or full input/service cost at the time of sales. In this case the full input/service cost will be deducted from the pre-agreed sales price.

Basically, the opportunity to pay back input/service cost only at the time of sales instead of the time of production allows the producer making investments, which may otherwise not be possible. This is particularly important for economically weak small-scale farmers. They are, however, also most prone also to indebtedness. There are several approaches to reduce the risk for producers and buyers related to the repayment of input costs:

4. The **ratio between the input cost and payment for the produce** should be set out in the contract, so that the producer can calculate the net benefit for a minimum and maximum productivity.
5. When inputs are a new product for the producers, **the contract should include training and advise** on the correct use of the input.
6. The **cost of inputs should be consulted** with an independent third party before signature of the contract.
7. If there is any **obligation related to intellectual property right** on the inputs, the producer should seek independent legal advice on the obligations. They can have considerable and long-term consequences on the production practices (FAO: 2018).
8. The **promotion of environmentally sustainable agricultural bears long term benefits** not only for the environment, but also for the health, economies and livelihoods of the producers (Kaegi et al: 2017). Socially and environmentally responsible contract farming agreements should thus promote the use of organic inputs, include the reduction in the use of synthetic inputs, and greater efficiency in their application. Extension services – also embedded extension services - should focus on promoting agro-ecologically sustainable practices. (FAO: 2018).
9. Seed quality influence the quality of the produce and should be addressed. To avoid **unhealthy dependency from seed producers**, the contract parties can foresee the production of own, high quality seed[8].
10. **Adequate risk sharing mechanism for dealing with force majeure** events are particularly needed if input costs are high compared to the overall household budget. (see chapter 3.5.2).

In order to protect the producer from high levels of debts, it shall describe paying modalities in case force majeure events. These are discussed specifically in chapter 3.5.2.

3.4.4. Uptake of produce – delivery and acceptance

The uptake of the produce by the buyer means that the producer transfers the risk related to the good to the buyer and gets the payment for it. It entails 1. inspecting the goods, based on that 2. accepting or rejecting the goods, and 3. taking possession (FAO: 2018).

The contract should specify the time and place of delivery, as well as the indicators, the instruments to inspect the good and the responsibilities related to delivery (FAO: 2018).

The time of delivery can be defined as an ultimate date, an exact time, a series of dates, or a period. The **place of delivery** can be any place the parties agree on. Important is that the contract specifies which party is responsible for transport, load, and unload the goods, and who pay for it (FAO: 2018).

With **the acceptance of the goods, the buyer agrees to pay it** as defined in the contract (FAO:2018). The inspection of the **quality and quantity should base on the specified quality**

[8] An organic rice project in India that is supported by the Swiss Retailer COOP and the Swiss Development Agency SDC includes own seed production into the contract with producers. This has proven highly efficient and profitably for both, the national trader, as well as the producers. (Stefanie Kaegi, Advisor for the respective project).

indicators; and it should take place promptly upon delivery of the good. It is recommended that the Producer and a third party is present during inspection.

3.4.5. Overview of roles or Producer and Buyer

The following list summarizes the potential contributions of each party, including the recommended role of the government and a potentially involved third party. The list can serve as basis for initial discussions of producers and buyers on a future contract farming scheme, without directly diving into the formal contract provisions. In Myanmar the SOP defines certain roles and responsibilities of any contracting party. These roles and responsibilities are marked yellow.

Producers	Buyers
Resource contributions: • Land use right / land title (in Myanmar, a land use certificate is a precondition to enter any contractual agreement) • Water, energy and other physical resources for the production of the good • Labour (family or hired labour) for the production of the good • Paying back production inputs and services provided by the buyer as agreed	**Resource contributions** • Provision and/or pre-financing of agricultural inputs (seeds, agrochemicals) • Provision and/or pre-financing of farm mechanisation (field preparation, seeding, cultivation, harvest) • Access to finances/loans for production
Production and post-harvest management • Compliance to a specific production and/or labour right standard • Adherence to specific production practices • Adherence to specific postharvest management practices • Usage of specific agricultural inputs; exclusively for the production of the specified crop • Storage of produce • Package of produce • Transportation of produce • Loading / de-loading of produce	**Production management and post-harvest management** • Provision of training of producers / advisory services • Pre-financing of technical advice • Provision of certification procedures • Establishing a fund to cover production risks • Provide for certification procedures • Inspection and quality assurance • Storage of produce • Package of produce • Transportation of produce • Loading / de-loading of produce
Delivery and sales (output market) • Sales of a defined quantity produce / or exclusive sales at an agreed price to the buyer (e.g. sales of produce for a minimum value of pre-financed inputs or % of production) • Delivery at defined time and location	**Output market** • Purchase of defined quantity of produce at pre-agreed price • Paying of produce at agreed time
Risk sharing in case of force majeure • Adhere to agreed risk sharing mechanism • Renegotiation of contract in case of force majeure	**Risk sharing** • Adhere to agreed risk sharing mechanism • Contribute to cover income losses in the case of force majeure by refraining from full repayment of inputs • Renegotiation of the contract in case of force majeure
Jurisdiction and dispute resolution	**Jurisdiction**

• Contribute to amicable dispute resolution procedure • Adhere to the standard operating procedure of the country • Register any contractual agreement at the respective public institution • Accept the decisions of the supervisory committee in case of any dispute **General** • Consultation of the contract terms with third party / legal expert • Knowing the terms of the contract • Organisation in a defined group / institution (in Myanmar, producers need to get organised in a group of at least five producers)	• Adhere to the standard operating procedure of the country • Register any contractual agreement at the respective public institution • Accept the decisions of the supervisory committee in case of any dispute **General** • Be aware of the potential implication of the contract on contracting producers' family members. It is a common practice that male family members sign the contract, while women are doing major work in the field. Responsible buyers shall thus try to know the family situation and let the primary worker in the field independently understand and agree on the contract terms (FAO: 2018).

Related to the role of the buyer, Prowse (2012) raises a relevant point: He analysed a considerable number of contract farming arrangements and observed that a majority of failed (=producers and/or buyers do not get the expected benefits or breach the contract) cases offered the full package of seed, agrochemicals, credit and extension. He concludes that by offering a costly, full package companies may expose themselves to greater risks and losses. This may increase the likelihood of a contract arrangement to collapsing. Particularly for relatively small buyers, such as local rice millers in Myanmar, this aspect may be carefully considered.

3.4.6. Overview of roles of the third party

The key role of the third party is to ensure **a transparent and comprehensive exchange of information** and to support the parties (in the defined way) in non-juridical conflict resolution processes. The following list provides an overview of the potential tasks of the third party and may serve as a basis to discuss its role and responsibilities:

A. Tasks and interventions before signature of the contract

- Check level of information and understanding of both parties on the agreement terms
- If the level of information and understanding is not sufficient, help linking up with a legal expert
- Participate in the discussions on the agreement terms
- Check whether both parties are aware on the risks related to the agreement terms
- Exchange with producer on a risk management strategy (e.g. diversification, assessment of open market sales etc.)
- Support establishing and clarifying a risk sharing mechanism for the case of force majeure events.

B. Tasks and interventions during the signing process

- Participate in the signing process
- Co-sign the agreement as a witness
- By signing the agreement, the third party confirms:
    - that both parties are well informed on the terms and have understood them
    - that both parties are aware on the key risks related to entering the agreement
    - that the buyer and producer have signed voluntarily
    - that there was no pressure put on one of the parties
    - that a risk management strategy is in place (e.g. diversification of production, crop insurance)

C. Tasks and interventions after conclusion of the agreement

- Be an independent source of information related to market, contract terms
- First contact to discuss potential non-compliances of one or both parties (e.g. delivery of inputs or adoption of technologies)
- Initiate and moderate discussions between the parties, if one party asks for such exchange
- Support the parties in finding amicable solutions in case of difficulties of one or both parties to comply to the contract terms

D. In case of breach of agreement by one of both parties

- Initiate a joint discussion
- Make sure, both parties can tell their story and reasons for the breach of agreement.
- Make sure, both parties can write down their story and reasons for the breach of agreement
- Help jointly defining the cost of the breach for each party
- Support the parties in finding amicable solutions / defining consequences for each partner related to the coverage of the breach related cost and the continuation/termination of the market relationship.

3.5. Risks and force majeure

There are a number of risks for the producer and the buyer related to contract farming. Main risks for the producer can be linked to the power imbalance between them and the buying party, which can lead to non-transparent pricing mechanism or unfair inspection procedures. Further, unequal allocation of production risk including those related to force majeure, combined with the application of expensive inputs can result in the well-known threatening levels of debts for the producer. (FAO: 2018)

For the buyer, the greatest risk is the so-called side-selling combined with the failure of the producer to repay the investments or credits provided by the buyer. This leads to significant losses at the buyer side. Other risks include non-compliance to agreed production methods, quality issues or delayed delivery (FAO:2018).

Prowse (2012) states that risk sharing mechanisms are often part of well-functioning contract farming schemes. There is a range of mechanisms to address risks, both at the producer and the buyer sides: **Producer organisations** are seen a key factor for reducing certain risks: they help reduce transaction costs and thus investments from the buyer, and for the producer they act as an institution for enquiries, as well as potential source of market price information and channel for joint grievances (Prowse: 2012). **Diversification of the production** base is another important mechanism to reduce risks and should be considered in any sound contract farming scheme. It contributes to more balanced funding flow, reduced dependency of a single buyer, addresses risks related to pest invasions, and in the case of the combination of export and food crops contribute to enhanced food security of the farming households (SFRAS: 2020).

Insurances or collective funds are another vehicle to address risks mainly related to the production. A poultry firm in Bangladesh for example, operated a contributions-based fund to insure producers against serious outbreaks of diseases. The producers paid a defined amount into the fund per chick received. If mortality raised beyond a certain threshold, the producer could claim compensation from the fund (Prowse 2012).

3.5.1. Force majeure

A Force Majeure Event means any unpredictable, inevitable event that arises after the contract has been signed. It is beyond the parties' control and prevents one or both of them from performing their obligations defined in the contract (FAO: 2018).

Although force majeure has become a common principle in many national legal frameworks relevant to contract enforcement, it is reasonable to specific terms for the case of a force majeure event. These shall basically include an optional clause allowing the parties to suspend obligations that cannot be performed by the parties due to the force majeure event (FAO: 2018). It can also include a more detailed approach on how the income loss due to the force majeure event could be shared. The following chapter offers such approach related to exceptionally adverse weather conditions. It can easily be applied and adapted to other force majeure events.

3.5.2. Risk sharing approach: how to share risk of income losses from heavily adverse weather events (force majeure)

Weather related risks are among the most important force majeure events for paddy production in Myanmar (Munankami and Paing: 2020). Yet, insurance systems in agriculture are however weakly established and experiences with it are lacking. The author has therefore developed a specific **risk sharing approach for weather related income losses**. The underlying hypothesis of the approach is that the producers are – particularly if they are smallholder farmers – relatively risk averse and reluctant to increase investments into agricultural production. In order to motivate the producers to invest into production and thus increase profitability of the rice sector, their risks related to the investments should decrease. The approach helps thus defining the impact of the unfavourable weather events on crop productivity and to calculate the weather-related production and income losses of an individual producer. It than proposes how the producer and buyer of paddy could share the risks of damaging weather events.

Definitions and terms related to the sharing of weather-related risks

The following terms and corresponding calculations build the basis of the risk-sharing approach. They are explained below and applied in three scenarios:

Terms

Reference Productivity: The reference productivity is the basis to calculate the weather-related productivity loss. It shall be defined by the producers and the buyers in the beginning of the season and is either:

- A multi-year average productivity of the specific rice of a representative region or of a representative farmer group
  or
- A jointly estimated and agreed expected average productivity of the specific paddy variety

Reference gross income (per acre) is calculated as follows: Sales price (as defined in the contract and adapted to the quality of the delivered product) * reference productivity.

Pre-financed input cost (per acre) is the calculated cost of all inputs provided and pre-financed by the buyer.

Underlying data for the scenarios:

- The **reference productivity** of trained rice farmers is 1 mt/ac
- The **reference gross income** per acre is (300USD/acre) based on market price of agreement
- The **reference input costs** are 100USD/acre
- **Production area:** The paddy production area under the agreement is one acre

Average effective productivity of the specific season: ***I***n order to define the impact of the unfavourable weather conditions on the productivity of the contracted rice farmers, an average effective productivity shall be calculated. The representative reference farmers for calculating the average effective productivity shall be defined and agreed on at the beginning of the season. Options are:

- all contracted farmers (all villages, where contract farmers are located)
- all contracted farmers in a village or other defined area (reference productivity should than also be village based)
- a group of pre-identified contracted farmers in village or other defined area (reference productivity should than also be village based)

Calculating the average effective productivity based on the three scenarios

Scenario A: The average effective productivity was not affected by bad weather and is **1.1mt/ac**

Scenario B: The average effective productivity was affected by bad weather and is **0.5mt/ac**

Scenario C: Bad weather led to almost full crop failure. The average effective productivity is **0.2mt/ha**

The average productivity difference is the difference of the average effective productivity and the reference productivity:

(Average effective productivity) - (Reference productivity) = Productivity difference

Scenarios for average productivity difference

Scenario A: 1.1 mt/ac – 1mt/ha = **+0.1**

Scenario B: 0.5mt/ac - 1mt/ac= **-0.5mt/ac**

Scenario C: 0.2mt/ac – 1mt/ac = **-0.8mt/ac**

The average productivity reduction rate (%) is the percentual reduction of productivity compared to the reference productivity. It stands for the percentual effect of the adverse weather conditions on the average productivity. It serves as basis for the reduction of debts (the input costs) to be paid back by the producers. Calculation:

100 / (Reference productivity) * (Productivity difference) = average productivity reduction

Scenarios for average productivity reduction rate

Scenario A: 100 / (1mt/ac) * (0.1mt/ac) = 10% average productivity increase (no reduction)

Scenario B: 100 / (1mt/ac) * (-0.5mt/ac) = **50% average productivity reduction**

Scenario C: 100 / (1mt/ac) * (-0.8mt/ac) = **80 % average productivity reduction**

Calculation of shared input costs based on weather-related productivity reduction

This study offers two approaches to calculate how the input cost can be shared between the producer and the buyer in case of adverse weather conditions:

The basic assumption for both approaches is that **risk sharing applies only** if the average weather-related productivity loss is 50% or higher (*or to be defined by the parties*).

- **Option I: 50% (or to be defined) cost sharing of pre-financed inputs**

Risk sharing agreement: The risk sharing agreement **applies only to the value of the pre-**

- **Scenario A:** The average weather-related productivity reduction rate is less than 50%: no risk sharing; the producer pays 100% of the pre-financed input costs
- **Scenario B:** The average productivity reduction rate is 50% -> risk sharing applies to 50% of the pre-financed inputs -> the producer pays thus 75% (= 75USD) of the input costs / the buyer pays 25% (=25USD) of the input costs
- **Scenario C:** The average productivity reduction rate is 80% -> risk sharing applies to 80% of the pre-financed inputs -> the producer pays thus 60% (=60USD) of the entire input costs / the buyer pays 40% (=40USD) of the input costs
- In case of full loss (=100% average productivity reduction rate) -> risk sharing applies to 100% of pre-financed inputs -> 50%(=50USD) paid by producer / 50% (=50USD) paid by the buyer

Optional: In case the individual productivity reduction rate is lower than the average productivity loss -> the individual productivity reduction is used for the calculation (instead of the average productivity reduction). This option bases on effective productivity losses of individual farmers instead of averages.

financed inputs (not the full financial loss) and is linked to the **weather-related productivity reduction rate**. The buyer contributes maximum 50% of the pre-financed input costs (or to be defined by the parties). Other production related investments are fully covered by the producer.

- **<u>Option II: 50% (or to be defined) cost sharing of weather-related income loss</u>**

Risk sharing agreement: The parties agree to share the **weather-related financial losses f**aced by the producer on a 50/50% basis (or to be defined) and to a maximum of 80% (or to be defined) of the total value of pre-financed production inputs. The sharing mechanism is linked to the weather-related productivity reduction rate. Scenarios:

The basis for this calculation is the **<u>weather-related financial loss</u>** faced by the producer due to the adverse weather condition is the basis to calculated as follows:

Average productivity reduction **or** productivity reduction of an individual producer (the lower reduction applies) * area of production under contract * reference gross income/acre

Calculation of weather-related financial loss

Scenario A: + 10% *1acre * 300 (USD/acre) = **30USD (increased income)**

Scenario B: -50% * 1 acre * 300USD/acre = **150USD financial loss**

Scenario C: -80 % * 1 acre * 300USD/acre = **240USD financial loss**

Calculation of shared financial income losses based on the three scenarios

Scenario A: The average weather-related productivity reduction rate is less than 50% (+30USD -> no risk sharing; the producer pays 100% (100USD) of the pre-financed input costs

- **Scenario B:** The average weather-related productivity reduction rate is 50%; the income loss is 150USD -> risk sharing applies as follows:
  - 50% of income loss (=75USD) shall be covered by buyer and will be deducted from the input price that the producer has to repay
  - 50% of income loss (=75USD) shall be covered by producer
  - The producer pays back 25USD to the buyer for pre-financed inputs (value 100USD)
- **Scenario C:** The average weather-related productivity reduction rate is 80%: the income loss is 240USD -> risk sharing applies as follows:
  - 50% of income loss (=120USD) should be covered by buyer, but due to the limitation to the value of 80% of pre-financed production inputs (=80USD), only 80USD are covered by the buyer.
  - At least 50% of income loss (=120USD) shall be covered by the producer. In this case, due to the limitation to 80% of the value of pre-financed production inputs covered by the buyer, the producer has to come up for 160USD of the weather-related income loss.
  - The producer pays back 20USD to the buyer for pre-financed production inputs (value 100USD).
- In the case of 100% income loss, the buyer does not cover more than 80% of the input costs. The producer pays thus back 20USD to the buyer.

Optional: In case the individual productivity reduction rate is lower than the average productivity loss -> the individual productivity reduction rate is basis for calculation. This option bases on effective productivity losses, instead of averages.

3.6. Breach of contract and dispute resolution

The contract should specify remedies for the case that a party does not fulfil the obligations of the contract. The remedy shall protect the interest of the performing party against the consequences of the other party's breach of contract (FAO: 2018). If there are power imbalances between the parties, there is a considerable risk that remedies are defined in favour of the stronger party, typically the buyer. Furthermore, **remedies shall be mutually designed, discussed, and agreed rather than imposed** by the performing party, this will increase the likeliness that they will be followed without legal procedures (FAO: 2018). The contract should therefore **encourage regular interaction between the parties** so that potential breaches are realised before they become fundamental and cure of breach is still possible.

In order to leave termination of contract as a very last option, FAO (2018) suggests differing between non-fundamental and fundamental breaches. For non-fundamental breaches the breaching party shall have the opportunity to cure the breach. Only in the case of a fundamental breach that cannot be cured and deprives the other party to benefit from the contract as expected, the non-breaching party may terminate the contract and potentially seek damages. (FAO: 2018).

The contract can support the parties to try to **settle disputes amicably, which** should always be the first option. Here again, regular exchanges are important to realise disputes early enough.

If parties don't find an amicable solution, **a third party is required.** To settle disputes related to agricultural contracts, juridical procedures are usually too expensive for the producers (often also for the buyers), particularly in light of smallholder producers involved. Therefore, a contract shall include non-juridical, locally available resources for dispute resolution. The third party (see chapter 3.1) shall be responsible to get involved in case of any disputes. (FAO: 2018)

Most contract farming agreements are governed by the local legal system of the producer, although the buyer may be part of a multinational group or based in another country. Even if the contract does not refer to the domestic laws of the producer, the parties should be aware that the **domestic law can prevail the terms of a contractual terms** in case of juridical procedures. (Prowse: 2012)

3.7. Signature

In a fair contract farming process, the parties should sign the contract in the presence of a witness. The witness may also sign the contract.

Preferably the contract is signed by the producer itself. If a producer organisation represents the producer, the words “for and on behalf of” shall be used. In addition, the signor shall describe his/her position that allows him/her to sign on the producer’s behalf.

In the case of the producer, it is possible and recommended that all family members that are working to produce the good, sign the contract.

Typically, the buyer is a firm. In this case the words “for and on behalf of” shall be used as well, and the signor should state his/her position that provides the authority to sing on behalf of the firm. (FAO: 2018).

4. Part B: Contract farming agreement with options of contract terms – a basis for discussion and negotiation between contracting parties

This document describes options for the definition of contract terms for the key element of a contract. It shall serve as a guideline for facilitators of fair and responsible contract farming schemes to guide the discussion with producers and buyers on the terms and conditions of a contract. It covers the main discussions points of contract farming in the context of rice production in Myanmar, as elaborated during the farmers' and rice millers' interviews. For the formulation of the legal terms, the FAO model contract (2018)[9] offers a wealth of legal terms for each of the elements. They can be used and adapted to write a contract that reflects the decisions made by the parties.

Key aspects to consider as a basis for any discussion on fair contract farming:

- A fair contract farming scheme is characterised and supported by the following elements:
- An informed decision making based on an open discussion, mutual agreement, and underlined by a comprehensive contract document
- The parties have enough time for consideration the contract terms and reflect on them together with a neutral third party in case of need.
- The contract is signed or at least co-signed by the person in the household that does the main part of the work in the field and/or is affected most from the change through the contract
- The benefits and risks are shared equally. It shall aim at allowing the producer to at least pay the production costs and to get a living wage in any market situation.
- It clearly defines the roles and responsibilities (including the provision of any input) of all involved parties, this also as a basis for an informed decision
- It defines what a breach of contract is and how the parties shall deal with it
- It aims at building trust and longer-term business partnership. Regular exchanges of the parties are therefore foreseen in the contract.
- It aims at a high integration of the value chain to reduce market risks and enhance finance capacities of the involved stakeholders
- It fosters ecologically viable agronomic practice, thus reducing the risks for farmers and the environment.

Guiding remarks

1. *Blue coloured text components* – these are the options that producers and buyers can select; in most cases, one or several options can be selected
2. Xxx or Blue marked text components – these are space holders for further specifications (dates; amounts; numbers; etc.)

4.1. Parties of the agreement

The following buyer agrees on the terms and elements of this agreement:

Options (and / or)

- *Full name and address of rice miller*
- *Full name and address of a trader*

The following producer agree on the terms and elements of this agreement

- *Full name and address of an individual farmer*
- *Full name and address of the farmer group (listing all farmers as well)*

[9] http://bit.ly/templategeneric

- *Full name and address of a farmer cooperative*
- *Full name and address of another party*

The following **third party** (organisation or person) is involved to ensure that all parties of the agreement are informed on the content of the agreement and understand what it means for their production and marketing activities, as well as for money flows.

Options (and / or)

- *Experienced lead farmers (from this or other region) (Name, address, position)*
- *Contact farming committee (names of the committee)*
- *Consumer association (Name of institution, address, contact person)*
- *Rice miller association (Name of institution, address, contact person)*
- *Trade association (Name of institution, address, contact person)*
- *Other*

Rational for selecting this third party:

Options (and / or)

- *It is a well trusted person/organisation by all parties*
- *It represents the rice sector and is well knowledgeable on key aspects*
- *It is an official entity responsible for contract farming*
- *Other, please describe*

In the following, the agreement uses the term "producer" for the person/institution that produces the rice, the term "buyer" for the above specified entity that buys the rice, and the term "third party" for the above specified third party.

The general conditions and specifications relevant to this agreement and binding for all parties are specified in chapter 3.4**Error! Reference source not found.**. The responsibilities of each party are defined and chapter 4.8.

4.2. Duration of the agreement

This agreement comes into force on xxxxx (date) and end at the date the produce is sold to the buyer and the pre-financed inputs and services are settled as per the agreement (the later date applies).

4.3. The Produce

The agreement applies for the following produce.

Options (and / or):

- *Paddy produced according to the SRP standard*
- *New variety or improved of rice (name of the variety and lifespan of the variety)*
- *Paddy (variety and targeted standard) produced by the producer XXX*
- *Paddy (variety and targeted standard) produced by the cooperative xxx*
- *Paddy (variety and targeted standard) produced by the farmer group*
- *Total production area and expected volume of the produce*
- *Others or additional details*

In the following the agreement uses the term "produce" for the above specified produce independently of the quality of this specific produce.

4.3.1. Quality parameters of the produce

The following quality specifications and categories apply for the above defined produce:

Indicator	**Measurable indication for** high quality	**Measurable indication for** medium quality	**Measurable indication** for low quality	○ **Means of measurement (options, please select and complete)**
Broken percentage				○ *Milling of small samples* ○ *Observation*
Moisture content				○ *Moisture testing meter*
SRP compliance score				
Grain length				
Physical purity	*90 % (no missed thresholds)*	*66% (no missed thresholds)*		*Observation*
Germination % (for seed production)				○ *Germination test* ○
Isolation distance (for hybrid seed production)				○ *Observation* ○
Genetic purity (for hybrid seed production)				○ *Lab test*
Other quality parameters (e.g. water shortages during production; diseases)				○

4.3.2. Quantity (more on quantity under responsibilities of the parties)

The following unit and method of weighing applies for measuring the quantity of the produce:

Specification by buyers and producers

4.4. Pricing mechanisms

4.4.1. Market price

The parties agree on the following indicators to define the market price applicable for this agreement

1. Time frame (date or period for the definition of the market price)
   - *Average market price of the following period xxx (e.g. January to February)*
   - *Market price on the day of sales (specify the period of possible sales e.g. January to March)*
2. Source of reference market price
   - *Township xxx*
   - *State xxx*
   - *Market place xxx*
   - *Trade association xxx*
   - *Minimum price defined by the GoM*

- *others*

3. The quality parameters as specified in chapter 3.3.1 **Error! Reference source not found.** influence the price paid to the farmers. The contract shall specify how the quality influence the price, e.g.:
   - *Scoring according to specified quality requirements described in chapter 4.3.1*
   - *Scoring according to SRP standard (A, B, C)*
     - i. *Grade A -> market price / reference price plus xxx % or USD (specify grade)*
     - ii. *Grade B -> market price / reference price plus xx % or USD (specify grade)*
     - iii. *Grade C-> "only" market price / reference price (specify grade)*

4.4.2. Minimum price (Guarantee price)

If the parties agree on a minimum price or guaranteed price for a certain amount or the full produce, this minimum price or guaranteed price shall be specified here for the specific quality parameters (as described in chapter 4.3.1)

4.4.3. Premium price

If the parties agree on premium prices on the top of the market price (e.g. due to high quality, early sales etc.), the conditions and exact price premiums shall be described here referring to the quality parameters of chapter 4.3.1)

4.5. Specification of agricultural services, inputs and machineries included in this agreement

This chapter specifies all services, agricultural inputs, machineries that are part of this agreement. It gives an overview on the costs and who provides the inputs and services. The following chapter 4.8 defines which party covers the related costs of these inputs & services.

4.5.1. Advisory services

The services that are part of this agreement include:

Input description	Description of content and objective	Time and frequency of service	Location of the activity	Provider of the service (specify name, institution)	Costs (per unit and full cost per season
Soil test					
Risk assessment for SRP rice					
Trainings					
F2f Advisory services					
Digital advisory services					
SRP certification					

4.5.2. Agricultural production inputs

The inputs that are part of this agreement:

Input description	Exact name of input	Timing of delivery by the buyer / purchase by the producer	Total amount / acre	Reason for selection (if applicable)	Costs per unit	Provided by: Indicate "Buyer" (if the buyer provides it to the producer) or "Producer" (if the producer buys it him/herself)
Seed						
Fertilizer						
etc.						

4.5.3. Agricultural machineries

The following machineries shall be used by the producers, and/or are provided by the buyer:

Machinery	Provider of machinery	Timing of rental	Costs unit / acre (independently which party covers the costs)
Drum seeder			
Levelling			
Combined harvester			
Dryer			

4.6. Monitoring and supervision of agreement

The parties agree on the following monitoring activities:

Options

- *Inspection on the field (frequency, person)*
- *Mid-season monitoring session with all parties (specify organiser and moderator of this meeting, objective, target group, and date)*
- *Mutual feedback session at the end of the season (specify organiser and moderator of this meeting, objective, target group, and date)*
- *In case of issues related to the agreement terms or contract breach by any party, the third party will moderate and lead the discussion between the parties.*

4.7. Breach of agreement

If one party does not adhere to one or several terms, the third party (or any other party) initiates the following process:

- *Initiate a joint discussion with all three parties*
- *Third part to make sure that the buyer and the producer can tell their story and reasons for the breach of agreement.*
- *Third party to make sure that the buyer and the producer can write down their story and reasons for the breach of agreement*
- *Jointly define and agree on the cost of the breach for each party*
- *Define consequences for each partner related to*

- *How to cover the cost? (who pays, by when, by what means)*
- *How to continue or discontinue to market relationship?*
- *Others*

The following consequences on specific breaches of agreement are defined by the parties:

In case of breach by the buyer:

A) If the buyer does not deliver the services (including certification), inputs, machineries and/or monitoring tools at the quality, quantity, frequency and cost defined in this agreement, the producer has the following rights:
   - *No obligation to pay the services (including certification), inputs, machineries and/or monitoring tools that do not meet the requirements as defined in the agreement.*
   - *If the quality of the produce is affected because of non-adherence to the agreement by the buyer, a compensation has to be paid*

B) If the buyer does not buy the product on the agreed conditions (market price / premium price / minimum price), the producer has the following rights
   - *Freedom to sell to any other buyer, no need to pay back the input costs*
   - *Freedom to sell to any other buyer, by paying back the pre-financed input costs without interest rate*
   - *Freedom to sell to any other buyer; the buyer of this agreement pays the price difference; the producer pays back the pre-financed input costs with interest rate*

In case of breach by the producer:

A) If the producer does not sell the produce to the buyer as agreed, the buyer has the following rights:
   - *Charge XXX % of the of pre-financed input costs with an interest rate of XXX*
   - *Charge XXX % of the certification costs*

B) If the producer does not adhere to the (possibly include "urgent") recommendations, advises of the AT <u>and</u> this leads to a significant reduction of productivity (compared to the <u>average effective productivity</u>) the buyer has the following rights:
   - *No responsibility to buy the rice at the agreed pricing model*
   - *No responsibility to further provide pre-financed inputs*

C) If the producer does not/cannot settle the investments as agreed, then

   Options:
   - *The producer, the buyer and the third party meet and*
     - *clarify the reason for not paying*
     - *develop an adequate new payment schedule that is bearable for the producer and the buyer*
     - *If a significant lack of quality of services or inputs or technology is the reason for not paying, define a reduction or cancellation of the debt (specify here how this reduction would look like)*
   - *The producer agrees to pay back the debts (with / without interest rate of xxx) in the coming season by selling minimum xxx (kg/%) produce to the buyer of this agreement*
   - *The producer will be excluded from any services in the coming season*
   - *The producer will be excluded from any services in the coming xxx (number) seasons*
   - *Others*

Think about other ways one party may breach the contract and related consequences.

4.8. Responsibilities of the parties

4.8.1. Responsibilities of the producer

The buyer is responsible to cover, implements, delivers the following elements and adheres to the terms described in this agreement (it could be that the buyer pre-finances certain costs, however, here you indicate which party covers the cost at the end):

Options (select those elements for which the producer is responsible)

4.8.1.1. Land

The producer makes sure that he/her can work on suitable, arable land for the production of the produce:

Options

- *Own agricultural land (indicate exact area, possibly GPS data, map)*
- *Leasehold (specify who owns the land; indicate exact area, GPS data, map)*

4.8.1.2. Labour (conditions, inputs)

The producer commits to fulfil the following tasks:

Options

- ***Work conditions***
  - *The producer is committed to respect human and subsequently children's rights. The producer acknowledges that every child has the rights, among others, to a healthy and safe environment with access to education, play and recreation, an adequate standard of living and to be protected from abuse and harm.*
  - *Avoid any way of child labour as specified in the SRP standard document*
  - *If hired farm workers are involved adhere to the SRP standard*

- ***Training, advisory & monitoring***
  - *Participate in trainings (specify trainings)*
  - *Follow recommendations of the AT*
  - *Contacts the AT in case of agricultural problems*
  - *Maintain the farmers logbook and share it with the AT for supervision (enclose logbook as annex to this agreement)*
  - *Keeping the actual receipts of purchased agro-chemicals*
  - *Keep records of farm tools maintenance (serviced farm tools photos)*
  - *Use the digital monitoring tool (specify app, data entry requirements, costs, data privacy/use of data)*
  - *F2f monitoring (specify name of AT, content of monitoring visits, frequency, time requirement, data privacy/use of data)*
  - *In case of SRP, second level auditing by the contractor and auditing by the external auditor (if applicable, tentative date of audit)*
  - *Participate in mutual feedback session at the end of the season (specify how this looks like and who will participate)*

- ***Production***
  - *Purchase seeds (on the market, if not provided by the rice millers)*
  - *Purchase fertilizers (on the market, if not provided by the rice millers)*
  - *Purchase chemicals for pest control (on the market, if not provided by the rice millers)*
  - *Post-harvest management (drying, storage etc.) of paddy (specify in case of potential unclarities)*
  - *Transportation of paddy to the selling point (rice miller, farmers field, other point)*
  - *Adopt selected technologies / cultivation methods (specify e.g. DSR, drip etc.)*

- ***Certification***
    - *Follow the SRP standard requirements (specification in annex)*
    - *Contribute to all SRP scoring and certification procedures (specify e.g. availability, monitoring work, etc)*

4.8.1.3. Costs of agricultural inputs, external labour & services

The producer covers the following % of costs (either directly at the time of purchase, or at the end of the season as defined in chapter 4.8.1.5):

Options (and/or)

- ***Production***
    - *XX% Cost of seeds (specify variety, amount of seeds, costs)*
    - *XX% Cost of fertiliser (specify name of fertilizer, amount needed, expected costs)*
    - *XX% Cost of chemical inputs (specify names of chemicals, amount needed, expected costs)*
    - *XX% Cost of farmyard manure, compost etc.*
    - *XX% Cost of mechanized cultivation, harvesting and drying methods (specify tractors and implements required, expected costs)*
    - *XX% Cost of external labour for production*
    - *Others*

- ***Services, sales and certification***
    - *XX% Cost of technical advisory services (as specified in chapter 4.5.1)*
    - *XX% Cost of trainings (as specified in chapter 4.5.1)*
    - *XX% Cost of monitoring of production*
    - *XX% Cost of transportation to the rice miller / trader*
    - *XX% Cost of SRP certification (specify costs, services and processes)*
    - *XX% Cost of certification in case that the produce is sold to another buyer than the buying party of this agreement.*
    - *XX% Cost of crop insurance (if it is feasible)*
    - *Others*

4.8.1.4. Sales of produce

Options

- *The producer has no responsibilities to sell the produce to the buying party of this agreement.*
- *The producer agrees to sell:*
- ***Quantity***
    - *Min. xx % of the produce produced under the agreement scheme; (specify pricing modality as defined in chapter 4.8.2.3 and time of sales (e.g. period of time / by the end of January / no requirements)*
    - *Min. xx baskets/kg of the produce produced under the agreement scheme (specify pricing modality and timing as defined in chapter 4.8.2.3)*
- ***Timing***
    - *No time period for sales*
    - *The produce is sold in during the months of xxx (time period)*
    - *The produce is sold latest by xxx (day)*
    - *The produce is sold at the moment of harvest*
    - *The produce is sold maximum xxx days after harvest*

4.8.1.5. Settling of investments from the buyer & risk sharing measures

Definitions and terms related to the sharing of weather-related risks (basis for chapter 4.8.1.5)

- **Reference productivity:** A) Multi-year average productivity of (variety) paddy in the defined region **or** B) Jointly estimated and agreed expected average productivity of (variety) paddy
- **Average effective productivity of the season:** Average productivity of paddy (variety) produced in the current season:
  - all the contracted farmers **or**
  - all contracted farmers in a village
  - a group (number) of pre-identified contracted farmers in village,
- **Average productivity difference:** Difference of reference productivity and average affective productivity
- **Average productivity reduction**: Percentual reduction of productivity compared to the reference productivity. It serves as basis for defining the reduction of the input costs to be paid back by the producers. Calculation:
- 100 / (Reference productivity) * (Productivity difference) = average productivity reduction (%)
- **Weather-related financial loss** of the farmer is calculated as follows: Average productivity reduction **or** productivity reduction of an individual producer (the lower reduction applies) * area of production (defined in chapter 4.8.1.1) * market price of the paddy (based on agreement in chapter 4.4.1).

- **Good and normal weather conditions /normal production**: The average effective productivity is more than 50% of the reference productivity

- **Unfavourable weather conditions (heavy flooding / drought / storm)**: The **average productivity of paddy** is reduced by 50% (to be defined) or more compared to the reference productivity. If this is the case, the risk sharing mechanism as defined in

The buyer agrees to make the following investments (specify investments listed in chapter 4.8.2.4 here). The investments shall be settled by the producer as follows:

A) **In a "normal" season that allows for an a minimum average effective productivity that is higher than 50% of the reference productivity (see definitions in chapter Error! Reference source not found.)**:

In case of sales to the buying party

- *the buyer will deduct all investments (with or without interest rate of XX) at the moment of purchasing the produce*
- *the producer settles the investments (with or without interest rate of XX) latest by xxx*

In case that the producer sells the produce to another buyer than the contracting buying party:

- *the producer settles the investments (with/without paying an interest rate of XX) latest by date xxx*
- *the producer settles the investments (with/without paying an interest rate of XX) at the day of sales*
- *the producer settles xx% of the investments (with/without paying an interest rate of XX) by date xxx and the rest by date xxx*
- *others*

If the producer does not/cannot settle the investments as agreed above; this is considered a breach of contract. The process how to deal with a breach of contract and the related consequences are specified in chapter **Error! Reference source not found.**.

B) **In a season that is affected by <u>unfavourable weather</u> conditions (50% (or XX to be defined) or higher reduction of average productivity) (**see definition chapter 0)

First select a risk sharing option (A/B/C), then go into detail of the selected option. The no selected options shall be deleted.

A) No risk sharing (not recommended in fair contract farming scheme!)

If the producer sells the produce to the buying party:

- *the buyer will deduct the **full investments** at the moment of purchasing the produce*
- *the producer settles the **full investments** by xxx (recommendation: setting the date in the coming season; allows for a longer payback period)*

If the producer sells the produce to another buyer

- *the full investments shall be settled latest by date xxx ((to allow for a longer pay back period, the date can be set also in the coming season)*
- *the producer has to settle the full investments at the day of sales*

B) Weather-based risk sharing option 1: Relevant to pre-financed production inputs and services

The buyer and producer share the risk of productivity reduction caused by unfavourable weather conditions. The cost of pre-financed input and services will be covered by both parties as follows:

- Scenario A: The average <u>weather-related productivity loss</u> is less than 50%: no risk sharing; the producer pays 100% of the pre-financed input costs
- Scenario B: The <u>average weather related productivity loss</u> is 50% or higher -> the risk sharing comes into force -> **the producer and the buyer jointly cover part or full** costs of the pre-financed production inputs on a 50/50% basis (or to be defined). This means:
    - In case of 50% average productivity loss -> risk sharing applies to 50% of the pre-financed inputs -> 75% paid by producer / 25% paid by the rice miller
    - In case of 70% average productivity loss -> risk sharing applies to 70% of the pre-financed inputs -> 65% paid by the producer / 35% paid by the rice miller
    - In case of 100% average productivity loss -> risk sharing applies to 100% of pre-financed inputs -> 50% paid by producer / 50% paid by the rice miller
    - (Optional: In case the individual productivity loss is less, than the average productivity loss -> the individual productivity loss is basis for calculation -> challenge: limited incentives for farmers)

C) Weather-based risk sharing option 2: Based on weather related income loss

- The risk sharing only applies if the <u>average weather-related productivity</u> loss is 50% or higher (value to be defined)
- If the risk sharing comes into force, the parties share the <u>weather related financial losses</u> faced by farmers on 50/50% basis (value to be defined) and to a maximum of 80% (value to be defined) of the total value of pre-financed production inputs. Scenarios:
- The calculation of <u>average weather-related financial loss</u>
- 50% (value to be defined) of the <u>average weather-related financial loss</u> and a maximum of 80% (value to be defined) of the value of the pre-financed production inputs will be covered by the buyer;

Settling of pre-financed inputs (applicable to all options ABC)

If the producer sells the produce to the buying party:

- *the buyer will deduct **the reduced investment costs** (with or without interest rate of xx) at the moment of purchasing the produce*
- *the producer settles the **reduced investment costs** (with or without interest rate of xx) by xxx (to allow for a longer payback period, the date can be set also in the coming season)*
- *the producer settles the **reduced** investments (with or without interest rate of xx) xxx days after the day of sales*

If the producer sells the produce to another buyer (select first option A or B and then go into details of one of the options)

- *A) The risk sharing option **nevertheless applies***
    - *The producer settles the **reduced investments** (with or without interest rate of xx) latest by date xxx ((to allow for a longer payback period, the date can be set also in the coming season)*
    - *the producer settles the **reduced** investments (with or without interest rate of xx) at the day of sales*
    - *the producer settles the **reduced** investments xxx days after sales*

- *Or B) The risk sharing option **does not apply***
    - *No risk sharing applies, and the producer settles the **full investments** (with or without interest rate of xx) latest by date xxx ((to allow for a longer payback period, the date can be set also in the coming season)*
    - *the producer settles the **full** investments (with or without interest rate of xx) at the day of sales*
    - *the producer settles the **full** investments (with or without interest rate of xx) at the xxx days after sales*

If the producer does not/cannot settle the investments as agreed above, this is seen as a breach of agreement and will be managed as described in chapter 3.6**Error! Reference source not found.**.

4.8.2. Responsibilities of the buyer

The buyer is responsible to cover, implement, deliver the following elements and adheres to the terms described in this agreement (it could be that the buyer pre-finances certain costs, however, here you indicate which party covers the cost at the end):

4.8.2.1. Labour inputs / services

Options (and/or)

- ***Work conditions***
    - *The producer is committed to respect human and subsequently children's rights. The producer acknowledges that every child has the rights, among others, to a healthy and safe environment with access to education, play and recreation, an adequate standard of living and to be protected from abuse and harm. The underlying child rights policy (Annex 1) applies.*
    - *Avoid any way of child labour as specified in the SRP standard document*
    - *If hired farm workers are involved adhere to the SRP standard*

- ***Production and post-harvest management***
    - *Provision of quality seeds (this does not mean cover the cost, but offer the seeds for sale; specify quality and timing)*
    - *Provision of quality fertilizers (this does not mean cover the cost, but offer the seeds for sale; specify quality and timing)*
    - *Provision of quality chemicals for pest control (this does not mean cover the cost, but offer the seeds for sale; specify quality and timing)*
    - *Provision of technical implements for mechanized cultivation, harvest, drying (specify implements, timing, and conditions for access)*
    - *Transportation of paddy to the rice miller*

- *Post-harvest management (drying, storage etc.) of paddy (specify in case of potential unclarities)*

- ***Advisory services and trainings***
  - *Delivery of technical advisory services (specify services delivered and quality control of services)*
  - *Conducting trainings (specify frequency and content)*
  - *Monitoring of production (specify what will be monitored)*
  - *Monitor the farmers logbook and share it with the AT for supervision (enclose logbook as annex to this agreement)*
  - *Maintain f2f contact with producer upon request*
  - *Support farmers in using the digital monitoring tool (specify app, data entry requirements, costs, data privacy/use of data)*
  - *F2f monitoring (specify name of AT, content of monitoring visits, frequency, time requirement, data privacy/use of data)*
  - *Participate in in mutual feedback session at the end of the season (specify how this looks like and who will participate)*

- ***SRP Certification***
  - *Organise and keep track of certification processes*
  - *Provide all necessary information on certification to the producer*
  - *Certification of production (in case of SRP certification)*
  - *In case of SRP, second level auditing by the buyer and auditing by the external auditor (if applicable, tentative date of audit)*

4.8.2.2. Costs of agricultural production, transportation and certification

Options (and/or)

- *XX% Cost of SRP certification (specify costs and services)*
- *XX% Cost of seeds (specify variety, amount of seeds, costs)*
- *XX% Cost of fertiliser (specify name of fertilizer, amount needed, expected costs)*
- *XX% Cost of chemicals (specify names of chemicals, amount needed, expected costs)*
- *XX% Cost of mechanized cultivation and harvesting methods (specify tractors and implements required, expected costs)*
- *XX% Cost of transportation from field to the buyer*
- *XX% Cost of technical advisory services (specifications in chapter xx)*
- *XX% Cost of monitoring of production Cost of crop insurance (if it is feasible)*
- *Others*

4.8.2.3. Uptake of produce

Here the conditions for uptake are defined, first the modality for setting the price and second the quantity of produce for which this pricing modality applies for. Definitions and specifications of quality parameters, market price, minimum or premium prices are given in chapter 2.1. and 2.2.)

Options (and/or)

1) ***Pricing modality (quantity will be defined below)***
   - *Uptake of produce at market price*
   - *Uptake of produce at a pre-defined fixed price of xxx*
   - *Uptake of produce at minimum price of xxx, or, if higher, at the market price*
   - *Uptake of produce at the market price with a quality premium (specified in chapter 2.1)*
   - *Uptake certain % of produce with the pre-agreed price, and the defined market price for the rest of the produce.*
   - *Uptake of produce at market price in combination with a crop insurance (to be specified)*

2) ***Quantity of produce for which the selected pricing modality applies***

- *Uptake of xx % of the produce (specify quality requirements) under the above defined pricing modality*
- *Uptake of xx baskets of the produce (specify quality requirements) under the above defined pricing modality*
- *Uptake of 100% of the produce (specify quality requirements) that the producer wants to sell under the above defined pricing modality*
- *Uptake of minimum xx % of the produce (specify quality requirements) that the producer wants to sell under the above defined pricing modality*

4.8.2.4. Pre-financing of production costs and advisory services

The following table describes the inputs, machineries and services pre-financed by the buyer, paid back by the producer as defined in chapter 4.8.1.5. The table bases on the descriptions in chapter **Error! Reference source not found.**.

Input / machineries / services	Time / frequency of delivery	Cost

4.8.3. Responsibilities of the Third Party

The third party has the following tasks and responsibilities:
Options:

Before the agreement
- *Participate in the meeting, when agreement terms are discussed*
- *Check level of information of both parties on the agreement terms*
- *Inform both parties on risks related to the agreement terms (e.g. related to the pre-financing of the buyer and the related responsibilities of the producer to settle the debts)*
- *Exchange with producer on a risk management strategy (e.g. diversification, assessment of open market sales etc.)*

During the signing process
- *Participate in the signing process*
- *Sign the agreement*
- *By signing the agreement, the third party confirms:*
  a. *that both parties are well informed on the terms*
  b. *that the buyer and producer have signed voluntarily*
  c. *that there was no pressure put on one of the parties*
  d. *that a risk management strategy is in place (e.g. diversification of production, crop insurance)*

After conclusion of the agreement
- *Be a contact person / institution for questions, issues or non-compliances related to the terms of the agreement (e.g. delivery of inputs, trainings (responsibilities of the buyer) or adoption of technologies, fulfilment of monitoring tasks (responsibilities of the producer)*
- *Initiate and moderate discussions between the parties, if one party asks for such exchange*
- *Support the parties in finding joint solutions for agreement related issues.*

In case of breach of agreement terms by one party
- *Initiate a joint discussion*
- *Make sure, both parties can tell their story and reasons for the breach of agreement.*

- *Make sure, both parties can write down their story and reasons for the breach of agreement*
- *Help jointly defining the cost of the breach for each party*
- *Define consequences for each partner related to*
    a. *How to cover the cost? (who, when, by what means)*
    b. *How to continue or discontinue to market relationship?*
    c. *Others*

5. Part C: A sample of contract farming agreement between a rice farmer and a rice miller

A sample contract for facilitating the discussion and negotiations between the two parties.

The contract agreement is made on *(XX insert date)* and signed between

Buyer: **And** **Producer:**

Name: *(XX insert name)*

ID No.: *(XX insert)*

Address: *(XX insert)*

Hereinafter mentioned as ***"Buyer"***

Name: *(XX insert name)*

ID No.: *(XX insert)*

Address: *(XX insert)*

Hereinafter mentioned as ***"Producer"***

In the witness of an external testifier:

Witness:

Name: *(XX insert)*

Organization / Position: *(XX insert)*

ID No.: *(XX insert)*

Address: *(XX insert)*

The agreement is applicable for the *(monsoon / summer)* season rice production starting from the date of signing of this agreement by both the parties until *(XX insert date*).

In the witness hereof, the "Buyer" and the "Producer" agrees as follows:

1. **Scope of the agreement**

The agreement is applied to produce Paddy of *(xx insert name of variety)* variety by the "Producer" following the SRP Standard. The "Producer" will grow Paddy in *(XX insert area of production insert)* *acres and produce about* *(XX insert volume of production)* *baskets of paddy to be bought by the "Buyer".*

2. **Quality of Paddy**

The quality criteria of the paddy are defined as follow:

Indicator	**Grade A**	**Means of measurement**
Variety of paddy		○
Grain length		○ *Observation*
Physical purity		○ *Observation*
Moisture content (%)		○ *Moisture meter*

Indicator	Grade A	Means of measurement
Weighing Scale		
Percentage of broken rice		○ *Milling of small samples* ○ *Observation*
SRP Standard compliance score	*> 66% (no missed thresholds)*	○ *SRP Score Card*
Other quality parameters (e.g. water shortages during production; diseases)		○

3. Buying and selling of paddy

3.1 Selling place

The product shall be sold at *(specify location).*

3.2 Price of paddy

Pricing system - option 1:

If both the parties agree that the paddy is qualified as per the agreed quality, the "buyer" will buy (XX insert volume of paddy) baskets of paddy at the rate of *(XX insert rate)* MMK/basket or based on the defined referenced market price of *(XX insert rate)* MMK/basket within *(XX insert no. of days)* days after harvest.

If the product doesn't meet the quality specification, the "producer" shall have the right to sell the paddy to others. The "producers" shall repay the cost of farm advance to the buyers within *(XX insert no. of days)* days after selling the paddy.

Pricing System – option 2:

The "producer" shall give (XX insert volume of paddy) baskets of paddy which is equivalent to the cost of farm advance to the "buyer", and sell (XX insert volume of paddy) baskets of paddy at the rate of *(XX insert rate)* MMK/basket to the "buyer" within (XX insert no. of days) days after harvest.

Pricing System – option 3:

If both the parties agree that the paddy the product is qualified, the "producer" shall send all the paddy to the "buyer" after (XX insert no. of days) days after harvest. The product will be stored in the buyer's warehouse. At the time when the "producer" wants to sell to the "buyer", they can sell the desired volume with the agreed market price.

The "producer" shall give *(XX insert rate)* MMK/bsk for storage cost to the "buyer"

4. Roles and Responsibilities

4.1 Roles and responsibilities of the "Producer":

1. The "producer" shall make sure that s/he has and can work on suitable, arable land to produce Paddy.
2. The "producer" shall attend the trainings and meetings provided by the "buyer".

3. The “producer” shall follow the SRP Standard of rice cultivation and guidance on paddy production provided by the “buyer”.
4. The “producer” shall maintain the farmers logbook and share it with the AT for supervision.
5. The “producer” shall accept the farm monitoring willingly by the “buyer” or his/her representative and SRP Standard audits.
6. The “producer” shall participate and provide feedback during the end of season meeting.
7. All the farm advance provided by the “buyer” shall be used only to the farms which are covered under this agreement.
8. The “producer” shall keep the actual receipts of purchased agro-chemicals.
9. The “producer” shall avoid the use of “child labor” as specified in the SRP Standard
10. The “producer” shall send agreed volume of paddy to the agreed selling point within (XX insert no. of days) days after harvest
11. The “producer” shall repay in cash or paddy which is equivalent to the farm advance provided by the “buyer” at the time of selling the paddy to the “buyer” or (XX insert no. of days) days after harvesting.

4.2 Roles and responsibilities of the “Buyer”:

1. The “buyer” shall deliver the agreed farm advance as per following table:

Input / machineries / services	Quantity	Time / frequency of delivery	Total cost (MMK)
Rice Seed	XX insert basket	XX insert	XX insert
Fertilizer	XX insert bags	XX insert	XX insert
Others	XX insert	XX insert	XX insert

2. The “buyer” shall provide training on rice production following SRP Standard to “producer” as soon as the production season begin.
3. The “buyer” shall provide guidance and technical advisory services on rice production to the “producer”.
4. The “buyer” shall visit the paddy field under agreement at least *(XX insert times)* times during the production season for supervision and conduct verification as per the SPR Standard.
5. The “buyer” or his/her representative shall visit the “producer” *(XX no. of days)* days after harvest to check the quality of paddy, decide the price and date of selling.
6. The “buyer” shall organize feedback session at the end of the production season.
7. *If there is crop insurance program, the buyer has to provide the cost of insurance*

4.3 Roles and responsibilities of the testifier:

1. The “testifier” shall participate in the meeting when agreement terms and conditions are discussed and agreed.
2. The “testifier” shall check the level of information from both the parties on the agreement terms
3. The “testifier” shall inform both the parties on risks related to the agreement terms
4. The “testifier” shall be a contact person / institution for questions, issues or non-compliances related to the terms of the agreement (e.g. delivery of inputs, trainings

(responsibilities of the buyer) or adoption of technologies, fulfilment of monitoring tasks (responsibilities of the producer)

5. The "testifier" shall initiate and moderate discussions between the parties, if one party asks for such exchange
6. The "testifier" shall mediate and support both the parties in finding solutions if there are any issues related to this agreement.

5. Risk Sharing:

5.1 Reduced average yield and crop failure:

Initiate a mutual discussion on risk sharing between the contracting parties

In the production season that is affected by reduced yields, *(over 50% (or XX to be defined)* % reduction of average yield,

The field technician together with external testifier will assess the situation to determine the reasons of reduced yields (whether the losses are because of the producer's mistake, weather related or natural disaster).

The cost of assessment shall be paid by the one who breach the agreement and/or if the destruction is caused by the adverse weather, the "producer" and "buyer" shall negotiate upon the cost of the assessment.

If it is the fault of "producer", the "producer" shall return the farm advance received from the "buyer" within *(xx insert no. of days)* days after harvest.

Option A: *(xx insert percentage)* *% share of weather-related loss is paid by the producer,* *(xx insert percentage)* *% is covered by the buyer and deducted from the farm advance*

Option B: *renegotiate the losses and postpone the repayment of the farm advance by the "producer" to* *(xx insert no. of months)* *months or time window.*

Option C: *postpone the repayment of farm advance to next contracted season, if the producer willing to continue to work with the buyer*

6. Breach of agreement

If any one of the contracting parties don't follow the agreed terms and conditions,

Initiate a mutual discussion including mediation form the external testifier

If the "producer" breaches the terms and condition:

1. The farm advance shall be repaid to the "buyer" with *(xx insert percentage)* % interest rate within *(xx insert no. of days)* days after discussion.

If the "buyer" breaches the terms and condition:

1. *The producer shall not repay the cost of farm advance.*
2. *The farm advance shall be recollected on* *(xx insert no. of month)* *months after discussion, the "buyer" has no right to receive any interest on the farm advance.*

7. Monitoring and Supervision of the agreement

Both the parties agree to jointly monitor the progress of the agreement through at least two jointly meetings (insert months XX and XX insert months) during the production season and an end of season assessment meeting.

Date and Place:

Producer

Signature: __________________________

Name: *(XX insert)*

Title: *(XX insert)*

Buyer

Signature: __________________________

Name: (*XX insert)*

Title: *(XX insert)*

Witnessed by:

Signature: __________________________

Name: *(XX insert)*

Title: *(XX insert)*

A sample of signed contract between a rice miller and rice farmer:

The contract agreement is made on *(15/6/20)* and signed between

Buyer: Name: *U Kyaw Myint* ID No.: *10/ Ba La Na (N) xxxxxxx* Address: *Kantharyar ward (8), Kyuntaw Street, Belin Town*	**And**	**Producer:** Name: *U Hla Phae* ID No.: *10/ Ba La Na (N) xxxxxx* Address: *Zotethoad village, Belin Town*
Hereinafter mentioned as ***"Buyer"***		*Hereinafter mentioned as* ***"Producer"***

In the witness of an external testifier:
Witness:
Name: *U Kyaw Moe*
Organization / Position: *(a lead farmer trusted by both the parties)*
ID No.: *10/ Ba La Na (N) xxxxxx*
Address: *Zotethoad village, Belin Town*

The agreement is applicable for the *Monsoon* season rice production starting from the date of signing of this agreement (June 1st) by both the parties until *December 31st,* 2020.

In the witness hereof, the "Buyer" and the "Producer" agrees as follows:

1. **Scope of the agreement**

The agreement is applied to produce Paddy of *(Kyar Pyan)* variety by the "Producer" following the SRP Standard. The "Producer" will grow Paddy in *(3 acres) and produce about (100) baskets of paddy to be bought by the "Buyer".*

2. **Quality of Paddy**

The quality criteria of the paddy are defined as follow:

Indicator	**Grade A**	**Means of measurement**
Variety of paddy	*Kyar Pyan*	*Observation*
Physical purity	*Clean from dust, sand, rock*	*Observation*
Moisture content (%)	13%	*Moisture meter*
Weighing Scale	*Basket and Pound*	*Weighing machine*
SRP Standard compliance score	*> 66% (no missed thresholds)*	*SRP Score Card*

3. **Buying and selling of paddy**

3.1 Selling place

The product shall be sold at *(farm gate).*

3.2 Price of paddy

If both the parties agree that the paddy is qualified as per the agreed quality, the "buyer" will buy (100) baskets of paddy based on the defined referenced market price at the time of selling within *(14)* days after harvest.
If the product doesn't meet the quality specification, the "producer" shall have the right to sell the paddy to others. The "producers" shall repay the cost of farm advance to the buyers within *(14)* days after selling the paddy.

4. **Roles and Responsibilities**

4.1 Roles and responsibilities of the "Producer":

1. The "producer" shall make sure that s/he has and can work on suitable, arable land to produce Paddy.
2. The "producer" shall attend the trainings and meetings provided by the "buyer".

3. The “producer” shall follow the SRP Standard of rice cultivation and guidance on paddy production provided by the “buyer”.
4. The “producer” shall maintain the farmers logbook and share it with the AT for supervision.
5. The “producer” shall accept the farm monitoring willingly by the “buyer” or his/her representative and SRP Standard audits.
6. The “producer” shall participate and provide feedback during the end of season meeting.
7. All the farm advance provided by the “buyer” shall be used only to the farms which are covered under this agreement.
8. The “producer” shall keep the actual receipts of purchased agro-chemicals.
9. The “producer” shall avoid the use of “child labor” as specified in the SRP Standard
10. The “producer” shall send agreed volume of paddy to the agreed selling point within (14) days after harvest

4.2 Roles and responsibilities of the “Buyer”:

1. The “buyer” shall deliver the agreed farm advance as per following table:

Input / machineries / services	Quantity	Time / frequency of delivery	Total cost (MMK)
Rice Seed	Variety: Kyar Pyan Basket: 5		60,000
Fertilizer	Type of Fertilizer: Compound # of bags: 3 bags		96,000

2. The “buyer” shall provide training on rice production following SRP Standard to “producer” as soon as the production season begin.
3. The “buyer” shall provide guidance and technical advisory services on rice production to the “producer”.
4. The “buyer” shall visit the paddy field under agreement at least *(2)* times during the production season for supervision and conduct verification as per the SPR Standard.
5. The “buyer” or his/her representative shall visit the “producer” *(10)* days after harvest to check the quality of paddy, decide the price and date of selling.
6. The “buyer” shall organize feedback session at the end of the production season.
7. *If there is crop insurance program, the buyer has to provide the cost of insurance*

4.3 Roles and responsibilities of the testifier:

1. The “testifier” shall participate in the meeting when agreement terms and conditions are discussed and agreed.
2. The “testifier” shall check the level of information from both the parties on the agreement terms
3. The “testifier” shall inform both the parties on risks related to the agreement terms
4. The “testifier” shall be a contact person / institution for questions, issues or non-compliances related to the terms of the agreement (e.g. delivery of inputs, trainings (responsibilities of the buyer) or adoption of technologies, fulfilment of monitoring tasks (responsibilities of the producer)
5. The “testifier” shall initiate and moderate discussions between the parties, if one party asks for such exchange
6. The “testifier” shall mediate and support both the parties in finding solutions if there are any issues related to this agreement.

5. Breach of agreement

If any one of the contracting parties don’t follow the agreed terms and conditions,

If the “producer” breaches the terms and condition:

1. The farm advance shall be repaid to the “buyer” with *(2)* % interest rate/month within *(1)* month after discussion.

If the “buyer” breaches the terms and condition:

2. The farm advance shall be recollected on (1) months after discussion, the “buyer” has no right to receive any interest on the farm advance.

6. Monitoring and Supervision of the agreement

Both the parties agree to jointly monitor the progress of the agreement through at least two jointly meetings (end of August and September) during the production season and an end of season assessment meeting.

Date and Place:

Producer

Signature: ________________________
Name: U Hla Phae
Ph: 09-XXXXXXXX

Buyer

Signature: ________________________
Name: U Kyaw Myint
Ph: 09-XXXXXXXX

Witnessed by:
Signature: ________________________
Name: U Kyaw Moe
Ph: 09-XXXXXXXX

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7. Annexes

7.1. Annex 1. Standard Operating Procedure (SOP) for Contract Farming

Nieuwsbericht[10] | 09-03-2020 | 09:54

On 31 January 2020, the Myanmar Ministry of Agriculture, Livestock and Irrigation (MoALI) announced Standard Operating Procedures (SOP) * for contract farming. For private companies, entrepreneurs and organizations, that work with farmers or growers in the chain of agriculture and livestock production processes, it is now mandatory to follow these procedures according to the "Law of Protection of the Farmer Right and Enhancement of their Benefits", section 29, sub-section (b). *

Aim of the standard operating procedures is to systematically improve cooperation and functioning between farmers, growers and private companies, entrepreneurs and their organizations or associations.

In the SOP, there are 3 different sections included: (1) instructions for farmers (2) instructions for private companies / entrepreneurs / organizations and associations and (3) instructions for relevant departments of the Myanmar government.

In total, there are 9 different instructions for farmers, 11 instructions for private companies/ entrepreneurs/ organizations and associations and 9 instructions for relevant departments of the Myanmar government to follow.

As this SOP is only available in the Myanmar language, a brief summary of these instructions is hereby given.

Instructions for farmers

Farmers who take part in a contract farming system must have evident document of land ownership and are expected to study the terms on the contract in advance and in detail in order to have a good understanding on the procedures. Depending on the contract, farmers have to follow standard good agricultural practices to meet the agreed products quality. Agricultural inputs (seeds, chemical fertilizers or other inputs or support) are to be used only for the agreed land-area, as stated in the specific contract. According to the agreed contract, either the amount of crops equivalent to the value supported, or all of the produced amount of crops, must be sold to the contractor for the guaranteed price. However, surplus crops over the amount set can still be sold freely.

Instructions for private companies, entrepreneurs, organizations and/or associations

Private companies, entrepreneurs, organizations and associations must explain the detailed procedures of business, profit, rules and regulations to the farmers, but also to the relevant governmental organizations and departments before finalizing a contract. Private companies and organizations must also be trained to understand agricultural inputs and expenses for production of farmers. They have to give a guarantee that inputs including items such as seeds and fertilizers, and other agricultural inputs like land preparing, planting, harvesting, etcetera will be paid. For the seeds production business, all the seeds produced must be checked by the relevant department(s)

[10] https://www.agroberichtenbuitenland.nl/actueel/nieuws/2020/03/09/the-myanmar-government-announces-standard-operation-procedures-for-contract-farming-in-agriculture-and-livestock-sectors

in order to apply for seed certification. Companies are responsible to bear the costs for running the tests needed for certification. Again according to the contract, either the amount of crops or seeds, equivalent to the value supported, or all the produced amount of crops or seeds must be bought at the agreed (guaranteed) price.

Both parties must sign an agreement in front of the responsible person(s) from relevant departments of the Myanmar government. As it is new regulation, procedures are not all equally clear or transparent, but for this part of the SOP it for instance depends on which states or regions the contract is signed and is not always very clear or concrete, but again as example, in Shan State or Ayeyarwady Division, you have to contact the 'regional government'. Also any possible corrections, revisions and amendments on the contract should be mutually agreed and signed by all relevant parties.

Instructions for relevant departments of the Myanmar government

The relevant departments of Myanmar government play an important supervisory role to oversee the implementation of State's legal procedures. When the agricultural producers, companies, private entrepreneurs, organizations or associations in the specific township break the agreed rules, then the relevant township General Administration Department has the responsibility to coordinate and solve the issue according to the agreement terms and conditions.

For the seeds production business, they have to ensure that the standard quality is met, and the companies follow the seed law, rules and regulations, guidance, notification and procedures laid down by the government. Furthermore, relevant departments must monitor in line with Stakeholder Participatory Monitoring System. In addition, these businesses need to announce their qualification standard, rules and regulations and information of local and export markets.

Note: The SOP is still quite unclear on how most procedures will work exactly in practice, how law enforcement will be organized and (not) add to an abundance of new red tape. Expected is that more specific, detailed or clarifying information on procedures, instructions and guidelines will have to be developed – and required - for farmers, growers, companies, entrepreneurs and their organizations to achieve the aims set for this new law.

7.2. Annex 2: Contract Farming Bill, Bago Region

Unofficial Translation

Bago Region

Contract Farming Law (Draft)

Bago Region Hluttaw Law No.6, 2019

13th Waxing of Thadingyut, 1381 M.E

11 October 2019

Bago Region Hluttaw hereby enacts this Law.

Chapter I
Title, Application and Definition

1. This Law shall be called the **Contract Farming Law.**
2. This Law shall come into effect on the date when Chief Minister of Bago Region issues a notification about it.
3. The following terms used in this law shall have the meanings given hereunder:
   a. **Government** means the Bago Region Government.
   b. **Contract Farming** means a farming business arrangement that involved two parties such as farmer and investor or company with fundamental agreements to cooperatively do farming and agricultural production, farmland preparations, selling of agricultural produce, exports and long-term and short-term farmland tenancy.
   c. **Agricultural produce** means a produce agriculturally manufactured.
   d. **Ministry** means the Ministry of Agriculture for Bago Region.
   e. **Minister** means the Minister of Agriculture for Bago Region.
   f. **Experts** mean agricultural experts, industrial agriculture experts, technicians for finished products, marketing experts.
   g. **Farmer** means a farmer who cooperatively do agricultural farming with an investor according to this Law.
4. This Law shall be for any contracted farmers and local or foreign investors working in Bago Region.

Chapter II
Objectives

5. The objectives of this Law are as follows:
   a. to implement a modernized agriculture industry,
   b. to improve quality and quantity of the product by farmers through provision of technical knowledge, inputs and financial support,
   c. to improve socio-economic conditions of farmers and State through income from exports of a variety of agricultural products with agreements that are fair and transparent for market-oriented contract farming business,
   d. to improve socio-economic conditions of farmers and agriculture sector through creating a strategy for contract farming business,
   e. to guarantee fair benefits to everyone involved through joint investments such as rental of agriculture land or engaging in contract farming,
   f. to evolve big commercial farming industry from conventional farming and to be able to compete in the international market by producing quality products

Chapter III

Formation of different levels of contract farming supervisory committees and their duties

Formation of Regional Supervisory Committee

6. (a) The Ministry shall form a region supervisory committee under approval of the government with the following persons:

1.	Minister	-	Chairman
2.	Representatives from concerned government institution	-	Member
3.	Regional prosecutor	-	Member
4.	Related experts	-	Member
5.	Private sector representatives	-	Member
6.	Farmer representatives	-	Member
7.	Head of Regional Department of Agriculture	-	Secretary
8.	Head of Regional Department of Agriculture Land Management and Statistics	-	Joint Secretary

(b) The Minister can occasionally reform the formation of the committee under approval of Region Government in accordance with Sub-Section (a).

Formation of District Supervisory Committee

7. The Minister shall:

(a) form a district supervisory committee with the following persons:

1.	District Administer	-	Chairman
2.	Representatives from concerned district government institution	-	Member
3.	District prosecutor	-	Member
4.	Related experts	-	Member
5.	Private sector representatives	-	Member
6.	Farmer representatives	-	Member
7.	Head of District Department of Agriculture	-	Secretary
8.	Head of District Department of Agriculture Land Management and Statistics	-	Joint Secretary

(b) The committee formation can be reformed occasionally in accordance with Sub-Section (a).

Formation of Township Supervisory Committee

8. The Minister shall:

(a) form a township supervisory committee with the following persons:

1.	Township Administer	-	Chairman
2.	Representatives from concerned Township government institutions	-	Member
3.	Township prosecutor	-	Member
4.	Related experts	-	Member
5.	Private sector representatives	-	Member
6.	Farmer representatives	-	Member
7.	Head of Township Department of Agriculture	-	Secretary
	Head of Township Department of Agriculture Land Management and Statistics	-	Joint Secretary

(b) The committee formation can be reformed occasionally in accordance with Sub-Section (a).

9. The duration of each level of committees are the same as that of the government.

Duties of different levels of Contract Farming Supervisory Committees

10. The duties of Regional Contract Farming Supervisory Committees are as follows:
    a. to prioritize agricultural produce that have good potential for export from contract farming businesses.
    b. to select and designate zones for agricultural production in areas.
    c. to effectively manage quality control of manufacturing, services, trade and consumption sectors for development of production phases.
    d. to set necessary standards for trading of agricultural produce while contract farming partner company provides good quality seeds and required agricultural equipment.
    e. to scrutinize agricultural processes such as adoption and sharing of techniques regarding the contract farming business.
    f. to monitor, assess, scrutinize and decide concerning implementation of contract farming agreements and their processes.
    g. to stake duties and authorities of district and township-level committees after setting the size of a contract farming business.
    h. to prevent any dispute and find a solution in dealing with the disputes.
    i. to carry out necessary procedures without delay when a business proposal applies for contract farming with a field inspection of township supervisory committee.

11. District and township contract farming supervisory committees shall carry out tasks assigned by the regional committee and report to the regional committee.

Chapter IV

Permission of Contract Farming Businesses, Registration and Regulations of Deposit Fees

12. Permission of contract farming businesses can be obtained under following five systems:
    a. **Company-centred system:** Under this system, a partner company provides seeds, inputs and technologies for agricultural production as needed by small-scale farmers and make agreements in advance with the farmers about the amount of produce, variety, buying prices and quality to be bought.
    b. **Equity system:** Under this system, an investor rent pieces of farmland from farmer organizations and undertakes the whole process of agricultural production from preparation of farmland until harvest, where each farmer involved invests their pieces of farmland in the business and receive an equity of earnings from such contract farming business whether they put physical labour in the farming process or not.
    c. **Farm-based system**: Under this system, an investor directly manages a plantation to provide at least the raw material demand for a factory that manufactures finished products and to work together with farmers in the neighbourhood under contract farming system to supplement the agricultural production.
    d. **Third-party system**: Under this system, third parties work for less-experienced farmers by making direct contracts with the company and third parties under their own schemes make separate contracts with farmers for trading of agricultural produce.
    e. **Seasonal contract system**: Under this system, investors make contracts on seasonal basis with farmers for production of seasonal crops.

13. Anyone who wishes to run any of the contract farming business under Section 12 and applies to a regional contract farming supervisory committee shall obtain permission (if requirements are met).
14. Any company, investor and farmer who are permitted to run contract farming business shall register their businesses at the Directorate of Investment and Company Administration or concerned registration offices.
15. It is required that a guarantee fee or a guarantee property shall be submitted to the regional contract farming supervisory committee in order to deal with agreement breach if any and to settle damage suffered which was caused by the breach of contract by the defaulting party. The

guarantee fee or a guarantee property can be withdrawn if there were no breaches of the agreement contract after the completion of contract business.

16. Anyone who runs a contract farming business must abide to the following rules:
    a. He or she must accept the field inspection to be carried out by a township contract farming supervisory committee while applying for permission for contract farming.
    b. He or she must not cause any harm to the environment and society concerning the establishment of contract farming business.
    c. He or she must submit a detailed plan of contract farming business to the regional contract farming supervisory committee.
    d. He or she must select a duration of contract farming business and follow the related time frame.
    e. Any contract farming businesses which were launched before the enactment of this Law must be re-registered in accordance with the provisions of this Law.
    f. He or she must obey Myanmar's investment-related laws and by-laws concerning local and foreign investment.

Chapter V

Research and Development

17. The regional contract farming supervisory committee shall:
    a. form a research and development team to conduct researching in issues, weak and strong points encountered in the contract farming industry.
    b. the research team is responsible for researching in production of agricultural produce, packaging, trading and exporting of agricultural produce.
    c. findings of research done must be conveyed to those involved in contract farming industry of the region.
    d. cooperation with international organizations is welcomed for exchanging modern technologies used in the contract farming industry.

Chapter VI

Contract Making and Prerequisites

18. Anyone who wishes to run a contract farming business must carry out the following processes:
    a. beforehand enquiry and negotiation to run a contract farming business by both parties,
    b. scrutinization of current farmland laws, by-laws and property ownership rules concerning the piece of farmland where the contract farming business is to be run,
    c. official selection of farmer representative of the group or farmer who is to run the contract farming,
    d. precise selection of an area where the contract farming is to be run,
    e. precise description of tasks and duties needed to be done and followed by both parties,
    f. detailed description of the amount of agricultural produce to be bought, quality, basic pricing and payment system,
    g. detailed description of solutions negotiated by both parties to deal with crop failures due to natural disaster and pests,
    h. accountability for any impact on environmental and socio-economic aspects of the society due to the contract farming business,
    i. detailed description of the duration of the agreement,
    j. description of conditions necessary to renew the agreement,
    k. signing the agreement shall be made by a farmer or a representative of the farmer group and company or investor,
    l. timely and appropriate fulfilment of variety, seed, other inputs and financial support for the agricultural production as agreed by both parties.

19. While running the contract farming business,

a. when making a contract farming agreement, agricultural land management members from concerned ward or village tract shall sign the agreement for contract farming as witnesses before the members of township-level contract farming supervisory committee,
b. persons involved in the contract farming industry shall cooperate with government institutions for sharing knowledge and technologies that are needed for farmers,
c. quality assessment of agricultural produce can be obtained from the Department of Agriculture,
d. when making a contract farming agreement, both parties must obey existing laws and by-laws related to the agreement.

Chapter VII

Monitoring and Evaluation

20. Monitoring and evaluation will be done in order for sustainable development of the contract farming industry in following ways:
    a. the contract farming supervisory committees are responsible for monitoring and evaluation,
    b. continuous collection and compilation of figures and information related to agricultural production as projected by farmer representatives and investors involved in the contract farming industry, and finding solutions for issues confronted in the industry,
    c. officials involved in the contract farming industry are responsible for monitoring which is required for timely overpowering possible problems concerning possible deviation from projection from the agreement,
    d. based on findings about effectiveness, weak and strong points as resulted from monitoring, modification of policies and procedures related to the industry as necessary.

Chapter VIII

Punishment in Management Means

21. The region supervisory committee can punish a contract farming business in following management means:
    a. the concerned contract farming business can be suspended for a limited period if it violated an agreement term according to procedures, directives and by-laws written in accordance with Sub-Sections (d), (e), (h), (i) and (j) of Section 18,
    b. temporary suspension of the license of the concerned contract farming business,
    c. temporary suspension of permission for selling and exporting of agricultural produce manufactured by the concerned contract farming business,
    d. allowing the concerned contract farming business to continue its operations after a fine decided by the region supervisory committee was paid and its practices re-corrected.

Chapter IX

Dealing with Disputes and Appeal

22. Anyone can appeal if decisions made by the Supervisory Committees are not satisfactory under following steps;
    a. the township committee must handle the dispute at first.
    b. if the decision made by the township committee is not satisfactory, an appeal can be submitted to the district committee within 30 days after the decision made by the township committee in accordance with the rules.
    c. the district committee can approve, modify and revoke the decision made by the township committee according to Sub-Section (b).
    d. if a decision made by the district committee is not satisfactory, an appeal can be submitted to the regional committee within 60 days after the decision made by the district committee in accordance with the rules.
    e. the regional committee can approve, modify and revoke the decision made by the district committee according to Sub-Section (d). The decision made by the regional committee is final.

23. Each different levels of supervisory committee shall deal with disputes and appeals as quickly as possible.

Chapter X

Prohibitions

24. No one shall run a contract farming business on a piece of farmland that is larger than five acres without official registration.
25. No one shall cause damage to the farmland of a contract farming business, crops and farm equipment in any means intentionally.
26. When running a contract farming business, the investor and producer or landlord must not breach any terms of the agreement.
27. When running a contract farming business, both parties must accept and follow decisions made by township, district and region supervisory committees in accordance with Section 22 (a), (d) and (c), and actions taken in accordance with Section 21.

Chapter XI

Penalties

28. Whoever violates a prohibition in Section 24 shall, on conviction, be punished with imprisonment of a term not exceeding six months or with a fine not exceeding 500,000 Kyats or with both.
29. Whoever violates a prohibition in Section 25 shall, on conviction, be punished with imprisonment of a term not exceeding two years or with a fine not exceeding 1,000,000 Kyats or with both. Besides the violator shall pay compensation to the victim.
30. Whoever violates a prohibition in Section 26 shall, on conviction, be punished with imprisonment of a term not exceeding three years or at least three months or with a fine.
31. Whoever violates a prohibition in Section 27 shall, on conviction, be punished with imprisonment of a term from a minimum of three months to a maximum of one year.

Chapter XII

Miscellaneous

32. The offences included in this Law are recognized as cognizable offences.
33. The secretary from township supervisory committee shall file a lawsuit as the plaintiff against the offences described in Section 28 and Section 32.
34. No lawsuit can be filed against actions taken lawfully by township, district and region committees.
35. Priority will be given to officially registered contract farming businesses in requesting state relief funds for losses occurred due to natural disasters.
36. Contract farming supervisory committee members who are not government servants can request for grants allowed by the ministry.
37. In implementing the provisions of this Law,
    a. the minister shall issue rules, regulation, by-laws, notifications, orders, directives and procedures under authorization by the Bago Region Government.
    b. the regional supervisory committee shall issue notifications, orders, directives and procedures.

I hereby, signed under the Constitution of the Republic of the Union of Myanmar.

Win Thein

Chief Minister

Bago Regional Government

7.3. Annex 3: Review of the Contract Farming Bill, Bago Region

Bago Region Contract Farming Bill Review by Ananda [11]

Although the interest in the contract farming system is increasing in Myanmar, the current law lacks information that could benefit small- and medium-sized farmers. Without a first-rate management model and rural financial system prioritizing the poor farmers, the contract farming system will not solve the problems faced by farmers and even worsen the situation.

The main obstacles to the establishment of a contract that prioritize poor farmers are:

- Lack of physical and market infrastructure
- Very little rural financing in the government budget
- No Cooperatives and Farmers' Unions led by farmers
- Unequal powers between poor farmers and local elites (Wood, 2015)

In this context, it will also benefit the future of Myanmar's agriculture sector if it is to protect the rights and livelihoods of the rural communities, it must welcome the proposed a contract farming law. However, the current bill does not meet any of the above criteria and even has several weaknesses.

The bill in the Bago region does not create a protective environment for the poor households or create regulations that could lead to market stability. In fact, the bill would not only affect the economic prospects of the Bago region but also enable the regional and local elite to jointly control agriculture. The bill could weaken the bargaining power of the smallholders.

The current bill does not provide a legal framework to protect the contract farming. It is made up of repetitive words that are intended to promote farming practices. However, all provisions can be interpreted in a variety of terms depending on the reader's bias. Rather than imposing a regulatory or Standard Operation Procedure (SOP), the bill creates the District and Township level committees which would agree and deny the contract farming businesses.

Although the bill gives the committee a mandate, it is significant that the bill does not have a firm information including for their decisions. It is favouring the Big landowners, their farming businesses and the local elite to have the potential to make decisions that could further weaken the farmers, whose already weak in the bargaining power.

Therefore, in the current situation, the legislative process is to be suspended and the framework of the law should be prioritized and enacted by civil society and the public. We should consult with all relevant stakeholders, including the farmers. Following this discussion, if there is a clear reason for the need for a local law, then the government should continue to implement the law in consultation with all stakeholders. When implementing the law, legislation must include provisions that can stimulate economic growth and enable effective governance. It must be careful that the law should not include a list of obscure words which the committees can make the interpreted as arbitrary or decisive.

Bago Region Contract Farming Bill - An overview

The bill is about to revitalize a centralized planned economy. A government committee has the authority to either review, dispute or confirm all the contracts signed between farmers and businessmen. When drafting a contract for contract farming, the role of government must be clearly defined.

Government should

[11] https://theananda.org/my/blog/view/anlysis-bago-region-contract-farming-bill

- Develop contract farming practices
- Ensure that farmers and other stakeholders clearly understand the contractual obligations and responsibilities
- Ensure that farmers have the right to negotiate benefits agreements with the company
- Resolve according to a clearly stated contract and farming rules if a dispute arises

Although the bill is included in some of these areas, the provisions of the bill are very broad, and the committees may make arbitrary decisions and do not have clear rules. This can cause the following problems:

- The government could be criticized for being unfair.
- Private sector investors will again be deterred by another vague bureaucracy mechanism. (If the government tries to regulate or cooperate with agricultural cooperatives or impose fines, companies will not be interested in doing so).
- Rural people will no longer be able to understand the decisions that will have a significant impact on their lives. In addition, there is a lack of clear procedures in the decision-making process. The original aim of increasing farmers' incomes will not success when companies withdraw from joint ventures due to the unclear and unpredictable reasons.

One last issue is the way the Bago Region government approaches was different from the way the Ministry of Agriculture, Livestock and Irrigation (MoALI) especially with the Department of Agriculture (DoA). The Ministry's approach is a form of government intervention through SOP set up to establish a cooperative farming system.

Bago Region Contract Farming Bill - Other Issues

One of the goals of the bill is to improve farmers' livelihood. What is the meaning of that? And what section of the bill supports this?

The Regional Contract Farming Committee will be formed by experts, private and farmers' representatives and government officials. There is the question of how to choose farmers' representatives. They also have questions about how well they can represent the farmers and really represent the benefits of the rural people.

Just like the regional level committee, district and township level committees are also governed by administrators, businessmen and farmers’ representatives. The question then is whether government officials would appoint their friends to the committee or farmers discuss and choose trusted person who work for their benefits.

Instead of implementing the concept of free and wide-ranging markets through contract farming, these committees have the right to intervene in the local agricultural market. These can be to set priorities for exporting agricultural products, to decide the establishment of a regional production zone, to include the ability to participate in production processes and to determine the size of the contract farming. These are the only things that the market has to decide in other normal economic systems, and the responsibility of the state is to control the market and enforce the law.

In a free market economy, individuals and organizations should have the least amount of government intervention but have business opportunities. On the other hand, there are weaknesses in the market economy such as inequality in access to information (for example, prices), workers exploitation and environmental degradation. Therefore, the commitments of the committees are such as agricultural input, crop varieties, setting standards for the different agricultural products, analysis of agricultural methods, technology distribution and monitoring and deciding the implementation of the contract. But why a regional committee is responsible for fulfilling such duties of unclear in the bill? There also have overlapped the responsibilities with the other government ministries and the committees. For example, the procedures, duties and responsibilities of the Union Ministry of Agriculture (MoALI) are overlapped.

It is assumed that detailed rules have not been drafted in the Bill to achieve the above goals. How do committees make decisions by which law and regulations? In line with the above, committees need required resources such as the funding, skill and time to review each contract is necessary.

The bill outlines five forms of contract farming that include corporate-centric systems, land leasing system, farm-centred system, the intermediary systems and the seasonal system. However, it is unclear whether these are necessary to be included in the bill. Interestingly, though, these are often enough to be described as a contract farming book, brochure or fact sheet.

Companies and farmers wishing to undertake a contract farming system have to obtain the approval of the committee, but there is no reason for this. Under normal circumstances, a contract between two parties is a private business. However, a clear contract law sets out the rules that apply to the contract and it will be enough by the courts and the parliament to oversee.

It could give committees more authority and control over the lives of the rural people and create bureaucratic complexity.

The bill contains some rules about the contract, but the provisions are blurred. For example, the requirement of the contract should be avoided environmental and social impacts. The meaning is unclear. If the definition of environmental impact and social protection are legitimate purposes, then the definitions must be specific.

Fines will be paid by the contractors to the committees if they break the rules and the regulations. A wealthy landowner or farmer can easily pay a fine, but small-scale farmers are likely to suffer the loss of their business due to the fines.

The fact that the contract has to be resolved in the township committees not only favour to the big business owners and landowners, but also no clear policy on how it can protect the small farmers in the dispute settlement process.

7.4. Annex 4: Questionnaire for Lead Farmers - Assessment of farmers' requirements and priorities related to contract farming

A. Experiences season 2019/20

These are introductory questions to assess the current situation of the lead farmer:

- Did you already sell all the rice you want to sell? If no, why not?
- Where/to whom did you sell the product?
- Is it the first year you sell to this buyer? If not, for how many years do you sell to this trader/miller already?
- Is there any choice to whom to sell? If yes, how do you select to whom to sell the product?
- Is there any competition among buyers?
- How was the price set? Are you satisfied with the price (respectively, is the price similar in other years or significantly higher / lower?)
- How (by whom, what instrument) was the quality assessed? Were there any challenges related to that?
- How (by whom, what instrument) was the quantity assessed? Were there any challenges related to that?
- Are there other positive / negative experiences from this year's rice sales?

B. What should contract farming include, what not, why?

Introduction: Contract farming is a means to address production and marketing challenges. We herewith assess the main challenges and your expectations related to a possible contract farming agreement.

- What are the main challenges for you related to the production of rice?
- What were/are the main challenges for you related to rice marketing?
- Do you think a more formal relationship between the rice buyer and you could contribute to address these challenges?

What do you expect from a more formal relationship between the buyer and you, related to:

- Pricing modality
    - o How is the price currently fixed (question comes already in first part)?
    - o Do you have access to information on national/international rice market price?
    - o Would you prefer fixing the price (or a price range) in advance or defining it based on the market price situation at the moment of sales?
    - o If price is fixed in advanced: how would you address the challenge that the market price may be higher (farmers side selling) or lower (millers may not be ready to pay the price) as the agreed price?
    - o What would be a good process for the setting of the price? Who should support / moderate this process? (e.g. Government entities, project staff (not possible in the long run!), experienced lead farmers from other areas (peer to peer)

- Quality: Should a contract / agreement include a definition of quality requirements and related categories? If yes,
    - o what quality categories should be defined?
    - o What support from third parties and/or definition in the contract is needed that the quality is assessed in a fair way?
    - o Is there another issue to consider related to quality?

- Quantity:
    - o Should the contract / agreement include any indication on minimum maximum quality of product to be sold?
    - o What support from third parties and/or definition in the contract / agreement is needed that the sold quantity of rice is assessed in a fair way?

- Technical assistant and production inputs: Is there any contribution to the production (technical training and/or agricultural inputs) that the buyer could offer to you and that would be helpful?

    - If not:
        - Is it because the buyer has not the capacities to offer a satisfying input? Or…
        - Is it because you don't need any contribution to the production?

    - If yes:
        - What contribution would you like to include into the agreement (in most cases of such contributions, the buyer will advance the costs of the contributions, and deduct it later from the sales price):
            - ☐ Seeds
            - ☐ Fertilizers / pesticides
            - ☐ Finances for production
            - ☐ Machineries
            - ☐ Technical assistance – what exactly?
        - What risks related to such contributions should be considered?
        - How could related risks be addressed? (e.g. monitoring of services / inputs, farmers feedback, third party quality control)
        -
- How is your perception of building a producer group / producer organisation to sell the rice as a group instead of individual selling?
    - Do you have any experiences with producer organisations?
    - What is the reason that you are already / are not yet organised as a producer group / producer organisation?
    - Any pros and cons you do think of?

- If you think about an agreement between the buyer and you, would you prefer having a written or an oral agreement? Why?

7.5. Annex 5: Questionnaire for Rice millers- Assessment of Rice Millers' requirements and priorities related to contract farming

A. Experiences season 2019/20

These are introductory questions to assess the current situation of rice miller and his/her interest to enter a contract farming agreement:

- Is the rice purchase already finalised for this season?
- In what rice variety / rice quality are you most interested? Is there enough from this quality/variety or could you purchase more if farmers would increase their production?
- From whom do you purchase the rice? Do you regularly purchase from the same farmers or does this changes year by year?
- Are there competitors that want to buy the rice from the same farmers?
- How do you decide on the price you pay for the rice?
- How (by whom, what instrument) do you assess the quality of the paddy? Were there any challenges/discussions related to that?
- How (by whom, what instrument) do you assess the quantity that farmers deliver? Were there any challenges/discussions related to that?
- Are there other positive / negative experiences from this year's rice purchase?

B. What should contract farming include, what not, why?

Introduction: Contract farming is a means to address supply chain challenges (quantity, quality and regularity of supply). We herewith assess your expectations and the main challenges related to a possible contract farming agreement.

- What are the main challenges for you related to the supply chain of rice? (e.g. getting the right quantity/quality/post-harvest management and storage capacity measures by farmers, price fluctuations etc.)
- Do you think a more formal relationship between the rice producers, and you could contribute to address these challenges?

What do you expect from a more formal relationship between the producers and you related to:

- Pricing modality
    - How is the price currently fixed (question comes already in first part)?
    - Do you see a need to change the current situation, e.g. could you imagine to define the paddy price or a price range before / at the beginning of the production season?
    - What do you see as a good process for setting the price in a contract farming agreement? Who should support / moderate this process? (e.g. Government entities, project staff (not possible in the long run!), experienced lead farmers and rice millers from other areas (peer to peer))
    - Do you think a more formal agreement between producers and you would improve your supply chain? How?
    - If prices shall be fixed at the beginning of the season, how would you address the challenge that the market price may be higher (farmers side selling) or lower (millers may not be ready to pay the price) as the agreed price?

- Quality: Should a contract / agreement include a definition of quality requirements and related categories? If yes,
    - what quality categories should be defined?
    - What support from third parties and/or definition in the contract is needed that the quality is assessed in a fair way?
    - Is there another issue to consider related to quality?

- Quantity:

- Should the contract / agreement include any indication on minimum maximum quality of product to be sold?
- What support from third parties and/or definition in the contract / agreement is needed that the sold quantity of rice is assessed in a fair way?

- Technical assistant and production inputs: Is there any contribution you could make to the production (technical training and/or agricultural inputs) that would improve your supply chain?

  - If not:
    - Is it because you don't feel able to contribute to the agricultural production? Or…
    - Is it because you don't think farmers would need any contributions from your side?

  - If yes:
    - What contribution would you like / would you be ready to include into the agreement (in most cases of such contributions, the buyer will advance the costs of the contributions, and deduct it later from the sales price):
      - Seeds
      - Fertilizers / pesticides
      - Finances for production
      - Machineries
      - Technical assistance – what exactly?
    - What risks related to such contributions should be considered?
    - How could related risks be addressed? (e.g. monitoring of services / inputs, farmers feedback, third party quality control)
    - What support would you need to be able to offer these contributions in a satisfying way?
- Would you be interested to work with producer organisations instead of individual farmers?
  - Do you have any experiences in collaborating with producer organisations?
  - Any pros and cons you do think of?

- If you think about an agreement between the you and the producers, would you prefer having a written or an oral agreement? Why?
- Are there any other issues that a moderator of the discussion between rice millers and farmers should consider / know before the discussions?