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## Policy pointers

**Using an agency perspective** can help practitioners interrogate producer voice in contracting and how contracts affect producers' options and their ability to effect change and respond to risk.

**Practitioners working to enhance rural producer agency** in commercial agriculture should look beyond agribusiness-led contract farming and consider the wider range of trading options farmers are pursuing.

**Contracts in a value chain** are often interconnected, with terms in one contract affecting others in the chain. The value chain's structure can impact agency. Producers may need to engage with actors elsewhere in the value chain to influence terms of trade.

**Beyond supporting farmers in contract negotiations**, practitioners should develop more comprehensive strategies to increase opportunities for farmers to exercise agency throughout the contract chain.

## How contracts affect the agency of rural producers

In commercial agriculture, contracts coordinate production and trade, linking input suppliers to producers, all the way to end buyers. A better understanding of these chains of contracts can enable development practitioners and policymakers to increase the scope for rural producer agency. This requires examining how contracts are made and how their terms affect producers' ability to advance their own vision and priorities. It also requires exploring how contextual factors — from the value chain's structure to differentiation within families and communities — shape both contractual practices and agency. By taking an agency perspective, this research analyses a pool of 40 contracts to examine the extent to which producers have a voice in contracting.<sup>1</sup> It also examines how contracts affect options for rural producers; whether buyers' obligations (and the means for producers to enforce them) create opportunities for farmers to exert agency; and how arrangements affect producers' ability to respond to risk. The findings provide insights for enhancing rural producer agency at local to global levels.

Many contracts in commercial agriculture are informal verbal agreements for localised exchange. Others are sophisticated legal documents that apply across borders in the context of regional or global value chains. A contract may reflect a one-off transaction, or it may establish a longer-term relationship. It may govern the sale of a few kilos of farm produce or set the terms for large-scale agricultural corridors involving complex bundles of infrastructure, plantation, contract farming and processing projects. Many contracts embody purely commercial deals, while others are embedded in political projects or broader social relationships based on kinship ties, reciprocity or collective identity.

Though contract farming<sup>2</sup> has received extensive attention in academic and policy debates, the wider world of commercial agriculture contracts remains largely underexplored. In addition, the different contracts along a value chain are often interconnected, with terms cascading from contract to contract. Due to their market power lead firms can often impose terms on first-tier suppliers, who are then required to impose these on their own subcontractors. Thus, if farmers are to influence terms with their immediate buyers, they may need to consider the entire chain of contracts.

### Mapping the chain of contracts

To better understand how contract chains work, we analysed a pool of 40 contracts related to

## *Chains of contracts define standards on issues such as seeds, farming techniques, technology, labour conditions, environmental protection and product quality*

commercial agriculture.<sup>1</sup> The pool includes diverse types of contracts from different segments of agricultural value chains — from contracts between farmers and their immediate buyers to those imposed by end buyers, such as consumer goods manufacturers in the food and beverage or agro-industrial sectors. It also includes contracts between governments and companies that, while located outside the value chain, may have a bearing on the terms agreed within the value chain.

Some of the contracts reviewed are interconnected, revealing how the terms of one can cascade into others. For example, concession contracts between a government and a company can affect relations between the company and the farmers it sources from. Where a concession grants a company exclusive rights to provide inputs and purchase produce in an agreed geographic area, it creates a legal monopoly that potentially undermines farmers' negotiating power. In addition, end-buyer contracts set terms on issues such as produce specifications and the right to reject produce or terminate agreements, which may affect the contracts their suppliers conclude with farmers (see Box 1).

Besides setting commercial terms, chains of contracts also define standards on issues such as seeds, farming techniques, technology, labour conditions, environmental protection and product quality. Contracts may determine standards directly or through reference to existing standards, such as those of the lead firm or third-party certification systems. In addition,

contracts for commercial agriculture intersect with public regulation, including national legislation and international treaties (for example, regulating cross-border trade). Public authorities also play a role in contract enforcement, although enforcement remains a recurring challenge in agricultural contracts, often resulting in private and/or informal mechanisms being used to promote contract compliance through social and economic incentives.

### **How contracts affect agency**

Contract chains affect the ability of small-scale rural producers to exercise agency — that is, make choices and effect change according to their own priorities, whether individually or collectively. Indeed, the process through which contracts are developed and implemented — including who has what say, and at which stage — can affect producers' choices when it comes to deciding whether and with whom to contract, as well as their ability to shape the terms of these contracts. In addition, contractual provisions can inherently curtail agency, as they mandate certain behaviours while restricting others. Contracting parties often accept these restrictions in exchange for lower risks or higher rewards. Contractual provisions can also enhance opportunities for agency, such as enabling economic activities that would otherwise be beyond reach for small-scale producers.

In practice, social, economic and political factors can severely affect freedom of choice and negotiating power. Typically, rural producers are at a disadvantage. Power imbalances and business monopolies can weaken farmers' negotiating position vis-à-vis large-scale agribusinesses or local traders, as can unequal access to information, substantial differences in the scale of activities and lack of collective action. Among small-scale rural producers, scope for agency may vary greatly due to differences in income, wealth, status, gender, age or intersections between these issues. Often, contracts merely crystallise relationships that are already determined by such structural factors and power relations. As a result, small-scale producers often carry disproportionately high risk for low rewards, with exploitative terms trapping them in long-term poverty and debt. At the same time, concerted action has enabled some producers and their organisations to reshape contractual arrangements.

### **Interrogating contracts from an agency perspective**

A better understanding of contractual provisions and contracting processes can offer insight into

#### **Box 1. Cascading terms and strategies for producer agency**

All the end-buyer contracts reviewed state that the buyer's terms apply to the transaction, to the exclusion of any terms or amendments proposed by the supplier. The terms include not only those directly established in the contract but the end buyer's own policies and codes of conduct. Further, the supplier is required to cascade the buyer's terms to their own contractors.

Thus, the end-buyer contract may affect contract terms up the contract chain, between farmers and their immediate buyer. Producer organisations may need to take concerted action at multiple levels if they are to influence terms. Experience from Kenya illustrates how green bean farmers — with support from non-governmental organisations — have been able to change their contractual arrangements by engaging with actors throughout the value chain;<sup>3</sup> while in the Philippines, banana farmers achieved comparable results by establishing alliances and conducting advocacy in export markets.<sup>4</sup>

how development practitioners and policymakers can increase the scope for rural producers to exercise agency. This requires examining how contracts are made and how their terms affect producers' ability to advance their own vision and priorities. It also requires exploring how contextual factors — from the structure of the value chain to social differentiation within families and communities — shape both contractual practices and agency.

More specifically, when interrogating from an agency perspective, in any given chain of contracts, we must look at four interlinked issues: the extent to which producers have a **voice** in contracting and related policy processes; the ways in which contracts affect **options** for rural producers; whether buyers' **obligations** (and the mechanisms available to producers for enforcing them) provide opportunities for farmers to exert agency; and how arrangements affect producers' ability to respond to **risk**. Each of these aspects raises a number of questions, including:

**Producer voice.** Can producers genuinely choose whether to contract with a particular trading partner? Can they shape the terms of that contract and do they have a voice in discussions with government or downstream buyers? Are farmers organised into effective structures that enhance their voice and negotiating power? How are members of a farmer's family — for example their spouse — represented in contracting processes and/or producer organisations?

**Producer options.** Does the chain of contracts lock producers in, requiring them to sell exclusively to one buyer or making it more difficult to exit or renegotiate the relationship? Are these limiting clauses offset by rewards, such as guaranteed purchases, fair and predictable prices, or access to credit on competitive terms? Do the financial terms established by the chain of contracts undermine agency through low prices and unfair credit terms that trap producers into poverty and indebtedness, or do they enhance agency through genuine opportunities to access finance?

**Counterparties' obligations.** Do the contracts set clear obligations for buyers? Are pricing arrangements clear and specific or do they grant buyers extensive discretionary power (see Box 2)? Are there avenues for producers to address issues during contract implementation? Is enforcement effective?

**Producer risk.** Does the contract chain create inherent risks for farmers, such as giving other

## Box 2. Discretionary power in pricing arrangements

Some farmer–buyer contracts offer little specificity regarding pricing arrangements, granting buyers discretion and potentially exposing farmers to uncertainty and burdening them with price risk. For example, one seed cotton contract-farming agreement reviewed assures growers that they will receive a “fair price”. But there is no explanation of what ‘fair’ means, nor how the price will be calculated. A few of the contracts reviewed are more specific: a supply agreement for vegetables sets a minimum price for produce that fulfils certain quality requirements (though access to this price appears to depend on the company's assessment of produce quality) while a contract farming agreement for fruit sets the price in advance.

parties the ability to alter financial terms without farmers' consent? Do the contracts affect the ability of producers to manage risks, such as the other party defaulting, or risks associated with major unpredictable events, such as extreme weather, pandemics, political crises, or sudden changes in market conditions? Do the contracts provide for mutually beneficial risk-mitigation tools, such as crop insurance?

Our review suggests that producers are mostly ‘contract takers’, with key terms determined by contracts which the farmers are not party to — whether downstream in the value chain or in relations with government. Further, some contractual provisions burden farmers with price and other risks, while subjecting them to broad discretionary powers on the part of buyers, for example regarding decisions to reject produce. Even so, contractual practice varies and some of the contracts reviewed also exemplify how provisions can enhance opportunities for producer agency. For instance, some contracts reduce buyer discretion by pegging the transaction to international reference prices, while others seek to address value chain problems — such as produce quality issues — through incentives rather than sanctions.

## Recommendations

The findings provide insights on how farmer strategies can effect change in value chain relations. Rather than merely supporting the weaker party in negotiating their own contracts, practitioners should consider more comprehensive strategies that can increase the space available to farmers in which to exercise agency throughout the contract chain. Actors working to enhance rural producer agency in commercial agriculture should:

- **Consider chains of contracts for commercial agriculture**, not just international treaties, when tracking how agricultural trade affects small-scale producers in low- and middle-income countries, and promote

transparency through establishing public repositories where lead firms can systematically disclose contract templates

- **Intervene beyond contracts** to enable producers to shape contractual arrangements from a position of greater strength, for example through investments in post-harvest infrastructure such as storage and transport, or through organisational capacity or enhancing voice in local and national policy
- **Offer producers support in weighing the costs and benefits of different market options** before discussing any contractual formulations, based on the fact that contracts are largely a function of value chain structure and trading relationships
- **Comprehensively scrutinise terms and process in any given chain of contracts**, by interrogating provisions, favouring incentives over sanctions, and analysing the process by which a contract is developed, including who has what say and at which stage
- **Support producers to engage with governments, large-scale agribusiness and end buyers** regarding contract terms, as these actors may ultimately set key terms

- **Develop and implement sustainability standards that promote agency in the chain of contracts**, including guidance on contractual practice, and facilitate producer agency in the design and governance of standards and verification systems
- **Consider social differentiation and how it affects contracts in commercial agriculture** — not only between farmers and their value chain partners but within the farming family, taking into account gender, age and other factors
- **Conduct empirical research aimed at more fully understanding contracts for commercial agriculture** and how producer agency may be enhanced, paying particular attention to how differentiation within families and communities affects agency and contracts.

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## Knowledge Products

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## Notes

<sup>1</sup> This briefing summarises findings from: Cotula, L, Blackmore, E and Berger, T (2021) Contracts in commercial agriculture: enhancing rural producer agency. IIED, London. <https://pubs.iied.org/12613IIED> / <sup>2</sup> Despite tremendous variation, contract farming usually describes some form of pre-agreed supply agreement between farmer and buyer. Typically, a farmer agrees to grow produce of a specified quantity and quality. The buyer, meanwhile, commits to providing inputs such as seeds, fertilisers and pesticides, possibly on credit, and to buying the farmer's produce. / <sup>3</sup> Kariuki, E and Kambo, M (2019) Rebalancing power in global food chains through a "ways of working" approach: an experience from Kenya. IIED, London. <https://pubs.iied.org/17654IIED> / <sup>4</sup> Berger, T (25 May 2018) Supporting small-scale farmers in negotiations with agribusiness. [www.iied.org/supporting-small-scale-farmers-negotiations-agribusiness](http://www.iied.org/supporting-small-scale-farmers-negotiations-agribusiness)

