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

Introduction

Contract farming is a commonly practiced mechanism to coordinate agriculture production and trade. For producers, contract farming can offer improved access to technologies and know-how, credit facilities and improved market access. For buyers, it can be a mean to secure continued supply of quality agriculture produce. There is a growing interest on contract farming scheme in Myanmar as a production model to link smallholder farmers to market opportunities.

Experiences have shown that a well-managed contract farming schemes can benefit both producers and buyers. However, if improperly managed, it can lead to several problems including power abuse, lack of innovation and transfer of knowledge, market failure, detrimental effect to environment, farmers indebtedness to an extent that they lose their land.

The Climate Smart Rice Project (CSR) is a three years initiative aimed at supporting the Government of Myanmar, the agri-business sector and smallholder rice farmers to stimulate transformation of the rice sector towards sustainability. Focusing on rice-inclusive farming systems, the project will prioritize enhancement of the livelihoods of smallholders through private sector development and partnerships promoting climate smart and resource-efficient best practices. The main approach applied by the project is known as "Push-Pull-Policy" with the following specific objectives.

- **Outcome A:** Rice based resilient farming systems widely adopted, leading to improved farmers livelihoods (Push)
- **Outcome B:** Certified export and sustainable domestic rice value chains established and functioning (Pull)
- **Outcome C:** Policy and regulatory framework strengthened to support the national rice sector development strategy (Policy)

The project is funded by the Norwegian Agency for Development Cooperation (NORAD) and the Swiss Agency for Development (SDC) and implemented by a consortium of partners including UN Environment Programme (UNEP), the Sustainable Rice Platform (SRP), Helvetas Myanmar and PRIME Agri.

The project aims to link the rice value chain actors specially rice millers and traders to enter in contract farming models with rice farmers. We believe that contracts between farmers and buyers can be an instrument to address many of the above challenges if they well address the critical issues. Contracts can serve as a vehicle to promote fairer sharing of benefits, risks and ecological sustainability.

It is anticipated that these contractual agreements ensure that farmers have access to know-how, extension and farm services and adopt the production protocol following the Sustainable Rice Platform Standard and improved market access. For the rice millers, it will ensure establishment of an efficient supply network of quality rice that can be processed and sold in the market.

The process – what and how we did ?

The project compiled lessons learned and the best practices pertaining to contract farming globally, within the region and in Myanmar. Prevailing contract farming agreements in Myanmar including the regulatory context were examined. Experiences have shown that facilitating a socially responsible and ethical contract farming agreements should be process oriented rather than a *“one size fits all product”* such as a model contract. The process should include facilitating an open discussion between the “producer” and “buyer” and provide them with guiding questions with key elements of the contract.

Based on these lessons and in consultation with rice millers and rice farmers, the project developed a guiding document with key elements of contract farming agreements. For each key element, different

options are elaborated for the rice millers and farmers to have an open discussion, negotiation and finally agree on specific points of contract farming.

The key elements identified and elaborated are as follows.

- 1. Parties of the agreement**
 - a. Producer – name and contact
 - b. Buyers – name and contact
 - c. Third party as testifier – name and contact; rationale and options for selection of third party
- 2. Timeframe of agreement – start and end date**
- 3. Produce – variety, area of production and expected quantity**
 - a. Quality – quality specification and how to measure them
 - b. Quantity – unit for trade and quantity
 - c. Price – market price (time frame, reference for market price, price of different quality, selling place), minimum price and premium price
- 4. Responsibilities of parties:**
 - a. Producer – land, labor, investment, production practice and sales
 - b. Buyers – know-how and extension services, farm advance and uptake of product
 - c. Third party – before, during and after signing contract, breach of agreement
- 5. Risk sharing** – negotiated risk sharing during normal yield, reduced yield, crop failure and weather-related risks
- 6. Breach of agreement** – process and consequences on breach of agreement
- 7. Monitoring and supervision** – roles and timing (mid-season, end of season)

The guiding document (available in both English and Myanmar language¹) was used in the monsoon season 2020 to facilitate discussions between rice millers and smallholder farmers in Mon State and Bago Region.

A sample of a contract farming agreement is given in Annex 1.

¹ <https://www.helvetas.org/en/myanmar/what-we-do/how-we-work/our-projects/Asia/Myanmar/CSR-WAPRO>

Annex 1

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 (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	<u>Kyar Pyan</u>	<u>Observation</u>
Physical purity	<u>Clean from dust, sand, rock</u>	<u>Observation</u>
Moisture content (%)	<u>13%</u>	<u>Moisture meter</u>
Weighing Scale	<u>Basket and Pound</u>	<u>Weighing machine</u>
SRP Standard compliance score	<u>> 66% (no missed thresholds)</u>	<u>SRP Score Card</u>

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		<u>60,000</u>
Fertilizer	Type of Fertilizer: Compound # of bags: 3 bags		<u>96,000</u>

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:

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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