



Contract Agriculture Lessons from experiences in Costa Rica ¹

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Executive summary

Contract farming or contract agriculture is a practice by which agro-industrial processors, exporters, domestic suppliers to supermarkets and other interested actors contract primary production with producers. The practice has grown in variety around the world, for many products, in developed and developing countries. Although generally recognized as beneficial to agricultural producers, processors and exporters, there are arguments in favor of its limitations.

The conclusions here provided were reached on the basis of a study in one country. The factors that have encouraged agro-industries, distributors and exporters to engage in contract farming in Costa Rica can be grouped in three major areas: a) Interest of the contractors to guarantee supply of the products under specific quality standards required by mass distribution systems or by importers; b) avoiding problems related to administration of farms and particularly managing of personnel; and c) distribution of risks that could be derived by high concentration of production. The general stimulus was provided by market opportunities, domestically (with the growth of supermarkets) and abroad.

From the companies' point of view, it is not the size of holding neither the level of capital of the producer what matters, but his responsibility, the exposure to risks and access. In general companies have a preference for producers to be concentrated in geographical spaces; however, companies have indicated also the benefits of geographical dispersion. In most cases the companies provide non financial services to contracted farmers; however, farmers may find that these services and inputs are not always less expensive than if purchased in the market. The definition of the price to be paid for the product is the most common element of dispute. Although price risk is diminished by the guarantee of purchase of the harvest, the production risk is assumed entirely by the producers. Producers are aware that they do not capture an equitable proportion of the aggregated income along the chain. Contracting for specific products in a continuous manner has taken producers into more intensive use of the land, higher use of agrochemicals and water exhaustion, all with some environmental costs.

The general conclusions of this work, are that there is a high variety in the modalities of contract farming; the arrangements vary depending on crops or animal products; most of the agreements include clauses on technical assistance, quality controls and pricing, and few include financing; support and guarantee of purchase of the products helps farmers in their arrangements to obtain financing; the degree of formality of contracts is varied, being more stringent when contractors are private firms; and there is no special legislation for the specific case of contract farming. Regarding the benefits, they accrue to producers and contractors, yet the former share a less significant portion of the benefits if one considers that they share most of the remaining risks.

Three basic recommendations are offered. a) Regarding the strategy to cope with the rapid increase in contract farming, an analysis is needed of more experiences in several countries in order to identify modalities, matters of conflict, benefits and costs to partners; and the elements of possible legislation. b) An important matter for a closer relation among companies and producers is the distribution of benefits of the added value derived from higher quality produce. An option to encourage companies to share more the benefits with producers is allowing part of the packing and processing to take

place at the farm or at least in the immediate rural areas where production takes place. Allowing producers to become share holders of the companies and tax policies to favor redistribution of the companies' income may be ways to encourage these initiatives. c) As one of the main interests is the incorporation of small scale producers in contract farming, a point of great importance is to assist such farmers in becoming viable. On that regard, minimum levels of education, access to irrigation water and roads, become essential.

Newer forms of agriculture, including contract farming, will progress if countries take a more positive effort towards liberalization of foreign investment, improvements in investment climate, public and private investments in infrastructure and agricultural extension, liberalization of imports of capital assets and technological inputs, etc. Yet, the most important and substantive effort has to be made by governments, producer organizations and individuals, to create a positive image of agriculture and the rural sector. ♦

1. Introduction

Contract farming or contract agriculture is a practice by which agro-industrial processors, exporters, domestic suppliers to supermarkets and other interested actors (from here on referred as contractors or companies) contract primary production with producers (individually or organized). In this way the contractor is not involved directly in managing the production business, neither is he the owner of the land, nor responsible for hiring labor. Furthermore, he does not assume any production risk. He may however provide technical assistance, quality control, seeds, inputs and short terms financing. The producer (with some variety in the terms of the contract) receives a guarantee of purchase of the harvest at an agreed price and other conditions.

Since the early sixties, the contracting of primary production has been a growing mode of business for agro industries and export companies. The practice has grown in variety around the world, for many products, in developed and developing countries. Although generally recognized as beneficial to agricultural producers, processors and exporters, there are arguments in favor of its limitations, and needs for revision. Of particular interest are the benefits to small scale producers and the reasons, if any, for the low preference to include them in contracts.

The experiences in contract farming are well documented in the reports by Runsten and Key of CEPAL (1996), Spice (2003) Setboonsarng (2005) and more recently Da Silva of FAO (2005). These documents highlight experiences in Latin America (particularly México), Asia, India and the US. The general advantages and disadvantages are presented by the report of Da Silva (2005), while the other documents discuss particular cases. In México contract farming began in the early sixties for the production of vegetables for export; in the US it is practiced since the sixties in the broiler sector; and in Central America, it has a long history in the production of bananas.

Taking in consideration previous contributions, this paper examines a few experiences of contract farming in Costa Rica. Some caveats are needed regarding this particular case: The country is rather small with a reasonable network of roads and communications; hence access to agricultural production zones and permanent relations with producers is not limited. Although producers are relatively small in terms of area and capital assets, they all have at least primary school and even higher education. The country has an intensive move towards agricultural exports, and the number of producers involved in this practice has grown substantially. And, not less important, rapid urbanization and a high level of growth of per capita income facilitated the expansion of supermarkets through the major cities and towns³. All these conditions may not be found in other countries of Latin America or other developing regions; hence the practices and their results in these cases must be interpreted with care.

The objective of this paper is to illustrate, on the basis of cases in Costa Rica, the different arrangements in contract farming, the way they are administered, as well as their positive and negative aspects for partners. Conclusions regarding how they can be more beneficial, as well as recommendations are offered with such purpose. These

³ As discussed later, these factors have influenced contract farming.

recommendations are offered as much as for Costa Rica as for other countries, even though the observation was made earlier regarding the particular conditions in this case.

This introductory section is followed by an explanation in the trends in contract farming in Costa Rica, along with a reference to the factors that influenced the growth of this practice through time. A brief conceptual framework is offered in section 3 as way to make explicit the working hypothesis regarding why contract farming, its modalities and benefits. Section 4 refers the cases that have been analyzed and section 5 remarks the main conclusions. Section 6 suggests actions recommended for a beneficial use of contract farming, and also suggestions about other practices complementary to contract farming, which must be considered in light of the conclusions of the work.

2. Trends in contract farming and engines for growth

Until the mid eighties the agriculture of Costa Rica was dominated by basic grains (maize, rice and beans), traditional export products (coffee, sugar cane, bananas) and cattle for beef and milk production⁴. Besides exports of the traditional products, beef exports were an important earner of foreign exchange. The changes in the structure of production have been more significant in the last fifteen years, as shown in table 1. The changes were also notorious in the case of livestock products, as revealed in table 2. It is clear the decline in beef and the rapid increase of poultry and dairy.

Table 1 Costa Rica, area of the main crops 1980-2004 (1000 Ha)

	1980	1990	2004
Traditional export crops	187 542	193 737	205 862
Grains	183 234	164 918	76 713
Fruits	18 357	28 372	63 702
Vegetables, roots and tubers	14 654	19 365	33 088
Other	25 878	34 496	55 093
Total	429 665	440 888	434 458

Source: Elaborated with data from FAO, CEPAL y SEPSA

Table 2 Costa Rica, volume produced of livestock products, 1980-2004 (1000 TM)

	1980	1990	2004
Beef	71.80	87.50	52.30
Pigmeat	9.70	14.30	29.00
Poultry meat	17.87	42.99	73.24
Dairy products (FME)	318.10	429.00	722.00

Source: Elaborated with data from FAO, CEPAL y SEPSA

Note: FME=Fluid milk equivalent

The earlier cases of contract farming in Costa Rica are found in the banana and poultry businesses. In the first case the transnational corporations, particularly Chiquita Brands faced difficulties of image because labor health and environmental issues. Besides there was a growing interest of private national groups to engage in banana production. The firm found appropriate to share the responsibility with medium to large scale producers, under contracts for production under the rules of the corporation. Influential private groups associated to this initiative. Later on, CORBANA, the national banana producer's corporation, followed a similar model, with small scale producers.

⁴ See Pomareda (2005) for a detailed analysis

Following the US scheme farming for poultry⁵, the private national corporation PIPASA is an early practitioner of contract farming⁶. Currently around 130 producers provide the broilers for processing in a single plant. The reason in this case was twofold: First, avoid the concentration of production (most of which was on peri-urban areas) and second, closely related to the above, reduce and distribute risk of diseases.

In the early eighties, Costa Rica adopted a package of economic reforms with two basic goals: stabilize the economy and promote exports. The policies were part of the World Bank-USAID negotiated Structural Adjustment Programs. As part of this initiative, the country enforced a program of subsidies to non traditional exports. Agricultural products were among the main beneficiaries, yet the benefits accrued more to exporters than to producers. Fresh vegetables, ornamental products, concentrated orange juice and more recently, pineapples and tilapia, count among the main non traditional agricultural products exported. Contract farming is a common practice in all these products. The reasons being to take advantage of seasonality in different regions and to get away from labor problems, as all these products are highly intensive in labor.

The most known experience of contract farming, with a large number of small producers is that of Hortifruti: The firm is the supplier of fresh produce to the chain of supermarkets owned by CSU (Corporacion de Supermercados Unidos)⁷. Both CSU and Hortifruti were purchased recently (June 2006) by Wal-Mart. Although Hortifruti began operations in the early seventies, it has expanded considerably in the last five years, in response to CSU growth in Costa Rica and exports to its chain stores in Nicaragua, Honduras and Guatemala. The large number of fresh products (over 30) and the fact that they are produced mainly by small producers, who use primarily family labor, led the corporation to expand contracting of production.

The data in the previous section revealed the decline in the production of beef. In most recent years contracting for beef fattening has grown in response to the scarcity of animals of good quality. CSU, Automercados and Don Fernando Beef Stores are the firms that contract with mid to large scale producers, the intensive-pasture fattening of quality animals to slaughter in private packing houses. In this way, they assure younger animals with higher yield and quality cuts.

In brief, the factors that have encouraged agro-industries, distributors and exporters to engage in contract farming in Costa Rica can be grouped in three areas: a) Interest of the contractors to guarantee supply of the products under specific quality standards required by mass distribution systems or by importers; b) avoiding problems related to administration of farms and particularly managing of personnel; and c) distribution of risks that could be derived by high concentration of production under sole ownership. The general stimulus was provided by market opportunities, domestically (with the growth of supermarkets) and abroad, particularly in the US market. The latter was favored in turn by free market access under the Caribbean Basin Initiative.

⁵ Currently questioned by its skewed distribution of benefits (see Morison, 2001)

⁶ PIPASA currently sales around 65 percent of the poultry meat. Other seven firms provide the difference.

⁷ In 1980 there were 80 supermarket stores. By 2002, there were 227 stores. Around 55 percent of them belong to CSU (Alvarado and Carmel, 2002). It is estimated that in 2006 the number of stores is near 300, as several chains have opened new stores in San José and main towns.

3. The working hypotheses

The rationale for contract farming in general may be found in the last paragraph of the previous section. However, given the objective of this research, the following working hypotheses are presented regarding the practice of contract farming.

- Companies prefer in general contracting production with medium to large producers as this lowers their administration costs and collection costs, reduces the need for technical assistance and guarantees financial resources for investments as producers are not among the poor.
- Companies, for similar reasons, prefer to contract with producers that are concentrated in a geographical area.
- Agreements are formalized through written contracts as means to provide clear guidelines regarding expected quality of the products, prices, delivery conditions, and payment conditions; and to prevent complaints due to misunderstandings.
- Technical assistance is provided by companies, directly or through specialized bodies, to assure product quality and opportune delivery.
- Inputs, as seeds and genetic animal materials, fertilizers, and agrochemicals are provided by the companies to assure proper technological ingredients and minimizing risk of using inadequate inputs which may leave unaccepted residues. Also, these inputs are provided in more advantageous conditions than if purchased in the market.
- Production risks derived from weather instability, pests and diseases are absorbed jointly by the producers and the company.
- Added value during processing, packing and distribution is shared by the companies with the producers.

These general hypotheses are tested by using a questionnaire that served as the basis for interviews with company employees and producers. Evasive answers regarding profit margins and other sensitive issues limited the depth of the analysis, yet the information provided is most valuable for a first analysis of the subject.

4. Cases analyzed

Considering the apparent different modalities in contract farming and the variants in the terms of the contracts for different products, it was thought appropriate to include a number of cases, although the analysis could not be done in the possible depth of a single case. Another consideration to include various cases was the difficulty to obtain precise information of the enterprises⁸. A brief comment is offered below, regarding each case, in order to illustrate the diversity.

⁸ Regarding this issue, table 3 omits the number of the firms and they are referred only by a code known by the author

Table 3 Cases included in the study

Product	Private firm	Cooperative	Type of producer	Number of producers
Sugar cane		C1	S, M	467
Fruits and Vegetables	F1		S, M	1.800
Mini-vegetables	F2		S	56
Chickens	F3		S, M	120
Milk		C2	S, M	140
Cattle	F4		M, L	9
Cattle		C3	M, L	350
Tilapia	F5		M	5

Source: Data registered during the interviews and review of bibliography. S=small scale producer, M= medium scale producer, L =large scale producer

As point of reference, the type of producer is differentiated as small (S), medium and (M) and large (L); however there is not a specific qualification in terms of area, income or assets. Small producers of sugar cane, fruits and vegetables and mini-vegetables, plant less than three hectares and in general they have irrigation only for vegetables and mini-vegetables. Medium scale producers of sugar cane plant up to 20 hectares; and those in vegetables plant up to five hectares. In the case of broilers, small producers deliver between 5,000 and 10,000 broilers every seven weeks; and medium producers deliver up to 20,000 broilers every seven weeks⁹. In the case of milk, small producers deliver on the average 200 liters per day and medium producers between 200 and 500 liters per day. Cattle producers in the fattening business deliver between 30 and 50 animals per month. And in the case of tilapia, they are referred as medium scale considering that the level of initial investment required for production is in the border of US\$ 100,000. There after, the cost of feeding and labor is near US\$ 5000 per hectare for the growing period of six to seven months until harvest¹⁰.

Cooperative C1 is the smallest of all integrated business in the sugar cane sector, and it groups 467 small producers. Each producer plants between 1 and 4 hectares of sugar cane. Their production is highly concentrated geographically. The terms of the agreement of the cooperative with producers are quite flexible, requiring only that the area to be planted be confirmed each year, in October. The price paid to producers is fixed by LAICA (the national sugar cane marketing board) and it is adjusted by the content of sugar derived by ton of sugar cane. The payment is made after 10 days of delivery; if paid later it is adjusted by an interest rate of 24 percent per year in local currency, (1 US\$ = 512 colones, as of November 5, 2006).

Cooperative C2 is a 20 year old enterprise, dedicated to the processing of milk to generate near 20 dairy products. It includes 140 producers; 80 percent of them deliver less than 200 liters of milk per day. The other 18 percent deliver between 200 and 500 liters per day and three of them in the average, 1500 liters per day. Producers must inform a week in advance of significant variations in the expected daily production of milk. Sanctions are moderate for milk of undesirable characteristics, and technical assistance is provided to solve sanitary deficiencies and for innovations in technology

⁹ The growing period for broilers, until ready for slaughter is seven weeks.

¹⁰ This brief explanation provides a general guideline and also a reference for other studies which place much emphasis on the producers' size. Education, willingness to innovate, access to irrigation water, quality of the land, access to services, etc., are as important as the size of the plot.

and management. Price is not yet adjusted by fat and solids in the milk; and payments are made every 15 days. The cooperative has made an arrangement for its associates to purchase veterinary inputs and feed concentrate with a discount of five percent at two chain stores.

Cooperative C3 is one of the oldest and it used to be one of the largest. It slaughters cattle of its associates and third parties, for marketing in the domestic market and exports, with its own brand. Currently 350 producers are affiliated, yet only 30 percent of them supply cattle on a regular basis (monthly). The others do it on a very occasional basis. Although individual deliveries are of all sizes (by truck loads), there is a preference of the Cooperative for the ones that provide more animals, of better quality, in a more regular basis. Sanctions are severe for animals that have been delivered without complying with veterinary regulations regarding previous use of antibiotics and hormones. Price is determined by an internal carcass qualification system; and payments are made 30 days after receiving the animals for slaughter.¹¹

The common feature of these three cooperatives is their lax regulations and good personal relation with producers. The contracts are in general flexible and not written on an individual basis. Also, because their cooperative structure, producers receive the benefits of added value resulting from the process of industrialization and marketing. The cases presented below refer to five private firms.

F1 is a private firm dedicated to the marketing of beef for supermarkets through Central America. The company contracts with producers the fattening of bulls purchased at 350 kilos and taking them to 550 kilos during ten months (on the average). Although there is a preference for pasture-fed animals, supplementary feed is encouraged (and facilitated by the firm) to obtain higher quality meat of younger animals. Currently nine large producers (fatteners) in several regions of the country, participate in the program, assuring the firm a continuous supply of cattle. The slaughter is made at export qualified plants in Costa Rica, and registered records of slaughtered animals are provided to the owners as the basis for pricing of the carcass. Payments are made 30 days after delivery of the animals. Visits are provided to the farms to anticipate deliveries, but there is no technical assistance provided

F2 is a small packer of fresh mini vegetables for the local supermarkets and for exports. It has an agreement with 56 producers in a much localized area. Each one produces out of one to four hectares, and in total 15 products are commercialized in the domestic market and exports to the US and Canada. Assistance is provided to producers in technical aspects of production, for the rotation of crops and for programming. Seeds are also provided at cost. Prices are paid on a market base at harvest time, with differentiation of quality. Payments are made 30 days after delivery at the packing house by the producer. No financial assistance or any type of credit guarantee is provided to producers.

F3 is a large corporation that provides fresh fruits and vegetables and some grains (beans) to the largest chain of supermarkets. It has agreements with several producer organizations and cooperatives, totaling 1800 producers, mainly small (less than 3

¹¹ Costa Rica does not have a national standardized carcass classification system, thus each plant has its own. This has been a matter for complaints of producers, as there is a general perception that prices paid for live animals do not reflect properly their carcass yield, neither the quality of the beef.

hectares). Each producer chooses the products of his preference, but according to the company approval of agro ecological convenience. He has to sign an agreement on type of product, estimated volume and timing and commitment to comply with safety regulations regarding use of irrigation water and chemicals, as well as maneuver practices. Producers receive technical assistance for production, and seeds. The firm has an agreement with one commercial bank to provide up to 60 percent of the operations capital to producers that have a contract, and also an agreement with input supply companies for short term financing to those producers. Prices are determined on the basis of quality and payments are provided between 30 and 45 days of delivery.

F4 is a foreign capital company dedicated to the production, processing and export of tilapia. Originally it produced the total of its requirements, yet newer market opportunities encouraged them since three years ago, to contract with five medium scale producers. All of them are localized in the area of the irrigation district and enjoy the benefits of a highly subsidized water supply. Technical aspects of production, water management and sanitary controls require intensive supervision by the company. It also provides producers with regular inspections, feed and sanitary controls. Prices are paid by volume and adjusted by size of fish (according to export size preference) and payments to producers are made between 30 and 45 days. Collection is made by the company at the producer's field.

F5 is the largest, fully integrated, producer of chicken meat in the country. It contracts the growing of broilers with 130 producers. As the demand for poultry meat is growing, the company is interested in some of their current producers to expand operations, rather than incorporating new producers. The company provides, baby chickens, feed, veterinary products, technical assistance, design for hatcheries and a strict programming. The latter is assured by the fact that broilers are ready for slaughter in seven weeks. The price is agreed at the date of delivery of baby birds and payments are made between five and ten days after collection at the farm. The company is also providing assistance to relocate chicken farms outside the central valley and discouraging the very small producers that remain in the very peri-urban areas. The guarantee of the contract is a valuable instrument for producers in their requests of finance from banks for investments in infrastructure.

The common feature of the private companies is their strict terms of the contract; larger periods (than the cooperatives) between delivery and payment and no participation whatsoever on the gains for added value. However, in all cases they provide technical assistance and quality controls and in some cases they play an important role in facilitating access to credit, as they guarantee the purchase of the products.

5. Main conclusions

Although the previous section has provided basic elements of the characteristics of the cases analyzed, table 4 presents a summary of the main features. On the basis of this information this section highlights the main conclusions of these experiences.

Table 4 Synthesis of information for cases studied

Characteristic/Company	C1	C2	C3	F1	F2	F3	F4	F5
Preference for small producers	Y	Y	Y	N	Y	Y	N	N
Preference for geographical concentration	Y	Y	N	N	Y	N	Y	N
Provision of technical assistance services	Y	Y	N	N	Y	Y	Y	Y
Provision of inputs and seeds	Y	N	N	Y	Y	Y	Y	Y
Financial services and financial references	N	N	N	Y	N	Y	Y	Y
Pricing as a function of quality	Y	Y	Y	Y	Y	Y	Y	Y
Sharing of production risks	N	N	N	N	N	N	N	N
Payments days after delivery	10	15	30	30	30	30	45	45
Sharing of value added	Y	Y	Y	N	N	N	N	N
Existence of formal contracts	N	N	N	Y	N	Y	Y	Y

Source: Information extracted from the cases analyzed

Notes: Y = Yes; N = No

The lack of preference for small producers: There is a perception that companies are not interested in contracting with small producers, yet there are a number of factors related to this matter, therefore a generalized conclusion is not feasible. From the companies' point of view, it is not the size of holding neither the level of capital of the producer what matters, but his responsibility, the exposure to risks and access. Hence, in many cases, like in the case of vegetables, there is in fact some preference for small holdings, as they depend from family labor and usually are more dedicated. If small producers are organized, this may be favored by the companies. However, in some cases as in the case of dairy operations and cattle fattening, the companies are definitely more interested in volumes of production rather than the number of contracts, thus a preference to contract with larger producers; yet it is also asserted that few large producers may collude easily against the company. In the case of the cooperatives, by definition, most of the associates are small producers.

Geographical concentration: It would appear that companies have a preference for producers to be concentrated in geographical spaces. This would reduce the costs of technical assistance, supervision and collection. However, companies have indicated also the benefits of geographical dispersion. In some cases this allows to take advantage of agro ecological conditions which facilitates the distribution of production throughout the year, and also dispersion of risks. If deliveries are not frequent and the level of technical assistance does not require continuous visits to the farms, geographical dispersion is favored by the contracting companies.

Inputs and services provided to farmers: In most cases the companies provide inputs and non financial services to contracted farmers. The inputs include seeds, baby chickens, feed concentrate, veterinary products, agrochemicals of particular characteristics, etc. services include soil laboratories, technical assistance, certification of products, collection of the product at the farm, etc. These inputs and services increase the company's possibility of achieving the proper quality of the products. On the other hand, they reduce transaction costs to the farmers to acquire them on their own. However, some farmers complain that these services and inputs are not always less expensive than if purchased in the market; yet the company demands direct provision, arguing for quality control.

Financing and other support provided by third parties: In very few cases the companies offer financial assistance to contracted producers. There was only one case reported of partial financing of operation costs. Yet, in several cases they would be willing to provide letters of reference to specific financial institutions, indicating the willingness to purchase the products, thus reducing market risk. It is revealed however that thanks to these additional clients brought in, the banks provide other benefits to the company.

Pricing and quality issues: The definition of the price to be paid for the product is the most common element of dispute, particularly in the cases where the price is left to be determined at the time of delivery. In such cases the guarantee of purchase does not eliminate fully the market risk. Closely related is the dispute regarding to the classification of the product, (a common matter for fruits and vegetables) where there are variations in the percentage of the harvest that qualifies at different grades, and prices. The situation is aggravated when the company only receives product above certain quality standards, which may have not been defined at the time the contract was agreed.

Production risks: In all cases, from the low production risk activities (sugar cane, cattle and milk) to those with the highest production risks, due to weather instability (vegetables) and sanitary conditions (tilapia and poultry), the risk is assumed entirely by the producer. Furthermore, controlling diseases is their entire responsibility. In no case they are compensated by the companies for losses due to weather and sanitary damages. In Costa Rica there are no insurance programs for agriculture. Only a small government subsidized program is available for rice.

Payment periods: Most producers operated under very tight availability of funds, thus would like payments to be received if possibly immediate upon delivery of the products. Although some companies, and particularly the cooperatives, are very considered on this matter, others are less flexible. Payments beyond the thirty days of delivery of the product are quite common. Companies would argue that they in turn have to wait sometimes over ninety days to be paid by supermarkets and even longer periods of time if the product is exported. Some companies allow producers to cash the payment immediately if discounted by large rate. This is in the border of three percent per month. Thus, financial gains, in addition to profit margins, accrue to the company.

Distribution of benefits and participation in value added: Although producers are thankful for the fact that they have contracts which partially reduce market risk, they are in general aware that they do not capture an equitable proportion of the aggregated income along the chain. Their higher quality products are an essential part of the higher quality processed product. Furthermore, the prestige of the brand (for which they produce) depends mostly on the farmers' effort, yet they receive little benefit of such a value added. This however is not the case of producers associated to cooperatives.

Formality in contracts: In several cases there are no formal (written and signed contracts). In other cases these contracts are under the rules of the company but are not public documents. There is indication that the few controversies found are solved internally and in very few occasions they had to be resolved under external authorities. The companies make their best to solve the situations on an individual basis and avoid

going to the tribunals. It has been suggested that this matter be of consideration for further research.

Environmental impacts and social isolation: Producers recognize that before contracting, their farms were more diversified and they had marketing relations with a diversity of actors within and outside their communities. This is particularly the case for vegetable producers. Because producers sell to a single purchaser, they express their concern as to what may happen when the purchaser goes away. In fact this deception has happened to many small producers of vegetables related to brokers for exports. Also, contracting has taken them into more intensive use of the land, higher use of agrochemicals and water exhaustion, all with some environmental costs.

The general conclusions of this work, are that there is a high variety in the modalities of contract farming; the arrangements vary depending on crops or animal products; most of the agreements include clauses on technical assistance, quality controls and pricing, and few include financing; technical support and guarantee of purchase of the products helps farmers in their arrangements to obtain financing; the degree of formality of contracts is varied, being more stringent when contractors are private firms; and there is no special legislation for the specific case of contract farming. Regarding the benefits, they accrue to producers and contractors. In terms of value added it is appropriated entirely by the companies, except in the case of cooperatives. Producers alone absolve all production related risks.

6. Recommendations

This final section offers recommendations for (a) possible strategies to respond to development trends in contract farming; (b) options for strengthening companies - farmer linkages, especially with small farmers, including actions that could be taken by firms themselves or the government to facilitate farmer linkages; and (c) appropriate sequencing of reforms or government actions.

Regarding the strategy to cope with the rapid increase in contract farming, an analysis is needed of more experiences in several countries in order to identify modalities, matters of conflict, benefits and costs to partners; and the elements of possible legislation. The main recommendations on the basis of experiences in one country are summarized as follows.

As one of the main interests is the incorporation of small scale producers in contract farming a point of great importance is to assist such farmers in becoming “viable farmers”. On that regard, minimum levels of education, access to irrigation water and roads, become essential. These factors are basic as this research suggested that in many cases, is not the size of the plot and the capital assets what limits the participation of small scale producers, but their capabilities, risks and access. For example, the preference for their abilities to produce vegetables, highly justifies the improvement of their other capacities. Also, it is most desirable to increase the efforts to improve their management skills organization and negotiating capacity.

As there are benefits from concentration of production in selected geographical areas, it is desirable to facilitate the establishment of specialized *Service Centers* in those areas.

Also, related to the concentration of production in geographical areas there must be a strong effort on research to prevent sanitary events and environmental impacts.

It was not found in the case of Costa Rica, neither in the brief review of literature, that there is specific legislation to guide contract farming. There should be analysis of the need for specific legislation on this matter or alternatively to comply with legislation on related matters as competition policy, financial transactions, etc. creating legislation on very specific matters may also be of high utility as for example the classification of beef canals and cuts, and for milk as a function of solids and fat.

Regarding the distribution of benefits of the added value derived from higher quality produce, it is a matter that deserves special attention. An option to encourage companies to share more the benefits with producers is allowing part of the packing and processing to take place at the farm or at least in the immediate rural areas where production takes place. Allowing producers to become share holders of the companies and tax policies to favor redistribution of the companies' income may be ways to encourage these initiatives.

The effort to improve rural well being can go further. More recent trends in agriculture are given increased consideration to localized agri-food systems which allow producers and processors to integrate efforts to develop products (primary and processed) with geographical identity. Within such scheme, part of the value added of industrialization and image creation and *branding* is appropriated by local producers and communities. For many developing regions this would be a more appealing way to increase incomes, higher quality employment and multiplier effects in rural areas (Pomareda, 2006). Also in this case, tax policy should be considered as an appropriate means to encourage rural investments. In a complementary way technological innovation policies with a local perspective and international trade negotiations to remove trade barriers to value added products from developing countries would have to be reconsidered.

Newer forms of agriculture, including contract farming will progress if countries take a more positive effort towards liberalization of foreign investment, improvements in investment climate, public and private investments in infrastructure and agricultural extension, liberalization of imports of capital assets and technological inputs, etc. In a complementary matter, policies must also be enforced to eliminate monopolies and to encourage competition practices.

Regarding the sequencing of policies, it is suggested that a first step should be a more specific analysis the extent to which current legislation provides enough coverage for fair contracts; and extending such knowledge to all interested parties. Special attention must be given to competition policy and quality related matters. The next stage, not conditioned by any research, must be the support and encouragement of producer organizations guided by corporate interests. This must substitute the associations and *light* organizations of producers created by government with political and not entrepreneurial purposes.

The most important and substantive effort has to be made by governments, producer organizations and individuals, to create a positive image of agriculture and the rural sector. Nothing will be better to renew agriculture and to move into more fruitful initiatives, than expressing the opportunities, highlighting the potential, empowering the

people and talking positive and optimistic. This does not mean hiding poverty and the problems, but replacing the approach. Lets don't place poverty first, but place the opportunities and the means by which local wealth can be created as a means to eliminate poverty♦

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