



# Contract Farming Questionnaire for Farmers

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## I. General information

- What are the benefits do you see that a contract farming arrangement with Tasty Food Packers can bring you? Reminders:
  - Improved yield, overall production output?
  - Improved quality of beans?
  - More secured market?
  - Better price? Better income?
  - Improved access to financial and other services?
- From what you can see, why and how can the benefits be achieved through contract farming?

A written contract agreement will be used for the contract farming pilot between the buyer and the farmers. Without a facilitator, commonly, a buyer (e.g. the Tasty Food Packers) can propose a set of terms of conditions (the content of a contract) for farmers to consider, and these terms can be negotiated between both parties to reach a final agreement that should be mutually beneficial. This could be the case when the contract is to be renewed.

Under the project, FAO in collaboration with MoAFSN is facilitating the initiation of a contract farming pilot between Tasty Food Packers and dry bean producers, including helping both parties in establishing the contract farming relationship, supporting drafting of a model contract, and facilitating negotiations of the contract terms so that the final contract to be agreed by both parties will be mutually beneficial.

- Before we get into various key issues of the contract, do you have any concerns regarding a written contract?

## II. Discussion on contract issues and terms

### Parties to contract

- The buyer proposes, also as the pilot suggests, to have a contract between the buyer and each one of you, individual farmers.
  - If not, what is your concern? Would you prefer signing the contract as a group?

### Capacities of the farmer:

- Have you been selling to Tasty Food Packers?
  - If yes, for how many years?
  - Did you have verbal agreement with Tasty Food? If yes, what is the content of the verbal agreement?
  - If you do not sell beans to Tasty Food Packers currently, but you sold beans to them in the past, why did you stop selling to them?
- How long have you been involved in the production of dry beans? Are you officially registered as a farmer? Do you have other crops or livestock on your farm?
- How would you evaluate yourself regarding experience and knowledge of dry bean production (a beginner, intermediate, experienced farmer)?
- Do you mostly produce purposefully for the market? Or do you produce mostly your own consumption and sell what is left for market or use the remaining and limited land to produce small quantity and sell to the market? (Level of commercial production).
- Who is the head of the household and who will be signing the contract and be responsible for contract farming?
- Are your family members involved in producing and processing beans? Have you hired outside labor before, and will you hire outside labor for contract farming?

### Farming groups and producer organizations:

- Are you a member of one or more producer organizations (e.g., farmers union, associations, or cooperatives)?
  - If yes, what are they? Are the organizations helpful? Are you an active member or a contributor or a leader?
- Are you a member of an informal farming group? Describe farming group.
- Are certain farmers respected leaders in the producer organization, or farming group, or your local community? Who are they? Are they here today for the pilot contract farming?
- Do you and other farmers have collective actions through producer organizations or farming groups?

- For example, taking loans/credit as a group, saving's group, sharing equipment, training, working together for production, harvesting, processing or marketing beans, sharing transportation, jointly buying inputs, or collectively resolving issues or disputes.

### **Identification of production site**

- Do you own or rent the land that you grow beans on? Do you own or rent the land to dry and process beans?
  - What is the ownership and tenure arrangement?

This is recommended best practice, but it is up to the buyer and in consideration of local environment:

- Can you provide a documentation for the ownership or tenure arrangement?
- If you have a land lease, do you have confirmed legal rights for unrestricted access and use of the land on which to plan and process beans?
  - Do you plan to inform the landowner about the contract farming agreement with Tasty Food Packers? Do you plan to seek the landowner's consent?
- Where is the land located?
  - How far are you from the place you deliver dry beans to Tasty Food Packers?
  - What is the road condition to access your field and transporting beans? Any feeder or paved roads?
- Where do you dry/process beans?
- Overall, is the land good for growing beans? Do you have suitable place and facilities to dry and process beans?
  - How is water supplied (e.g. rainfall, natural water sources, or irrigation)?
  - Do you have electricity, phone, cell phone, and internet?
  - Do you have any challenges or issues regarding the conditions for production and processing of beans?

### **Quantity and variety**

#### Variety

- What varieties of beans do you produce?
- Tasty Food Packers have proposed three varieties for the contract.  
(You can sell just one, or two or all three varieties; and you can sell other varieties beyond the contract.)

- What varieties have you been selling to Tasty Food Packers? What varieties do you plan to sell to Tasty Food under contract?
- Do you agree? Would you like to propose another variety?

### Quantity (options)

It is important to agree on some level of quantity in advance. Otherwise, the buyer's promise to procure will remain verbal. This provides farmers with more secured market and income, better production planning and capacity building for commercial production. The benefits to buyer are more consistent and predictable supply from local producers and better business planning.

There are generally the following types of quantity arrangement:

- Exclusive sales of output: The whole production of the farmer specified with the plot, input used, etc. This term limits the farmer only sell the defined production to the buyer, not to other buyers. It is not relevant in this case, in which the farmer can sell the whole production but is not obligated to.
- Non-exclusive sales of output:
  - Fixed quantity:
    - a minimum quantity, a range of quantity (min-max). A quota is also common, can be a minimum or a range, usually relevant when the buyer calculates and distribute quantities among farmers based on its own capacity to buy products, not relevant here.
    - The quantity is estimated based on the past performance and sales (e.g. the total production and sales to different buyers) and/or based on the production forecast for the season under contract (e.g. predicted acreage and yield). Some questions below guide the buyer and farmer to estimate the quantity.
    - Be mindful about the risks of under-production or over-production when deciding the quantity.
  - Variable quantity, such as a quantity to be determined in a later date and by specific method, such as the estimated output based on a series of field tests; or percentage of that quantity. It is usually useful for buyers that are more involved in production and require more precise prediction of outputs, but it is more complex and costly.

Self-reported quantity by farmers at harvest or a later date without effective verification measures should be avoided, because it provides an opportunity to report more or less based on their own interests, creates more uncertainty, and does not encourage honest behavior.

These are to be asked by the buyer to determine the suitable quantity for each farmer:

- Current and historical production quantity for each variety

- How many kgs or tons of dry beans have you produced this year? (a bad harvest)  
How many tons/kgs on an average year?
- How many hectares of land have you had for planting beans?
- What is the yield of beans this year? What is the average yield of beans under average conditions?
- Planned production for each variety
  - How many hectares will you plan to plant beans for the next season?
  - Can you estimate how many kgs/tons of dry beans under average conditions?
- Where or who do you usually sell dry beans to for each variety?
  - What are the shares for individual buyers, especially Tasty Food Packers?
- Would you like to propose a minimum quantity to be sold to Tasty Food Packer under the contract for the next harvest? How many kgs/tons for each variety?

### **Quality standards**

- Please describe the quality requirements for dry beans that are asked by Tasty Food Packers? Is it easy to comply with? Do you any challenges regarding the quality and complying to the quality requirement?
- Do other buyers have similar or different quality requirements? If so, what are they?
- Tasty Food Packers plans to use moisture meters to measure moisture content this year due to the challenges of the torrential rain.

It plans to use moisture meters and has proposed to incorporate a maximum moisture of 14 percent, in addition to the quality requirement that it currently has. This is the same for all three varieties of dry beans.

- Is this quality standard easy to understand, sufficient, fair and easy to comply?
- Will you be able to fulfill the requirement? Any concerns?
- Will it help you improve the quality of your dry beans?
- Do you need particular advice on preparing the beans to meet the quality requirements?

### **Pricing mechanisms**

#### Pricing (options):

Because contract farming is an agreement made in advance in this case before production, the pricing mechanism is also agreed in advance. In general, there are three types:

- Fixed price: more common for commodities with long season and more continuous supply, or with stable market, or tied to some price regulation, etc. It can be a set of fixed prices for different qualities.
- Flexible price: usually determined by market price and/or other changing conditions.
- Combined price with a fixed component (e.g. a minimum price) and a flexible component which can be associated with market price or incentive factors.

#### General information on prices:

- How do you come to agree on the price with Tasty Food Packer and other buyers? Do you negotiate the price with buyers?
- Does any buyer set different prices for different qualities? Or a single price?
- How different are the prices offered by different buyers?
- Do you sell directly to consumers? Where do you sell? At what price? How did you determine the price that you sell to consumers?
- Do you get information on market prices? Where? How easy is it for you to get market information, such as information on prices, buyers, varieties in demand?

#### Pricing proposal:

Tasty Food Packers is proposing to use a combined price including:

- A minimum price that will be determined by the agreed quality and predicted market condition, and this is a guaranteed price under normal conditions.
  - A flexible component will allow the price to adjust to the market price at the next harvest.
- All in all, you will get at least the same price as those farmers who are not under contract farming, but you will have a guaranteed minimum price under normal circumstances.
- Do you consider this price arrangement fair and easy to understand?
  - Do you have any concerns or any suggestions or alternative proposals?

### **Delivery, quality check, acceptance and payment**

#### Delivery

- In your previous sales to Tasty Food Packers:
  - Did you transport and deliver dry beans to one of their warehouses? When and how did you deliver dry beans to the warehouse?
  - Did you call Tasty Food so that you agree on a time and location for Tasty Food to pick up dry beans from you? How did you transport dry beans to the collection point? How many times for a harvest?
  - If none of above, how did you bring dry beans to Tasty Food?

- Tasty Food has proposed the above two delivery options.
  - Do you plan to do the same next year under the contract? If you choose another option, why?
  - Is it easy and doable? What challenges do you have to deliver dry beans?

Packaging:

- Tasty Food requires that you do not use the fertilizer bags to pack dry beans. Do you agree?
- What kind of packaging do you use for dry beans? How do you label your bags?

Quality check:

- Were you or was a designated representative for you present at the delivery for quality check upon delivery in the past?
- This will be required in the contract, do you agree?

Acceptance receipt:

- Did you get a receipt upon the acceptance of your dry beans? What information does it contain in the receipt? Do you keep your past receipts?
- Once your dry beans are accepted, under contract, you will be provided with a receipt with information such as the date and time, location, quantity, quality and price (this will be spelled out in the contract). Do you agree? Any suggestions?

Product reject:

- In the past, have your dry beans been rejected by Tasty Food when dry beans were delivered? For what reasons? What did you do?
- According to Tasty Food, a common problem is foreign matters among beans and the beans were not considered clean. This is easy to resolve, and they would ask you to get beans and they will accept the beans if they meet the quality standard. Tasty Food has proposed the same remedy under the contract.
  - Do you clean the beans at the warehouse or collection point? Or do you need to bring back the beans and then send them again to Tasty Food?
  - Does it reflect the actual situation with you? Any additional issues not reflected here?
  - Do you agree with the proposed remedy (i.e do you agree to take necessary steps to meet the quality requirement e.g. re-clean the unqualified beans)?

### Payment:

- When did you get payment after you have got the receipt if you deliver to a warehouse, or if you deliver to a collection point?
- Do you get the payment in cash or by bank transfer? Immediately or with some delay?
- Tasty Food has proposed to continue its current payment arrangement, that is:
  - you will be paid in cash immediately upon issuing the receipt at warehouse unless there is an agreement made for bank transfer;
  - or you will be paid ... if you deliver to a collection point and the beans are accepted with a receipt:
- Do you agree? Any issues or concerns? Any suggestions?
- How different are other buyers in terms of delivery, quality check, product reject and payment from Tasty Food?

### **Excuses for non-performance and Force majeure**

- What are the possible natural and other production risks in the production area (epidemics, earthquakes, storms, droughts, fires, floods, riots, etc.)? You had torrential rain this year, which impacted the harvest significantly.
- What happens if the agreed delivery of the crop fails due to unpredictable, inevitable events?
- Would you consider renegotiating or revising the contract when hardship occurs whereby it becomes extremely expensive or difficult for you or for the buyer to fulfill their duty (e.g., a dramatic rise in the price of the inputs necessary for the production)?

### **Breach of contract and dispute resolution**

- What would happen if the packer does not take the delivery at the agreed place or time, due to unexpected events (e.g. traffic) or errors (e.g. wrong address)?  
(Have also ready discussed remedy for quality issues above)
- What would happen if the buyer was late for payment at the agreed time or did not pay?
- If you could not solve a dispute directly with the buyer, who could help in solving the dispute?
- Are there mediation or arbitration services offered in Lesotho, that you would consider appropriate to be used in a dispute with buyers?

### Side-selling risks

- Do you prefer selling to one or two buyers and establish trust and long relation with certain buyer(s)? Or do you sell whoever offer the best price? And it does not matter to know the buyer and build a long relation with them.



- Currently, who offers the best price or best deal to sell dry beans to? What are other factors do you consider (e.g. ease of delivery, quick payment, cash payment)?
- Do you consider all dry bean packers offer similar prices and conditions and there is not much difference in selling to one or the other? Or are they quite different, in which ways?
- What competitive advantages do you think Tasty Food offer?
- Do you think the terms offered here are beneficial to you compared to what you would get from other buyers, or you would get without a contract? In particular, which terms do you think are especially advantageous to you?
- If some buyer (for example public procurement) offers a better price, will you sell to another buyer? Do you understand the obligation that you will have to sell certain quantity to Tasty Food? Are you ok with such obligation?

### **Communication and monitoring**

It is important for parties to keep communicating with each other after signing of the contract and throughout production, to sales and to contract renewal negotiations. Here is a proposed approach to communication and monitoring:

- The farmer will communicate with Tasty Food Packers in a timely manner on any issues that will impact his/her ability to fulfill the agreement. Tasty Food has recommended communicating through WhatsApp.
- The farmer will report its progress to Tasty Food Packers on a periodic basis (the duration is to be agreed with the buyer, such as once in every two months) via WhatsApp. The report can be that the production is on track with no significant issues or report on specific issues.
- The buyer will arrange its staff to visit farmers periodically to discuss or inspect issues that may have arisen as well as the production.
- Or the buyer will collaborate with producer organizations to conduct such visits jointly or on its behalf.
- Is this proposed approach acceptable to you?
- Do you have any challenges in terms of communication (e.g. phone, use of WhatsApp)?
- Do you have any alternative approach or any suggestions?

### **Duration, renewal, termination**

- The buyer has proposed the contract will be for a single season. Do you agree?
- Would you be interested in a multiple-season contract?

### **Production practices, inputs and technical assistance**

Note: These issues are usually discussed following the discussion on quality standards. Because these issues will not be incorporated into the contract, we move it to here so that we can finish the discussions on contract terms first. Nonetheless, these are key issues for contract farming, are in many cases in contract terms, and could be in contract in the future for dry beans.

### Inputs

- What inputs (e.g. seeds, fertilizer, pesticides) do you use for producing beans? Do you use certified seeds?
- Where do you get or buy seeds and other relevant inputs? Do you have difficulty obtaining these inputs?

### Training, technical assistance, capacity development

- Do you get training and technical assistance for producing dry beans? From whom?
  - What other training on production or farm management do you get? From who?
- Which capacities do you lack the most: production, processing, marketing, or farm management (including record-keeping)?
- For you, what would be the most suitable and effective way for extension workers to increase these capacities: training, technical assistance, field visits, telephone assistance?
- What do you suggest that the extension and marketing service can collaborate to support you under CF (this will not enter contract terms, generally)?

### Finance

- Have you taken a loan or credit with a bank or other financial institutions?
- Can you describe any needs for finance? What type of investment you would like to make?
- How do you plan to finance the investment? What constraints do you have to access finance?
- Do you know that the contract and successful sales records may demonstrate your capacity and may be helpful for a loan application with a bank? Would you like to obtain a loan this way?
- Would you be willing to keep records of production and sales among others?

## **III. Sales of the current harvest**

- What is your plan to sell your current harvest?
- Would you consider a simple contract with Tasty Food Packers that includes relevant terms on the quantity, quality, delivery, and price that we have discussed here today? (Facilitator can give a brief summary on the terms discussed and proposed).

#### IV. Final questions

- What is your preferred language for a contract? Should the contract be in English or Sesotho, or both?
- Farming groups and producer organizations:
  - Do you prefer farmers under contract farming being organized into working groups and having a lead farmer or two to coordinate contract farming with the buyer?
  - In which ways do you think the producer organization or farming group can facilitate and support contract farming for the farmers?
  - Do you prefer a producer organization be a third party in the contract? Why and why not? (Note: a multipartite CF model in the future)
  - Do you prefer a producer organization signing the contract with the buyer on your behalf? Why and why not?
- In which ways do you think government can support and facilitate contract farming for farmers? This includes extension and marketing services from the ministry of agriculture.
- Do you need specific new skills for managing the contract with the buyer?
- Do you think you will be able to get more skills and knowledge from CF e.g. record keeping, contract, market, farm management, etc.?
- Do you think that you might incur additional costs for contract farming? What are they?
- After learning about these key issues in contract farming, do you any concerns about contract farming?
  - How can these concerns be addressed?
- Any adjustments, or improvements that you would like to suggest on the proposed contracting operation and proposed contract agreement?