



Learning Event Summary Report

Contract Farming Schemes:

Challenges and Opportunities for Myanmar

Yangon, Myanmar | 6 June 2018



EXECUTIVE SUMMARY

Over the last century a wide range of pre-harvest agreements that can, in one way or another, be termed *contract farming* have been brokered to organize commercial agricultural production. More recently, however, we have seen a growing interest in contract farming schemes in developing countries such as Myanmar. This is not only as a means to increase income and profitability for highly professionalized producers and buyers, but as a production model with the potential to lift smallholder farmers by linking them to market opportunities otherwise inaccessible due to impediments such as distance, processing standards or access to technology.

Contract farming should not, however, be thought of as a panacea to eliminate rural poverty - it only makes sense for certain commodities in certain markets. Moreover, if improperly managed, contract farming can lead to a plethora of problems, including abuse of power, market failure, side-selling, detrimental environmental and gender effects, falling incomes; and the transformation of smallholder farmers into wage-earning agricultural laborers on their own land.

Due to significant interest on the topic, on 6 June 2018, [Grow Asia](#), the [Myanmar Agriculture Network](#) (MAN) and [AgriProFocus Myanmar](#) ran a joint learning event in Yangon on contract farming. The main objectives of the event were: to build an understanding amongst our member base of the different contract farming models available and their suitability for Myanmar, to explore good practices from those already implementing contract farming schemes in South East Asia and to identify the key challenges and success factors for effectively engaging and lifting smallholders through contract farming.

The learning event drew 140 participants and saw representatives from government, the private sector, CSOs, aid organizations, farmer associations, academe and financial institutions. This document is a summary of the key points raised during the learning event and is intended for our partners, stakeholders and peers to build on and use as a reference point to guide further action



OPENING ADDRESS: MINISTRY OF AGRICULTURE

H.E. Aung Zaw Naing, Agricultural Minister for the Bago region, opened the event by providing an insight into the work the Myanmar Government has already put into addressing the opportunities and challenges around implementing contract farming schemes on a regional and national level. Here he briefly shared that the Bago region has already drafted a contract farming law, which was recently presented to Parliament. An understanding that government policies will have an important part to play in creating an enabling environment for growth was articulated here.

Reflecting on the smallholder agriculture space in Myanmar, H.E. Aung Zaw Naing also emphasized the country's enormous potential given its favorable geographic location and resource endowments. He did, however, highlight the need for agro-enterprises of all sizes to become even more actively involved if Myanmar is to achieve productivity levels like that of its agro-ecologically similar neighbors. Both policies and investments must help smallholders to move up to commercially viable farming, with contract farming schemes being one mechanism of doing so.

SETTING THE STAGE: MEKONG INSTITUTE

Setting a theoretical framework of contract farming, Maria Theresa S. Medialdia, Director of the Agricultural Development and Commercialization Department of the Mekong Institute, provided a broad definition of contract farming (see right), an overview of the different contract farming models, a summary of advantages and disadvantages of contract farming for both buyers and producers; and, an overview of how these schemes have been implemented in Vietnam, Laos, Cambodia and Myanmar.

She cautioned that while contracts are an appealing mode of governance, they may be ill advised in some situations. The central tenet of contract farming is that contractual relationships will only be sustainable if the partners involved perceive that they are better off by engaging in it - the relationship must be seen as being commercially viable.

Maria Theresa also emphasized that: (1) the relationship will fail if parties do not develop mutual trust, a synergistic relationship and reciprocal dependency, (2) no successful contracting scheme can exist or remain sustainable where the institutional and political setting is not conducive to it (echoing the sentiment raised by H.E. Aung Zaw Naing), (3) as much should be done to minimize contractual hold-ups and that (4) there is a clear need to countervail the uneven balance of power, be it by establishing farmer associations, resolving disputes through third party mediation or incorporating legal provisions into the contract.

More information can be found in her presentation (accessible [here](#)) and on the UN's Food and Agriculture Organization (FAO) [Contract Farming Recourse Centre](#).

CONTRACT FARMING:

“Agricultural production carried out according to an *agreement* between farmers and a buyer which places *conditions* on the *production and/or marketing* of the commodity”

INSIGHTS:

Following the introductory presentation, representatives from four organizations operating in Myanmar and Southeast Asia more broadly were invited to share their experience implementing contract farming schemes.

MAPCO

Ye Min Soe, Chief Operating Officer of Myanmar Agribusiness Public Corporation Limited (MAPCO), discussed the rationale behind MAPCO's decision to set up contract farming schemes across 22 townships and 7,421 acres in Myanmar. Through contract farming schemes, they hoped to increase yields per acre and quality of produce, reduce production cost, promote food safety and Good Agriculture Practices, encourage the adoption of modern farming systems and increase profitability for MAPCO.

In his closing remarks, Ye Min Soe provided advice to the private and public-sector participants in the room. Businesses were urged not to view contract farming as a be-all and end-all solution to their challenges, to get further involved into their value chain and to put considerable thought into the default rate stipulated in their contracts. For the public sector, Ye Min Soe requested that government: (1) issue regulatory directives for contract farming in Myanmar, (2) consider further investments into irrigation systems and other infrastructural developments, (3) increase smallholders access to credit and (4) play a part in effective and efficient dispute resolution mechanisms.

The full presentation from MAPCO can be found [here](#).



Ye Min Soe
CEO, MAPCO

EAST WEST SEED

East West Seed (EWS) Area Manager, Bhagwat Pawar, teased out the details of how their organization utilizes contract farming schemes in the Philippines, Indonesia, India, Vietnam, Thailand, Tanzania and Myanmar to both lift smallholders and meet growing demand for their seed. EWS provides their farmer base with parental seed material free of cost, technical guidelines, capacity building programs and an advance. In return EWS receives high quality seed which is bought back at a fixed price.

Through this, Bhagwat also stressed the importance of building mutual trust with smallholders to ensure the sustainability of the scheme, of which open communication channels and regular, high-quality training are a key part.

The full presentation can be found [here](#).



Bhagwat Pawar
Area Manager, East West Seed

VIETNAM TEA ASSOCIATION

Vice Chairwoman of the Vietnam Tea Association, Nguyen Thi An Hong, provided insight into the strengths and challenges associated with various contract farming schemes implemented in the Vietnam tea sector. She brought up the variable of plantation management and went through examples of how companies who lease their own tea gardens manage contract farming schemes differently from those who do not.

Ms. Hong also then reflected on the role government plays in promoting effective contract farming schemes. More specifically, she articulated the role public-private partnerships play in integrating smallholders sustainably into supply chains, citing examples involving players such as Unilever, IDH, the Vietnam Ministry of Agriculture and Rural Development (MARD) and multiple Vietnamese tea companies.

The full presentation from the Vietnam Tea Association can be found [here](#).



Nguyen Thi An Hong
Vice Chairwoman,
Vietnam Tea Association

CJ CHEILJEDANG

Byoung Soo Lee, Managing Director of CJ Cheiljedang Myanmar, provided insight garnered from the contract farming schemes implemented for CJ's chili production in Myanmar, which rears high quality dried chili for export to Korea. As CJ utilizes a "Creating Shared Value" approach to their production – which places continuity and mutual benefit between producers and buyers at its core – Mr. Lee continuously reiterated the importance of building a sense of trust with smallholders to reap the most favorable outcomes.

He emphasized a need for flexibility to building trust with farmers and to mitigating the risk of contract defaulting or side-selling. Examples given included the buying of second-tier quality produce and allowing consensual selling of surplus produce to other buyers.



Byoung Soo Lee
Managing Director,
CJ Cheiljedang

PANEL DISCUSSION:

Following the case study presentations from MAPCO, East West Seed, the Vietnam Tea Association and CJ Cheiljedang, a panel discussion was held to provide event participants with the opportunity to ask questions directly to the speakers. Maria Teresa from the Mekong Institute and U Aye Ko Ko, Deputy Director General of the Department of Agriculture, were also invited to the stage.

U Aye Ko highlighted once again, the importance of building a relationship based on trust between the buyer and producer and stressed the centrality of long-term thinking. An example cited here was the inclusion of clauses in contract farming schemes in Brazil which protect farmers from losses due to force majeure, such as natural disasters and pest outbreaks. He also shared with participants that the Department of Agriculture is currently developing a Standard Operating Procedure for contract farming in Myanmar, drawing input from the Myanmar Rice Federation and stakeholders from other crop sectors.

More examples of the questions asked and responses given can be found [here](#).

ACTION PLANNING:

Learning event participants broke into four groups and were asked to explore ways producers, buyers and government could act to minimize instances of contract indiscipline, such as side selling. A consistent theme was the centrality of long-term thinking, the building of trust and the creation of an environment where unequal power dynamics can be levelled and farmers' rights can be enforced.

The following page is a summary of participants' recommendations on how three key players – the producer, buyer and government – can act to minimize instances of contract indiscipline.



ACTION PLANNING SUMMARY:

BUYERS:

- Engage producers in the scheme design and implementation, for example in determining prices and pricing formulas, the degree of risk sharing and the quality of produce
- .Ensure producers receive prompt payment
- Provide producers with appropriate training, technology, insurance and inputs
- Ensure producers understand the terms of the contract. Signing the contract directly with a farmer association rather than with individual farmers may facilitate this
- Invest in building good relationships with producers, for example through regular communication, training, the provision of secondary support services or the promotion of producer land rights
- Establish code of conduct with other companies operating in the same or nearby area to reduce the risk of side-selling
- Purchase producers' second-tier outputs where possible
- Ensure the scheme leads to higher income for farmers, both otherwise and compared to other models
- Ensure that corruption in any form does not occur
- Be strict in enforcing contract requirements
- Ensure the contract farming scheme does not transfer all risk to the farmers

GOVERNMENT:

- Act as or identify a third party to review and settle disputes
- Have appropriate legislation to ensure producers' rights can be enforced
- Work with the private sector and CSOs in developing SOPs or concession programs to protect larger investments and/or create a business enabling environment
- Directly provide or facilitate access to funding for producers and buyers, such as loans to farmers or grants to buyers committed to investing in lifting smallholders' capacity

PRODUCERS:

- Should consider forming or joining existing cooperatives or associations, which will facilitate the communication of grievances
- Should ensure they understand the terms of the contract, including the product requirements. The forming of associations or cooperatives can aid with this process too



NEXT STEPS:

The event clearly identified the need for policies and procedures for contract farming. Looking ahead, Grow Asia, MAN and AgriProFocus are exploring the possibility of facilitating a policy roundtable dialogue. This event would bring together key players in the landscape to develop policy recommendations, where needed, to the Ministry of Agriculture, Livestock and Irrigation.

We are interested in hearing from those who are willing to share their experience in implementing contract farming schemes in Southeast Asia, or organizations which would like support doing so.

Please contact us at the following to share your perspectives.

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PARTICIPANTS

NAME

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Aye Aye Thinn	Mercy Corps
Aye Aye Win	Myanmar Belle
Aye Ko Ko	Department of Agriculture
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Moe Zaw Htet	The Farmer Journal
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Myo Myat Thu	Winrock
Myo Thu Htun	MRF
Myo Tun Kyaw	Golden Unicorn Co Ltd
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Nay Hnin	Myawadi daily
Nay Lin Htet	CAFOD
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U Aung Thu Win	TPT Yee Shinn Co Ltd
U Khin Han	UMFCCI CEC
U Kyaw Min	M.M.T Company
U Kyaw Myo Aung	Aye Myittar Rice mill
U Kyaw Ngwe	M.O.C
U Myat Thu Tun	Aye Chan Nyein Kyaw Co Ltd
U Myint Lwin	Myanmar Rice Federation
U Myo Thura	ACIAR
U Phyo Thu	Mon Mon Rice Mill
U San Tun Win	MOALI DOA
U Soe Win Maung,	MPBSA
U Thein Naing	UMG
U Tin Htut Oo	Yoma Holdings
U Tin Nyunt	Aventine Co Ltd
U Zar Ni Win	MMT Company
Wah Wah Htun	MFVP
Wai Tun Naung	Eleven
Ye Htut Naing	TRCCT
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