

Title **Contract Farming and Rural Development in the Philippines**

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Summary	<p>This lesson introduces students to the rural and agricultural economy of the Philippines and to the issue of rural development in the Philippines through the topic of contract farming. Most of the Philippine poor live in rural areas, and efforts to improve living conditions in this segment of the population are critical. Contract farming, a contractual relationship between grower and buyer, is seen as one potential tool in the rural development efforts. This tool, however, is controversial. Some view it as an effective means to link farmers with export markets while paying farmers a premium for the production of a specialty cash crop. Others point to the potential pitfalls of contract farming for the grower – indebtedness, unequal grower-buyer relationship, and increased labor requirements. Many of the questions and issues associated with rural development in the Philippines can also be useful in understanding development challenges in other developing states. These issues can include poverty reduction, food security, gender relations, labor relations, technology transfers, and infrastructure development. Information contained in this module includes a summary of contract farming and some of the potential positive and negative effects on farmers and companies, the central questions surrounding contract farming as a development tool, a summary of the Philippines agricultural and rural sector, case studies of contract farming in the Philippines, and links to additional readings and resources.</p>
Level	College: 200 level
Content Area	Political Science International Relations Sociology Economics Anthropology Geography
Duration	Two 75 minute class periods <ul style="list-style-type: none"> • One period on contract farming and development • One period on the application of the Philippine case studies
Objectives	Students will: <ul style="list-style-type: none"> • Recognize the nature of rural development efforts in the Philippines; • Identify the characteristics of contract farming; • Evaluate the effectiveness of contract farming as a development tool in the Philippines; • Apply the lessons learned in the Philippines case studies to the broader issues of development and poverty alleviation in developing nations.

Procedures	<p>Prior to Day One Students should:</p> <ul style="list-style-type: none"> • Read – ➤ Food and Agricultural Organization (FAO) Contract Farming Resource Centre Frequently Asked Questions ➤ Minot, Nicholas. (2007). Contract farming in developing countries: Patterns, impact, and policy implications - case study #6-3. In <i>Food policy for developing countries: Case studies</i>. Pinstrup-Andersen, Per and Cheng, Fuzh. (Eds.). Cornell, NY: Cornell University Press. URL: http://cip.cornell.edu/dns.gfs/1200428173 ➤ Glover, David. (1994). Contract farming and commercialization of agriculture in developing countries. In <i>Agricultural commercialization, economic development, and nutrition</i>. von Braun, Joachim and Kennedy, Eileen T. (Eds.) Chapter 10 Pp. 166-175. Baltimore, MD: Published for the International Food Policy Research Institute (IFPRI) by Johns Hopkins University Press. • Review – ➤ The “Contract Farming Reading Questions” document listed under Appendix 3 of this lesson plan. <p>Prior to Day Two Students should:</p> <ul style="list-style-type: none"> • Read – ➤ Leonard, Rebeca, Osorio, Martha and Menguita-Ferani, Mary Luz. (2015). <i>Gender opportunities and constraints in inclusive agribusiness models: The case study of Unifrutti in Mindanao, Philippines</i>. Food and Agricultural Organization of the United Nations. Retrieved from http://www.fao.org/3/a-i4444e.pdf ➤ Briones, Roehlano, M. and Galang, Ivory Myka R. (2014). <i>Linking small farmers to modern markets: The role of contract farming</i>. PIDS Policy Notes No. 2014-09. Makati City: Philippine Institute for Development Studies. Retrieved from http://dirp3.pids.gov.ph/webportal/CDN/PUBLICATIONS/pidspn1409.pdf

- Review –
 - Government of the Philippines. (2014). *Q and A: The Comprehensive Agrarian Reform Program*. Government of the Philippines. Retrieved from <http://www.gov.ph/2014/06/30/q-and-a-the-comprehensive-agrarian-reform-program/>
 - Rural Poverty Portal. (n.d.). *Rural Poverty in the Philippines*. Rural Poverty Portal. Retrieved from <http://www.ruralpovertyportal.org/country/home/tags/philippines>
 - The “Philippine Case Study Questions” document listed under **Appendix 4** of this lesson plan.
 - Professor may assign additional case studies. See **Case Studies – Philippines** section of this lesson plan.

Day One

Professor:

- Lecture on what contract farming is, the different variations, and its use as a development strategy in the developing nations.
- Lecture on the varying possible effects on farmers and companies of contract farming.
- Use the “Contract Farming Reading Questions” document to guide discussion on contract farming characteristics and challenges in developing states. Alternatively, have students discuss the reading questions in small groups and compare responses. Students should think about how contract farming is used as a development strategy, the characteristics, the possible impacts, and when it should or should not be used.

Students:

- Students should have read and reviewed the preparatory readings and documents.
- Engage in a discussion centered on the “Contract Farming Reading Questions” document.

Day Two

Professor:

- Lecture briefly on the nature of the agricultural and rural sectors in the Philippines to provide context for the Philippine case studies along with any additional case studies the Professor may have assigned.
- Use the “Philippine Case Study Questions” document to guide discussion on the use of contract farming in the Philippines. Students should consider how contract farming was implemented in the different Philippine case studies, the effects on farmers and the rural sector in the case studies, and the effectiveness of contract farming as a development strategy in the Philippines case studies. The Professor may choose to do the same with additional case studies. Alternatively, small groups may be assigned individual case studies to discuss using the “Philippine Case Study Questions” document. Results can be compared following the small group analysis.

	<p>Students:</p> <ul style="list-style-type: none"> • Students should have read and reviewed the preparatory readings and documents. • Engage in discussion centered on the “Philippine Case Study Questions” document and/or other alternative case study.
<p>Materials / References</p>	<p><u>Contract Farming – Background</u></p> <ul style="list-style-type: none"> ➤ Food and Agricultural Organization (FAO) Contract Farming Resource Centre <ul style="list-style-type: none"> • This site provides valuable information and access to contract farming issues in the developing world. The site contains a searchable database of contract farming literature and resources. It provides valuable resources on the legal questions surrounding contract farming for peasant farmers and a number of short videos. ➤ Food and Agricultural Organization (FAO) Contract Farming Resource Centre Frequently Asked Questions <ul style="list-style-type: none"> • This section of the <i>Contract Farming Resource Centre</i> website provides a brief explanation of contract farming and a brief explanation of the advantages and disadvantages of contract farming as well as some of the key issues. ➤ Glover, David. (1994). Contract farming and commercialization of agriculture in developing countries. In <i>Agricultural commercialization, economic development, and nutrition</i>. von Braun, Joachim and Kennedy, Eileen T. (Eds.) Chapter 10 Pp. 166-175. Baltimore, MD: Published for the International Food Policy Research Institute (IFPRI) by Johns Hopkins University Press. <ul style="list-style-type: none"> • This book chapter provides an excellent brief summary of contract farming, the contract farming literature, and the key issues surrounding contract farming, such as farmer income, labor practices, crop displacement, and infrastructure requirements and benefits. The article notes that in some instances food crops can be displaced by cash crops in contracting arrangements. These arrangements may also have an impact on women, given that women do much of the agricultural work in developing states. However, contracting may bring in needed infrastructure to the rural community and the contract may provide valuable agricultural extension services for farmers. In terms of policy implications, the author notes that farmers should be given as much freedom as possible so they can maximize productivity, labor, and income.

- Minot, Nicholas. (2007). Contract farming in developing countries: Patterns, impact, and policy implications - case study #6-3. In *Food policy for developing countries: Case studies*. Pinstrup-Andersen, Per and Cheng, Fuzh. (Eds.). Cornell, NY: Cornell University Press.
URL: <http://cip.cornell.edu/dns.gfs/1200428173>
 - The author provides a concise summary of the many issues involved with contract farming in the developing world and the pros and cons of the different aspects of contract farming for farmers, businesses, and governments. In general, contract farming increases income for small farmers, but the type and characteristics of the contracting scheme can have a significant impact on profitability. Large companies often are also hesitant to contract with large numbers of small farmers, preferring instead to contract with large farmers because of the lower transaction costs involved with managing a smaller number of farmers and the large farmer's perceived higher level of technology.

- Little, Peter D. & Watts, Michael J. (Eds.). (1994). *Living under contract: Contract farming and agrarian transformation in Sub-Saharan Africa*. Madison, WI: University of Wisconsin Press.
 - This is one of the best texts on contract farming in the developing world from a sociology, anthropology, and geography perspective. The opening chapters review the literature on contract farming and the comparative theories that motivate contract production and the consequences of contract production. The remaining chapters address specific contract farming case studies in Africa. Though the case studies focus on Africa, they are instructive for development studies in general.

- Edleman, Paul R. (2006). Farm characteristics of contract specialty grain producers. *Journal of Sustainable Agriculture*, 29(1): 95-117.
 - This article examines the characteristics of specialty grain producers in the United States. It finds that specialty producers tend to be larger farmers, younger, and more educated than the average farmer. Many of the contract grower operations also possess three characteristics which make them attractive to contracting firms: access to large transportation equipment such as semis that can haul grain long distances, segmented storage to separate specialty and commodity grains, and irrigation to reduce production risks.

Philippine Rural and Agricultural Sector

- Philippines – [Department of Agriculture](#)
 - This is the official website of the Philippine government's Department of Agriculture. The website provides current information on the agricultural sector in the Philippines and government policy in the agricultural sector and the government's development efforts in the rural areas of the Philippines.
- Government of the Philippines. (2014). [Q and A: The Comprehensive Agrarian Reform Program](#). Government of the Philippines. Retrieved from <http://www.gov.ph/2014/06/30/q-and-a-the-comprehensive-agrarian-reform-program/>
 - This website provides a brief explanation of the agrarian reforms being carried out by the Philippine government to redistribute land to landless peasants and farm workers.
- Rural Poverty Portal. (n.d.). *Rural Poverty in the Philippines*. Rural Poverty Portal. Retrieved from <http://www.ruralpovertyportal.org/country/home/tags/philippines>
 - This website provides basic information on rural poverty globally.

Case Studies – Philippines

- Digal, Larry N. (2007). *Agricultural contracts in Mindanao: The case of banana and pineapple*. PIDS Discussion Paper No. 2007-24. Makati City: Philippine Institute for Development Studies. Retrieved from <http://dirp3.pids.gov.ph/ris/dps/pidsdps0724.pdf>
 - This case study examines the contract production of bananas and pineapple in the Mindanao region of the Philippines. The study finds that contract farming increases the efficiency of production, helps link the grower and buy to facilitate a smoother integration of production and processing, and enhances quality standards. However, it also raises issues of inequality. The farms and the cooperative in the case study had limited control over the production regime and the technology to raise bananas, which remained in the hands of the company. And there were claims of inequitable contracts by farmers in both the banana and pineapple cases.

- Briones, Roehlano. (2014). *Small farmers in high value chains: Binding or relaxing constraints to inclusive growth?* PIDS Discussion Paper No. 2014-23. Makati City: Philippine Institute for Development Studies. Retrieved from <http://dirp3.pids.gov.ph/webportal/CDN/PUBLICATIONS/pidsdps1423.pdf>
 - This study of tobacco farmers in the Philippines finds that small contract farmers benefit economically from participating in contract tobacco production. It also found that small farmers are likely to participate in contract farming. The study did not find an increase in inequality between large and small farmers. It did find greater production efficiencies among smaller farms. Thus, the study advocates for continued small farm production in the Philippines.

- Leonard, Rebeca, Osorio, Martha and Menguita-Feranil, Mary Luz. (2015). *Gender opportunities and constraints in inclusive agribusiness models: The case study of Unifrutti in Mindanao, Philippines*. Food and Agricultural Organization of the United Nations. Retrieved from <http://www.fao.org/3/a-i4444e.pdf>
 - This case study examines two forms of banana production in the Mindanao region of the Philippines involving the Unifrutti company. The first case study involves local cooperatives consisting of small farmers who acquired their land through the government's land reform program and are engaged in contract production with Unifrutti. The second case study involves a traditional plantation model of production. The study found that small farmers were able to gain economically from the contract production; however, farmers with larger holdings were able to gain more than farmers with very small holdings. Further, by being organized into a cooperative organization the farmers had greater bargaining power with the company and were able to address issue more quickly because of their collective power. The company and the farmers shared the risks, though environmental risks fell more heavily upon the farmers. While farmers benefited, the surrounding community did not necessarily benefit from the contracting scheme. The case studies also illustrated gender equality concerns between men and women. Women are often left out of the government's land reform program because priority goes to permanent wage labors, which are mostly men. Thus, women do not receive the benefits of land ownership or have less participation in the decision making processes of the cooperative. There seems to be little division of labor between men and women on the small holder operations. In the plantation operation women were more involved in the processing components and men more involved in the field work.

	<ul style="list-style-type: none"> ➤ Briones, Roehlano M. and Galang, Ivory Myka R. (2014). <i>Linking small farmers to modern markets: The role of contract farming</i>. PIDS Policy Notes No. 2014-09. Makati City: Philippine Institute for Development Studies. Retrieved from http://dirp3.pids.gov.ph/webportal/CDN/PUBLICATIONS/pidspn1409.pdf • This Policy Note summarizes a study conducted among tobacco farmers in the Ilocos region of the Philippines. It notes that tobacco farming by contract production is becoming more prominent in the Philippines, displacing the traditional system of production. It found that contract farmers generated more income growing tobacco than noncontract farmers growing tobacco and that contract farmers were more productive. Less educated farmers were more likely to participate in contract farming. Large and small farmers participated in contract farming at the same rate. <p><u>Philippine Economic and Poverty Data:</u></p> <ul style="list-style-type: none"> ➤ National Statistical Coordination Bureau (NSCB). (2015). <i>Poverty statistics</i>. http://www.nscb.gov.ph/pressreleases/2015/PSA-20150306-SS2-01_poverty.asp • This is the national statistical authority of the Philippine government. The link provides information on poverty data in the Philippines in 2014. The NSCB as an institution collects statistical data on the Philippine society, including information on poverty, income, education levels, rural population trends, etc. ➤ World Bank. (2015). <i>Philippines, country dashboard, poverty & inequality</i>. World Bank. http://povertydata.worldbank.org/poverty/country/PHL • This site provides the latest World Bank poverty data on the Philippines. It highlights the inequality indicators and provides a comparative perspective on inequality in the Philippines.
Appendices	<ul style="list-style-type: none"> • Appendix 1 – Overview: Contract Farming • Appendix 2 – Overview: The Philippines Rural and Agricultural Sector • Appendix 3 – Contract Farming Reading Questions • Appendix 4 – Philippine Case Study Questions

Appendix 1:

Appendix 1 – Overview: Contract Farming

Overview:
Contract
Farming

Since the turn of the 20th century, agriculture has undergone a fundamental restructuring known as agricultural industrialization. Following characteristics of the post-World War II manufacturing sector, today's agricultural sector is more harmonized and specialized and also exhibits greater reliance on just-in-time strategies than agricultural production several generations ago. The outcome is a highly coordinated commodity system that links together producers and end-users on a global scale, facilitates the standardization of product quality through such techniques as biotechnology, and guarantees an assured and timely supply of inputs to firms.

One of the more controversial components of agricultural industrialization is contract farming. Contract farming represents a system of farming whereby producers sign a contract with a firm or local elevator/cooperative to grow a specialty or high-value crop exclusively for the contractor. In return, the producer is promised a premium from the contractor for producing the crop. In doing so, the grower agrees to achieve specified quantity and/or quality or grade requirements set out by the firm in the contract.

What makes contract farming controversial is the often unequal relationship between grower and buyer and the use of the contract to shape the social, political, economic, and legal relationships between grower and buyer and between growers themselves. As noted above, in its simplest form, contract farming merely links the buyer with the grower through a binding contract and specifies the type of commodity to be produced. In practice, the contents of each contract vary widely. Contracts are generally signed before planting and may outline the following details:

- Planting, harvesting, and delivery dates;
- Acres planted;
- Quantities delivered;
- Inputs;
- Production procedures;
- Labor requirements;
- Credit;
- Grading requirements;
- Price or pricing formula; and
- Technical advice.

Most contract arrangements occur between a farmer and private firm. Firms can range from local to multinational in scope. In recent years, a growing number of farmer owned cooperatives have entered contracting and contract with their member farmers. In developing nations many small growers contract with a governmental agency or parastatal. This is particularly common in developing countries where state policy dictates a direct role in economic development or out of necessity as a way of overcoming infrastructure or market failures (Little and Watts, 1994).

The contract farming controversy stems from two competing views of contract farming. Agri-business and economics often invasion contracting farming as a positive partnership between grower and buyer that results in a win-win outcome for both parties. This is the result of several factors. Most contracts specify the purchase price and quality requirements. Thus, farmers know the purchase price before planting, which can help reduce price and marketing risks for the grower. This also reduces risk for the buyer since they too know the purchase price before the growing season begins. In developing countries the contract can help overcome traditional marketing failures by linking the grower directly to the buyer. In developing nations in particular, where

	<p>commodity chains are not well developed because of infrastructure failures, the buyer can be a vital link between producer and consumer. Many farmers in rural developing nations may also lack access to modern production inputs and financial credit that can be used to make their land more productive, resulting in higher profits for the farmer. Buyers may provide these inputs or the credit as part of the contract agreement. Lastly, for growers still dependent on subsistent production, contract production provides farmers with a source of cash that can be used for such things as educational expenses for their children or reinvested into the farmer’s farming operation.</p> <p>Critics of contract farming content that the above benefits are marginal and often outweighed by the negative results. While grower and buyer are bound together through a contract, the contract relationship tends to be in favor of the buyer. In instances where the relationship is between a larger multi-national agri-business firm and small rural farmers, the farmers do not possess the political clout or financial resources to challenge a multi-national business if a dispute over the contract does arise. The buyer also controls the purchase and quality grading process. Depending on the needs of the buyer at the time of harvest buyers may grade the crop more strictly, allowing them to reject surplus production. Farmers are left with a crop they cannot sale, but are still responsible for the cost of inputs. If a farmer received the inputs or credit from the firm and cannot repay the firm, this locks the farmer into a dependency relationship with the buyer. The farmer has little option but to continue growing for the buyer in the hopes of eventually earning enough capital to get out of debt. And since many farmers in developing areas may convert land traditionally dedicated to subsistence crop production to cash crop production, if the cash crop fails or if the farmer cannot meet their financial obligations, the farmer and their family have less food on which to survive (Edleman, 2006).</p>
<p>Appendix 2: Overview: The Philippines Rural and Agricultural Sector</p>	<p style="text-align: center;">Appendix 2 – Overview: The Philippines Rural and Agricultural Sector</p> <p>The National Statistics Coordination Board (NSCB) of the Philippines estimates 25.8 percent of Filipinos lived in poverty in the first semester of 2014. The number of Filipinos falling below the food threshold during the same period was 10.5 percent (NSCB, 2015). According to the World Bank (2015), in 2012, an estimated 19 percent of Filipinos lived on \$1.25 a day or less, a category classified as extreme poverty. While poverty numbers are down from the 39.1 percent in 1985, one-fifth of the Filipino population remains in extreme poverty (World Bank, 2015).</p> <p>One-half of the Philippine population lives in the rural areas. Approximately 80 percent of the nation’s poor are located in the rural areas (Rural Poverty Portal, n.d.). These regions also exhibit higher rates of illiteracy, malnutrition, unemployment, and underemployment than their urban counterparts. The primary source of income for most in the rural areas is agriculture, whether it is farming, fishing, or agricultural related labor. Because of the high levels of poverty in rural areas the effort to expand development and economic opportunities in the Philippine agricultural sector has always been viewed as a means towards reducing the country’s overall poverty rate.</p> <p>The Philippine agricultural sector is dominated by small producers and farm workers. Many of these farmers, however, are poor landless peasants working as tenet farmers or farm laborers on larger farms or plantations. In an effort to create a larger landed class of peasants, the Philippine government has engaged in a program of land reform for landless farmers and farm laborers since 1988 (Government of the Philippines, 2014). While implementation of the program has been slow, with only about 50 percent of the projected land being redistributed, the program has enabled a growing number of farmers and farmer workers to become farm owners or to expand their land holdings. Those farmers owning no land or less than 3 hectares of agricultural land are eligible</p>

under the program (Leonard, Osorio, and Menguita-Feranil, 2015). The importance of agriculture to the Philippines is also evident in its contributions to employment. About 50 percent of the nation's employment is attributed to agriculture and the agricultural value chain (Leonard, Osorio, and Menguita-Feranil, 2015). Rice is the dominant crop produced in the Philippines, with much of it consumed domestically. The top export crops by value are coconut oil, fresh bananas, tuna, pineapple, sugar, tobacco, copra, and seaweed (Leonard, Osorio, and Menguita-Feranil, 2015, p. 7). These export crops or cash crops are typically the target of contract farming and rural development projects within the Philippines. Because of the nation's high rural population and the high levels of poverty in the rural areas, agricultural projects are seen as a way to alleviate the levels of poverty in the nation and to stimulate economic growth in the regional sectors. This is why contract farming as an economic and development tool is so important. And this is why understanding its economic, social, and legal implications is vital.

Appendix 3:

Contract
Farming
Reading
Questions

Appendix 3 – Contract Farming Reading Questions

1. What is contract farming?
2. What are the different characteristics of contract farming?
3. How does contract farming distinguish itself from other forms of agricultural production, such as plantation production?
4. How is contract farming used as a development strategy?
5. What are some of the possible positive attributes of contract farming for farmers and for companies?
6. What are some of the possible negative attributes of contract farming for farmers and for companies?
7. When do you think contract farming should be used? Why?
8. When do you think contract farming should be avoided? Why?

Appendix 4:

Philippine
Case Study
Questions

Appendix 4 – Philippine Case Study Questions

1. What is the nature of the Philippine agricultural sector?
2. How was contract farming used in the Mindanao case studies? What were the characteristics of the grower – buyer relationship?
3. What were the differences in production systems between the contract farming case study and the plantation case study?
4. What were the positive and negative effects of contract farming on the farmers in each case study?
5. What were the effects of contract farming on the surrounding community in each case study?
6. What was the effect on women?
7. Did the farmers benefit in each case study? Why or why not? What were the benefits?
8. Did farmers benefit economically in the different case studies?
9. What were some of the unique characteristics of Mindanao that may have made the case studies successful or unsuccessful?
10. Do you think contract farming is an effective development strategy for the Philippines? Why?
11. Is contract farming an effective tool for poverty reduction in the Philippines? Why?