

**Lesson Learned on**  
**CONTRACT FARMING**

# BACKGROUND

- To support the farmers with market approach Mercy Corps has applied the **contract farming model since 2011 up to present.**
- We have **adjusted** this intervention **several times** based on our lesson learned (EVOLUTION).
- The **first intervention** involved contract with **an input supplier company (Shan Maw Myae)**
- The **next two** involved to facilitate the contract between Farm Producer Enterprises (**FPE**) and **Rice Millers.**

# First Intervention

- In order to address the issue of **providing improved services** to producers, such as embedded **input credit** and **technical training**.
- Mercy Corps has started contract farming with **Shan Maw Myae** Company Limited in **2011**.
- Then Mercy Corps and Shan Maw Myae discussed and developed a **contract farming model for winter crops** in Laputta Township.

## What has happened?

Shan Maw Myae **sold their products** (Bio-Fertilizer and organic pesticide) to FPE members **on credit system**.

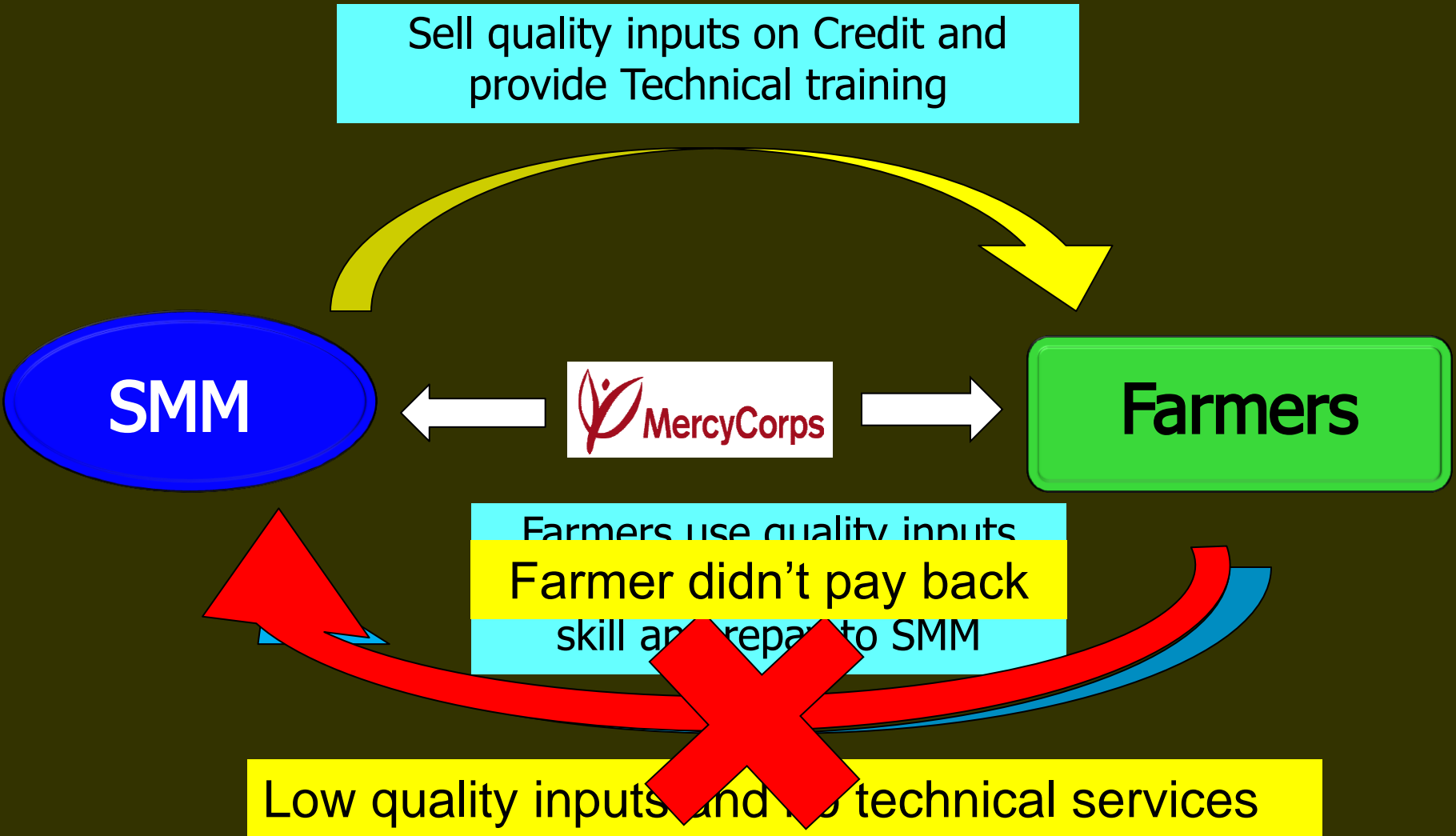
Mercy Corps **organized meeting** between SMM and FPE members to **negotiate terms and conditions** of contract.

**Inputs** provided by SMM were **not effective** (e.g. Most of the seeds are not germinated and SMM pesticides were not effective)

SMM didn't have enough **human resource** to provide **technical trainings** (e.g. they didn't have technical persons to explain **shifting procedure** from chemical to organic farming.

**Poor quality inputs** resulted in **low yield and low profit** for farmers. So that about 36% of about 300 farmers couldn't repay.

# First phase model with Shan Maw Myae



# First Phase Lessons learned

- Inputs sold by SMM were **organic products** which were not favourite among FPE members.
- **Shifting** from Chemical to Organic input **must be a gradual process.**
- Before making a contract with Business Company, it is important to conduct a full **reference check** (their capacity and quality of their products)

# Modified approach

## Preliminary Changes (Next Phase)

- Change the target crop – **Winter Crop to Rice**
- According to the mid-term evaluation results, Program team noticed that most of the members who are small or medium **farmers unavoidably need to sell their harvest at the time of harvesting** for two main reasons
  - To **pay back their debts**
  - There is **no storage space** to keep their harvest.

Unfortunately, the price of crop at the time of harvest is also the lowest.



# Collective storing and Selling

- Based on lesson learned, MC explored the way to address those **constraints** (Lack of storage and financing) **by engaging more with FPEs.**
- Mercy Corps provided **cash grant** to construct **rice collection store** for some selective **9 FPE** groups (+3 in 2014). (MC provided 75% of total construction cost and FPE has to add the rest 25% of cost to get ownership scene)
- After completing construction, MC provided **5,000,000 MMK** to respective FPE to start a rice purchase business.
- FPE **committee manage this fund** to purchase paddy from member farmers (small and medium) at harvesting time.
- The committee is responsible to purchase **quality paddy.**
- The paddy are kept in rice collection store and wait for **4 to 5 months** to get better price.

- After 4-5 months the Committee will sell stored paddy to buyer in better price and will surely get **some net profit amount** for each basket of paddy (Normal Paddy Business).
- From this net profit the committee will distribute **50%** to original farmers who sold the paddy; **30%** to business startup capital fund and **20%** is for management cost of the committee (such as maintenance of collection store, phone charges, book/paper buying, photocopy etc.)

## Lesson learned of second intervention

- Even though we followed the strategy and plan, expected benefit to the farmers from selling in bulk was limited due to market price.
- The capacity building to FPE eventually can make them to become a viable business partner.

# Rice Collection Stores

5000 basket capacity - 5

**+ 5,000,000 MMK**

6800 bsk capacity – 1

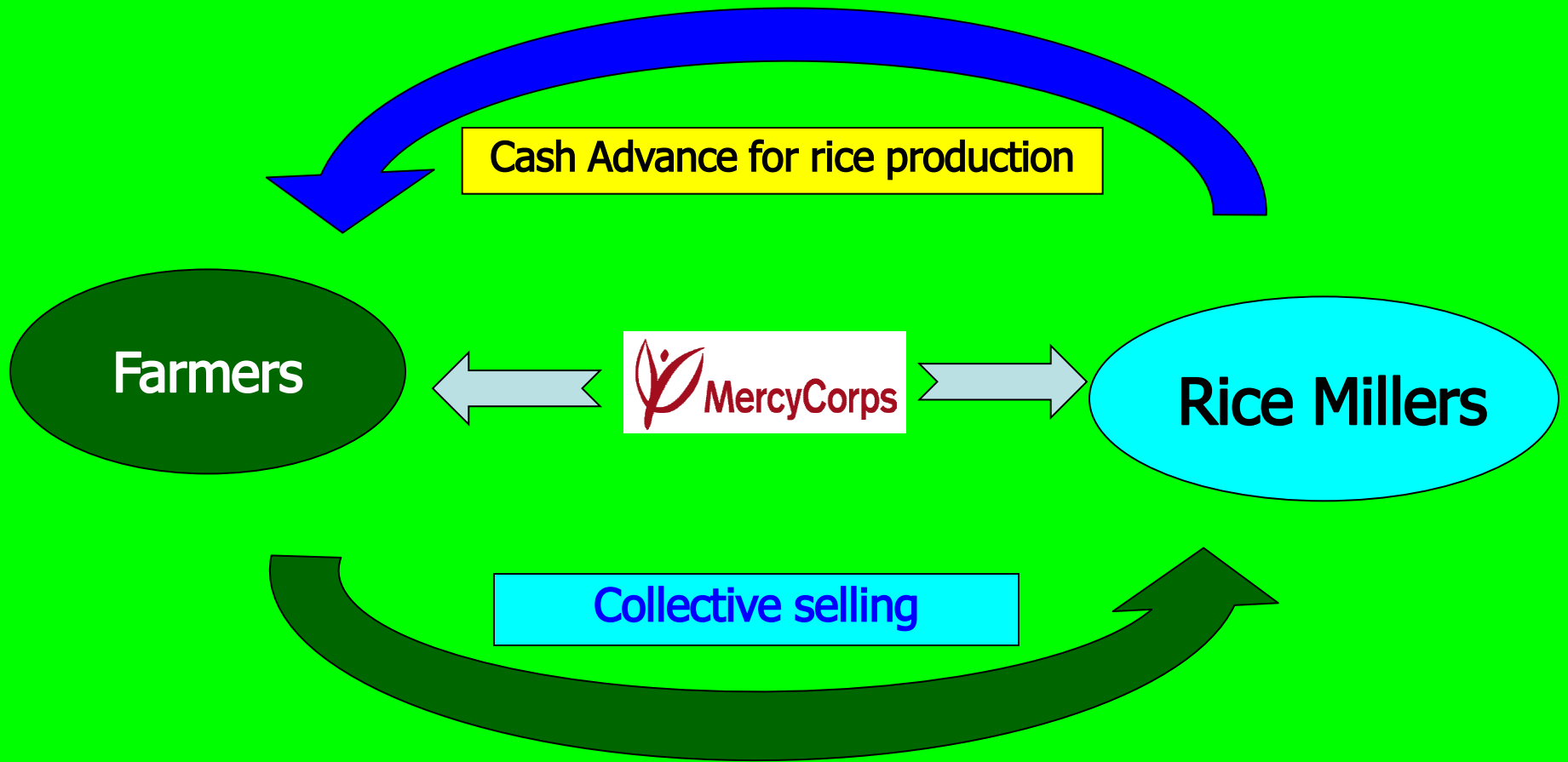
8500 bsk capacity - 2



- As the FPE now have **negotiating power** to sell paddy in bulk, Mercy Corps began to further explore and negotiated with **interested rice millers**.
- MC facilitated the FPEs to sell their paddy for the first time ever directly to **large scale rice millers** in **bulk selling system**
- **Rice millers** agreed to **offer** some amount of **cash advance** to FPE for the subsequent rice growing season.
  - **Contract Farming was vitalized.**

- MC facilitated both Rice millers and FPE to sign **collective selling contract** for paddy
- **Major contents of the contract** are –
  - **time of collective selling** will be determined by FPE
  - Cash advance will be **deducted** from total sale at time of selling
  - **free transport** provided by millers for 500+ baskets selling of rice)

# Second Phase Contract Farming Model



# Second Phase Lessons learned

- Partnering with farmers groups who are selling their paddy collectively **ensures that millers get more product** of a certain quantity
- This allows start discussion about **quality of paddy**.
- Purchasing rice in bulk lead the rice miller to consider offering **free transportation** of the product.
- **Trust building** for effective business model. E.g. in the beginning the farmers didn't trust the rice millers and identified as business man who look only for profit.
- Even though this is the first time for both large scale millers and small scale FPE to negotiate a business model, both of them **equally/ openly shared** their points of view in the meetings.



## Third Phase Contract Farming Model

- Mercy Corps started to explore to address the **issue of poor quality rice** and possibility of engaging the six large scale rice millers to address those constraints.
- The discussions were held with rice millers to provide **quality inputs** (Seed and Fertilizers)
- The rice millers agreed to receive **680 baskets of Pathein Paw San** to distribute to 170 members of 17 FPEs.
- They also **agreed to buy the harvest**, milled in their own rice mills and sell in Yangon end market.

- FPEs agreed to **pay back 680 baskets** of Pathein Paw San rice to respective rice miller and **can sell all surplus** to the contracted millers.
- FPEs have incentive to sell to the contracted millers who provide **free transport** resulting in more profit for FPE.
- Rice **millers agreed to buy registered/ certified seed** from reliable source and redistribute to another 170 members of FPE in next season. (MC will assist the rice millers to identify the reliable source for procurement of certified/registered seed).
- The rice millers **agreed to continue this process until 3 years**. After three years these paddy will be for respective rice millers

- FPE was still expressing their constraint of **insufficient fertilizer** accessing it on time and **lack of finance** to purchase it.
- The team **identified interested input supplier** for reliable fertilizer and other inputs and finally found **Myanmar Awba** as a potential market actor.
- The team **negotiated with** officials from **Myanmar Awba** for contract farming system and they also very interested to participate.

- Program arranged to conduct a **Market Event**. (FPE, Rice Miller and Officials from Myanmar Awba)
- Finally, Myanmar Awba offered 5 rice millers as their **dealers** to distribute their product (fertilizer) to FPE.
- Dealer of Myanmar Awba got **special discount** to distribute Awba inputs to FPE in credit system.
- MC team **facilitated to sign contracts** between Myanmar Awba and rice miller and also between rice miller and FPE farmers.
- **Lawyer** gave guidance for **wording of the contract**.
- **FPE farmers agreed to sell their harvest** to rice millers and on the other hand, rice millers also agreed to buy the paddy from FPE on **better price** than market price.

# Market Event



Input Supplier and Rice millers

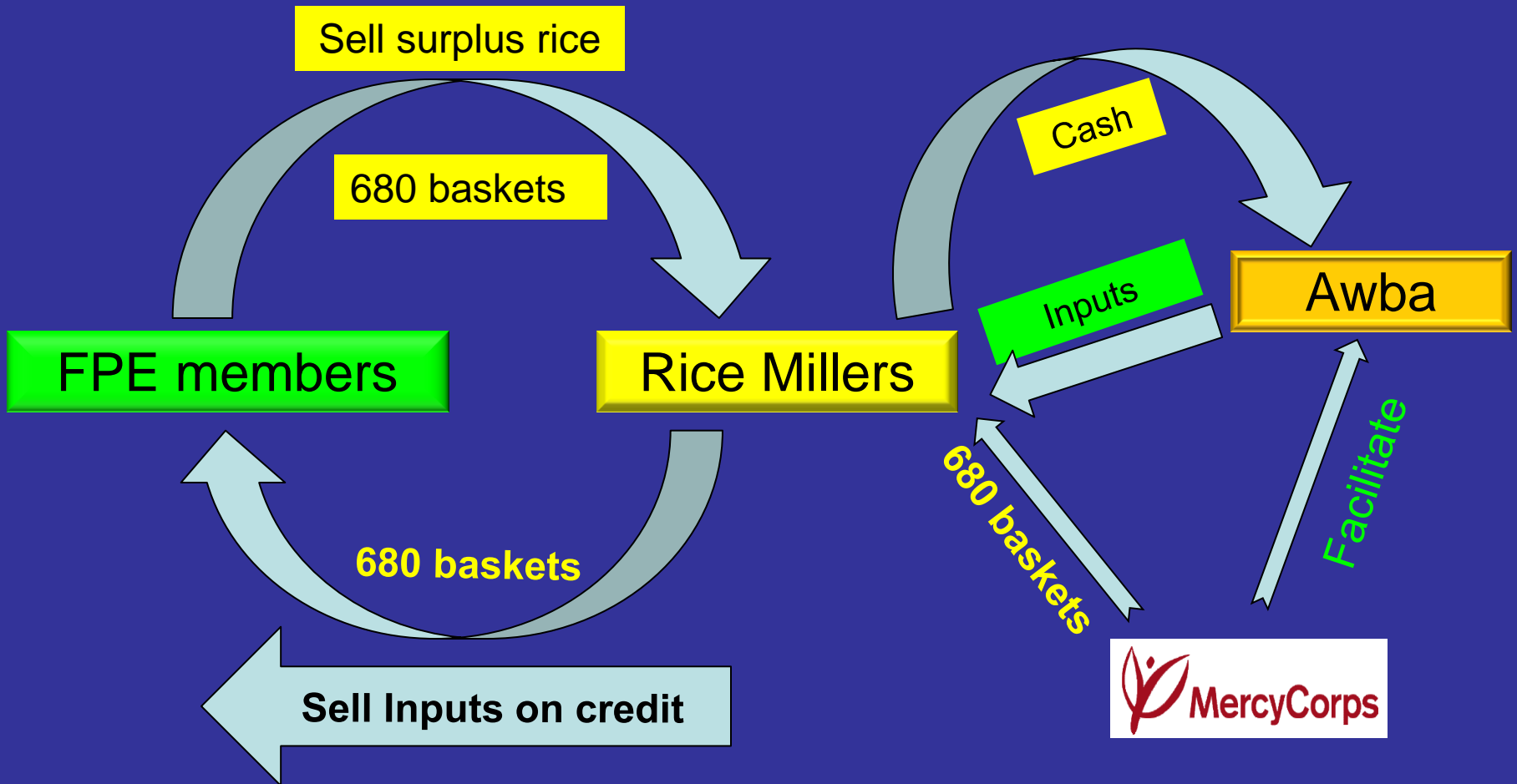
Negotiating terms and Condition for Farmers



# Lesson Learned

- When someone wants to implement contract farming it was needed to keep in mind for the whole system and **market actors** must be included in the intervention.
- **Trust building** is key component for success and sustainability of Contract Farming.
- Every actor has to **keep their promises**.
- **The role of the organization** is to **closely monitor** each market actor to keep their promise.
- There can be **more rooms** to use contract farming model to bring in more market actors. e.g. **farming equipment** etc.

# Current Model



# Thank you

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