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The European Union, Agriculture, and the Tropics: Public Financial Incentives to Enhance Food Security and Expansion of Production Contracts

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Abstract

Member States of the European Union have strong historical ties to agriculture in tropical regions based on colonial history and accompanying trade flows. Attempts to reverse the extractive nature of these relationships through public finance investments in sustainable intensification and the linking of smallholders to new markets could enhance food security and rural development. Public sector financing of public–private partnerships to support these efforts, however, may create dominant positions for large agricultural companies. Moreover, the expanded use of agricultural production contracts by these firms may give rise to a variety of legal and social issues, especially when one party to the agreement lacks economic bargaining power. On the other hand, production contracts can enable small-scale farmers to mitigate risk, establish more predictable income streams, and access new market opportunities. Public development funds promoting reformation of smallholder farming operations need to consider the consequences of the expanded use of production contracts.

Keywords

contract farming, European Union agriculture, public finance, agricultural development, production contracts, sustainable development, food security

In addition to agronomic challenges, the political and economic context has a strong influence on agriculture in the tropics (Krueger, 1991). The colonial history of the European Union (EU) member states has left a legacy of trade patterns and attendant differential tariff rates (Ekeh, 2009) with the EU as the primary destination for agricultural exports from Africa (African Union-New Partnership for Africa's Development, n.d.). Despite preferential tariff treatment for exports to the EU, farm subsidies embedded in the EU's Common Agricultural Program enabled dumping production surpluses of commodities at low prices in many former European colonies. Furthermore, standards-based import barriers have had significant consequences on agriculture in the tropics and the composition and structure of supply chains oriented to European markets (Boysen, Jensen, & Matthews, 2015; Freidberg, 2004; Matthews, 2013).

The EU has adopted measures that acknowledge and, more recently, seek to remedy these consequences. As first articulated in the 1992 Maastricht Treaty and enhanced via Article 208 of the Lisbon Treaty, the EU attempts to align, or at least recognize, the impact internal policies may have on developing countries. Essentially nonbinding, Article 208 is nonetheless a significant statement of policy to encourage coherent, complementary, and coordinated programs across the various Member State activities and the EU itself (Broberg, 2011). Mitigating the extractive nature of the historical relationships through coordination of public finance investments in sustainable intensification and attempts to link smallholders to new markets could enhance food security and

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rural development. This essay takes initial steps to frame two rapidly moving issues in the EU's multifaceted relationship with agriculture in the tropics: use of the public development funds to drive agricultural productivity and market access and the adoption of private production contracts for sourcing products destined for EU markets.

Public Finance for Food Security Development Efforts

The EU and its member states provide more than half of the development assistance in the world (Broberg, 2011). The European Development Fund, a separate financing mechanism outside the general EU budget, provides for distinct financing obligations from the Member States. Originally segregated due to Member State resistance to support development of former French colonies, this funding instrument has retained its independence from the general EU budget obligations after the inclusion of the United Kingdom, Spain, and Portugal, along with their colonial legacies.

In 2010, the EU launched a policy framework to assist developing countries in addressing food security challenges (EU Commission, 2010). The program identified sustainable intensification, promotion of pro-poor research and innovation, and linking of smallholders to markets by developing the value chain as key program objectives. In 2014, the EU and its Members States allocated Euro 3.659 billion on food and nutrition security, a 9% increase from 2012 levels, representing 8% of total official development assistance (EU Commission, 2016). This amount does not include emergency and humanitarian aid related to food security. Africa is the largest beneficiary of this funding, receiving 45% (Euro 1.663 billion) of total development assistance. Asia and Latin America/Caribbean regions received 15% and 6%, respectively. Approximately half of all funded programs, totaling Euro 2.137 billion, targeted improvements to smallholder resilience and livelihoods. An additional 5% of the programs, totaling Euro 191 million, supported regional agricultural activities, with the balance of programs supporting policy priorities related to governance, social protection, nutrition enhancement, and coordination of humanitarian and development actors. Recognizing the role of food and nutrition security in political stability, security, and migration, in 2015, the EU further allocated Euro 1.9 billion to stimulate rural employment and enhance resilience in African food security to counter migration pressures (EU Commission, 2015).

Challenges certainly remain, and the EU recognizes that food and nutrition security should remain at the forefront of the policy agenda as a means to support implementation of broader sustainable development goals (EU Commission, 2016). One aspect of this is an emphasis on pairing public financing with the private sector to drive change among small-scale family farmers. These efforts, however, raise governance issues with respect to producer organizations, civil society groups, and potential abandonment of inclusive business approaches that integrate small-scale farmers and equitably transfer benefits from the domestic, regional, and global value chain to the farmer (EU Commission, 2016). The EU Parliament, however, has expressed deep concerns that the growth of large public–private partnerships may create dominant positions for large agricultural companies and crowd out local business (EU Parliament, 2016). Despite these concerns, agricultural production contracts, if property implemented, can help drive economic and social sustainability for small-scale agriculture in the tropics.

Production Contracts

In general, agricultural production contracts are agricultural activities carried out under a prior agreement between the farmer and buyer under which the farmer agrees to produce and deliver commodities in accordance with the buyer's specifications, and the buyer, in return, agrees to accept the product for an established price (UNIDROIT, FAO and IFAD, 2015). These production arrangements have a long history in promoting the coordination of production and trade in developing countries and have the potential to increase agriculture productivity and enhance welfare of the rural poor (Da Silva, 2005). For example, more the 10,000 farmers in Madagascar engage in horticultural production for export to EU markets (Minten, Randrianarison, & Swinnen, 2009) and contract farming of cotton has advanced in several African nations (Tschirley et al., 2010).

As agricultural processing and marketing sectors increase in concentration and converge toward common standards for quality, traceability, and safety, production contracts can assist in organizing the diversity of production methods and product standards associated with traditional forms of agriculture by small-scale farmers in developing countries (UNIDROIT, FAO and IFAD, 2015). Production contracts could also fill voids in agricultural input supply networks (Michelson, 2017). Although individualized contracts are unlikely for the millions of half-hectare famers in Sub-Sahara Africa producing commodity-grade maize, production contracts may be ideal mechanisms to ensure identity preservation of value-added products, such as certified organic, throughout lengthy supply chains.

Practical implementation of the contracts, however, may give rise to a variety of legal and social issues, especially when one party to the agreement, often the small-scale farmer, lacks economic bargaining power or even basic literacy skills to read and understand what may be a complex commercial contract. Credit terms could lead to unsustainable levels of indebtedness. In regions with weak regulatory frameworks, labor or gender issues could undermine social sustainability aspects of production. The transition from smallholder subsistence farming to cash crops can threaten household food security, as well as associated environmental concerns of mono cropping, and impose a shift in traditional norms and practices (Goldsmith, 2017). Contractors may appropriate intellectual property rights such as traditional knowledge or novel germplasm without just compensation. Furthermore, dispute resolution for failure to perform under the contract can place additional pressure on farmers existing on the margins of food security in contrast to the financial resources of a multinational buyer, who may be the only feasible market outlet for the specified product (Anderson, 2003, UNIDROIT, FAO, and IFAD, 2015). The relatively small amounts at issue could tip the difference between survival and disaster for the smallholder, but judicial resolution could take years to obtain, if ever, especially in many developing countries or rural areas that lack access to justice (Anderson, 2003).

Despite the potential for misuse or abuse, and the risk of even further concentration of economic power in a few large stakeholders, production contracts can enable small-scale farmers to mitigate risk, protect against market fluctuations, establish more predictable income streams, and access new market opportunities (UNIDROIT, FAO, and IFAD, 2015). UNIDROIT, FAO, and IFAD developed a legal guide to contract farming outlining best practices with respect to contract formation, specifying the obligations of the parties, legally sufficient excuses for nonperformance, remedies for breach of the contact, provisions for contract duration, renewal and termination, and dispute resolution. Improving knowledge and awareness of production contract best practices assists not only potential parties to production contracts but also stakeholders from the regulatory and international development community.

Concluding Thoughts

Public development funds promoting reformation of smallholder farming operations need to consider the consequences of expanded use of production contracts and encourage implementation of public oversight mechanisms to ensure equitable distribution of the economic benefits of these production arrangements. For example, several jurisdictions in the United States have implemented transparency and disclosure requirements to curb the most egregious agricultural contract practices (Hamilton, 1994). As a preventative measure, jointly financed public–private partnerships should integrate contracting best practices, as outlined in the UNIDROIT guide, into program requirements. The objective is not to undermine the widely recognized principle of freedom of contract, contravene domestic regulatory requirements, or unilaterally shift the benefits of contracting exclusively to the farmer. Rather, best practices encourage parties to the contract to engage consciously in positive, nonexploitative approaches to risk mitigation, risk allocation, and mutual profitability tending toward development of long-term contractual relationships that will promote a sustainable transformation of food security and commercial agricultural production in the tropics and other regions of the developing world.

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