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In the wake of the launch of Zimbabwe's land-reform programmes and the subsequent deterioration of the formal farming industry, contract farming has emerged as a significant economic activity. It offers communal farmers the opportunity to sell their produce to agribusinesses at predetermined terms and prices. The concept has gradually taken off to provide a degree of stability in crop production that might otherwise have collapsed.

Research conducted at the University of Stellenbosch Business School (USB) investigated contract farming in Zimbabwe and came up with suggestions for improving the system. The study found that contract farming enjoys substantial acceptance and support from its key participants: smallholder farmers, agribusiness, and the Zimbabwean government.

It was clear from the research that the practical implementation is not without problems, and that opinions differ on crucial matters. Yet there is a great amount of goodwill and willingness to make contract farming work. Participants were largely positive about the impact it has made on community farming.

Both agribusiness and farmer respondents suggested that future success would depend on effective cooperation from both sides, as well as

Raising a crop of farmers

For Africa's small farmers, contract farming can be an important developmental stage in their growth from subsistence to commercial farming.

by Moses Duma and Wolfgang Thomas

a supportive environment created by government and the non-governmental (NGO) sector. Although it focused on Zimbabwe, this research offers valuable lessons to land-reform and agricultural development processes in other African countries as well.

Contract farming in the African context
Land-reform programmes in Africa have not produced instant solutions. Smallholder farmers have found it hard to become mainstream participants in their countries' economies. They lack market knowledge, access to technical

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advice, and the ability to obtain credit.

While contract farming has come as an attempt to rescue smallholder farmers from further disintegration, it has also helped agribusinesses to secure stable supplies of agricultural produce for exporting or processing. Moreover, the practice enjoys support because it has become an important foreign currency earner in developing countries. It justifies special attention in Zimbabwe, which is severely strapped in respect of foreign currency reserves.

What is contract farming?

- Independent farmers grow crops for, and with the assistance of, central processing or exporting agribusinesses.
- Contracts are negotiated in advance to stipulate the agreed purchase terms, usually the type of crop, quantity, quality and price.
- Depending on the contract, farmers may receive support such as guaranteed markets, seeds and other inputs, finance, and transport for their produce.
- Farmers are contracted individually or in groups. Group contracts strengthen farmers' bargaining power and benefit agribusinesses by easing the logistics and administration of contracts.
- Some agribusinesses monitor progress during production. Monitoring helps them to estimate crop sizes and provides the opportunity to offer agronomic advice to farmers.

Evidence throughout Africa shows that well-managed contract farming programmes have assisted small farmers to gain access to markets, improve production technologies, raise finance, acquire farming inputs, and reduce transport costs.

For the agribusiness sector, contract farming is politically acceptable and gives it access to crop production on land that would otherwise be unavailable. It provides the agribusiness sector with a more consistent source of supplies than the erratic open market.

African initiatives, such as the New Partnership for Africa's Development (Nepad),

welcome the contribution of contract farming programmes to sustainable agriculture in order to help alleviate poverty and ensure stable food supplies.

But distinct limitations have also been documented. These mostly result from the power imbalance between agribusinesses and small farmers, which often leads to exploitative practices. Farmers also run the risk of debts caused by production problems, bad advice or changing market conditions.

Research into contract farming in Africa is scarce. Even rarer are studies of contract farming in Zimbabwe, where it is estimated that more than 300 000 smallholder farmers received farmland during the recent accelerated land reform programmes.

The Zimbabwean government and aid institutions operating in that country have launched strategies to stimulate and sustain the development of smallholder farmers through effective contract farming. The USB study aimed to support these strategies by examining current practices and recommending improvements.

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Views were obtained from all sides

The research was based on interviews with farmers and agribusiness representatives, as well as discussions with other stakeholders.

- In-depth interviews were conducted with 25 smallholder farmers and representatives of 10 agribusinesses.
- Farmer respondents included war veterans who recently received farms, farmers who were resettled soon after independence, farmers in the old reserves, and farmers who held other jobs while farming.
- The views of other important stakeholders were obtained through discussions with representatives of Zimbabwe's Ministry of Agriculture, academic and financial institutions, and NGOs in the agricultural sector.

The nature of contract farming in Zimbabwe

The interviews revealed that practices follow similar trends to those documented in case studies in other parts of the continent.

Services offered by agribusinesses

Some agribusinesses offer a full range of services to their contracted farmers, such as management training, technical and farming advice, provision of seed and capital equipment, and transport of crops, while others provide only some of these.

Advice and training

These services form an important part of contract farming in Zimbabwe and are offered by all the agribusinesses that participated. They are made available largely in three ways:

- *Company agronomists* act as contact persons and spend much of their time in the field to assist contracted farmers. More than 50% of the farmers interviewed felt that the agronomists are accessible and that their

visits help farmers, often at short notice.

- *Agricultural extension (AREX) officials* are trained agronomists deployed by the Ministry of Agriculture to assist communal farmers. They live in the communal areas, understand local conditions, and are readily available. While not formally part of the contracting arrangement, they support and complement the service package of contract farming.
- Agribusinesses, in conjunction with AREX officials, sponsor local *field days* where farmers gather to share experiences.

Financial assistance to farmers

Most agribusinesses are reluctant to advance cash as it can easily be used for other purposes. Some also want to avoid over-burdening small farmers with high-interest loans. Those who offer financial assistance do so through forward payments, and then only in cases of genuine

need. Others prefer to negotiate with financial institutions to give their farmers loans at concessionary rates.

The relationship between agribusinesses and farmers

Agribusinesses believe that in most instances there exists a high level of trust between contractor and farmers. It depends on the personal characteristics of the farmer; some relationships would be flexible and based on mutual trust, others have to be rigidly managed to the letter of the contract.

The main problems reported by agribusinesses include side marketing (where farmers sell contracted crops to outsiders), late delivery, price demands in excess of what had been agreed upon, and failure to deliver agreed quantities. In cases where farmers default, agribusinesses are generally sceptical about legal action in Zimbabwe and are reluctant to go that route. They would demand that farmers pay them back, often in the next season, and would eventually stop contracting farmers that default again because of their own incompetence.

About 90% of the interviewed farmers described the contact people of agribusinesses as sincere, helpful and always available to assist them. A minority pointed out some incidents of

contractors is inputs that arrive too late for them to plant in time for a proper harvest.

Why farmers default on contracts?

Farmers named natural causes, such as droughts or crop diseases, as the main reason for defaulting on contracts. Side marketing is another major contributor. Although less than 50% of the farmers interviewed admitted to being involved in side marketing, informal discussions revealed that the practice is widespread. Many farmers would be prepared to sell to whomever comes with cash first. In the current economic climate, many farmers find it hard to wait for contractors that delay announcing their prices.

Benefits from contract farming

All respondents agreed that the contract system was a good solution to agriculture in Zimbabwe, with benefits to both parties.

The agribusinesses confirmed that contract farming provides them with guaranteed supplies at less cost than if they produce crops themselves. Before the advent of contract farming, a shortage of agricultural commodities was threatening to cripple the industry. Contract

seeds and technical assistance has helped about 50% of those interviewed to risk the production of new crops. Some reported that agribusinesses had helped them with access to the use of expensive capital equipment and obtaining loans from financing institutions.

In general, farmers felt positive about the opportunities contract farming affords them. It offers them ready markets and has introduced them to new crops and markets. They no longer need to have cash available to get seed, and seed can be obtained even during seed shortages through the bargaining power of agribusinesses.

In the words of one farmer, "It's an answer to agriculture, especially to us new farmers."

Problems that restrict growth *Imbalance of power*

The balance of power strongly favours agribusinesses as small farmers lack the expertise and resources to produce. Because the cash-strapped government cannot assist farmers adequately, they look to agribusinesses for support. The situation fosters a dependency pattern instead of a partnership arrangement, and weakens farmers' negotiating power.

Price-setting

The practice of announcing producer prices at the end of the season is a source of contention. Farmers would prefer prices to be announced before the start of the season. This would help them decide which crops to plant to maximise their profits and assist them in choosing between contractors. But for agribusinesses it is not so simple. The runaway inflation in Zimbabwe makes early price-setting a matter of guesswork. A further complication is the presence of 'poachers'. These are agribusinesses that avoid the costs associated with contracting, but come in towards the end of the season and offer farmers better prices.

Side marketing

Agribusinesses identified side marketing as the most common problem. Farmers admitted to participating in this practice, often with what they perceive as valid reasons. All the agribusinesses which took part in the research concurred that contractors should treat farmers

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favouritism or corruption, especially with regard to allocating seeds and other inputs.

Most farmers agreed that a relationship of mutual trust exists, though it varies from one contractor to another. Some are trustworthy and transparent; others are vague and inconsistent. Farmers' frustrations include uncertainties about who pays for transport, contractors' lack of openness about what farmers owe them, low crop prices which make it difficult to buy inputs for the next season, and delays in announcing prices. Contractors should announce their prices earlier to allow farmers to plan ahead and to prevent them from becoming tempted to sell their crops to outsiders. The main problem for farmers delivering to government-linked

farming has become an effective incentive for the production of specialised crops by small farmers. The agribusinesses felt that farmers mostly deliver as expected, and are generally alert to the challenge of producing quality crops so as to be accepted by contractors.

It could be inferred from the interviews that contract farming offers agribusinesses a means of enhancing their corporate social responsibility programmes. This is also evident in the way companies sponsor field days and communicate their involvement on websites and in annual reports.

Almost all the farmers agreed that contract farming has enabled them to increase their farming output per hectare. The availability of

fairly to reduce the temptation of side marketing. They should negotiate with farmers in good faith, offer market-related prices which cover production costs, and pay promptly.

Access to finance

Contract farming addresses many of smallholder farmers' practical problems, but access to finance remains a challenge. Only three out of the ten agribusinesses interviewed provide limited forms of credit. The finance constraint undermines the ability of small farmers to meet the quality, quantity and timeliness standards of the larger companies and to compete on more equal terms.

Transport

The success of contract farming has been severely impeded by problems around transport. Besides the lack of clarity about transport in contracts, fuel shortages have crippled Zimbabwe's transport system. Private transport businesses charge exorbitant prices. Farmers are tempted to sell their produce to the nearest willing buyer to avoid these costs, which further escalates the side-marketing problem.

Training

The large numbers of small farmers contracted by agribusinesses makes the ratio of farmers to company agronomists too high for effective training. Likewise, huge shortages of government ARES officials undermine the effectiveness of their training programmes.

How contract farming can provide sustainable growth

The USB's research has prompted recommendations for improving contract farming in Zimbabwe to the benefit of both farmers and agribusinesses.

A solution to the *power imbalance* between farmers and contractors may lie in educating farmers about their rights, forming producer groups to negotiate collectively on behalf of farmers, and teaching farmers how to cost their products.

The involvement of 'poachers' should receive

attention. One agribusiness proposed a zoning regulation whereby companies would only be able to buy from the regions they sponsored during production.

To meet the pressing need for more *training*, the experience of established farmers should be leveraged to develop upcoming farmers. The government should create an environment which will make this possible.

The success of contract farming depends largely on clear roles and expectations of both farmers and agribusinesses, and the *supporting environment* created by government and NGOs in the agricultural field.

Smallholder farmers:

- Farmers' attitudes towards the contract system is pivotal to its success. They should respect the agreed-upon contract, and be discouraged from the temptation of side marketing. As much as it may seem attractive in the short term, the practice destroys the commitment of agribusinesses and can cause the premature death of the contracting system.
- Farmers should build *long-term relationships* with the same companies since this encourages companies to provide services beyond the contractual terms.

Agribusinesses:

- They should strive for win-win relationships and be *honest* and *fair* in their deals with farmers. Contractual obligations and promises should be honoured at all times. Their pricing policy should be fair enough to allow farmers to cover their expenses and make a profit.
- Agribusinesses should strongly consider providing *transport*. The excessive cost of private transport makes it attractive for farmers to sell harvests to 'poachers' who come with transport to the farm.
- They should *distribute seeds and implements timeously*. Communal farming is highly dependent on seasons and rainfall. Delays in planting mean lower yields.

Supporting organisations:

Although contract farming in Zimbabwe is spontaneously driven by the needs of agribusinesses and small farmers, the public sector has a role in creating a supportive environment. The NGO sector should work jointly with the state towards the further development of successful contract farming:

- First and foremost, they should establish a *regulatory environment* that can deal effectively with defaulters from both sides and protect farmers against the adverse effects of power imbalances.
- Other facilitative conditions they can contribute include *linking farmers and agribusinesses* by introducing good record-keeping systems; streamlining activities by providing *effective database services*; *reducing the debt trap* by making loan finance more readily available; and providing *training*.

The concept of contract farming marks a shift from traditional subsistence farming towards commercial farming. It has introduced farming as a business rather than a mere smallholder hand-to-mouth activity. Against this background, contract farming should be viewed as an increasingly important phase of the longer-term transition to full-scale commercial farming. ■



This article was based on research conducted by Moses Duma (pictured) (Moses.Duma@Frost.com) for an MBA study project under the supervision of

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