

FARNPAN ANNUAL POLICY DIALOGUE 4-7 OCT

Contract Farming in Sub Saharan Africa: A Farnpan Project

1. Objective of Project

- Examine potential of contract farming as an institution to promote commercialization of smallholders in SADC region
- To Link small-scale farmers with private sector
- Not just another research project more an action project
- Exploit potential of agro-processing sector to expand smallholder supply of raw commodities
- Project to precipitate policy-action
- To promote long term sustainable (commercial) supply partnerships
- Danger of exclusion in modern supply chains

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2. Definition of Contract Farming (for purposes of the project)

- Some form of contractual arrangement between a group of small-scale farmers and an agribusiness partner
- Short term vs long term, formal vs informal
- Encompasses a wide range of structures
- Different in developed countries

3. The Background

- Longer history of smallholder development projects in Malawi, Zambia
- Different historical legacies however common denominators
- Lack of policy with respect to contract farming
- Agribusiness reluctance because of high transaction cost

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4. An Overview of Contract Farming in South Africa, Malawi and Zambia

- Wide range of raw commodities
- In South Africa a long history of smallholder supply in sugarcane, timber, tea, cotton sectors (67 500)
- In Malawi and Zambia long history re
tobacco, sugarcane, paprika, cotton, coffee, tea
60000 120000 (Malawi)
6000 227000 (Zambia)
- Emerging supply of high quality fruit and vegetables to retailers

5. The Role and Potential of Agribusiness

- Benefits to agribusiness. Developed vs developing countries
- Disadvantages to agribusiness

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6. Potential Role of Agribusiness

- The potential of agribusiness to promote smallholder contracting based on mostly South African data
- 2228 agro-processing companies involved in manufacture, retailing of food and beverage products
- 240 000 small-scale farmers (mostly in former traditional areas)
- See page 9 of Report re plans to promote small-scale supply in 31 raw commodity supply chains
- Concrete plans/and or projects exist in 24 out of the 31 supply chain sectors
- Small-scale farmers produce less than 10% of raw commodities procured
- In fruit and vegetable production small-scale growers supply 3.6 % of procurement
- If smallholder supply of just fruit and vegetable expanded to 10% an estimated 11 000 new farmers would be created
- Smallholder production of sugarcane, timber, cotton significant and strategic plans for expansion

- Similarly in other 31 raw commodity sectors
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7. The Issues and Constraints

- Raw Commodity Barriers of Entry. There are both general, as well as specific barriers for the different raw commodities. See recent trends re importing, macro-economic factors
- Historical Legacies like Unequal access, skewed power relationships, impact on trust
- Regulatory Issues include no specific policy, land tenure/property rights, contract enforcement-legal environment
- The Complex Nature of Supply. Smallholders will have to operate in a wide range of structures. These include formal and informal arrangements (handshake deals), dealing with agents, cooperatives, intermediaries. Heavy reliance on trust, reliability
- Raw commodity supply moving away from the open market (International trend + Africa)

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8. The Way Forward

- A common vision for contract farming
- Government convinced of win-win opportunity
- Identification and coordination of key players
- Meetings/workshops to finalize common vision
- Agribusiness companies become first line initiators
- Government to facilitate incremental agribusiness cost as well as provide necessary legislation
- farmers associations, Input suppliers, research organizations to promote cost effective linkages