

Contract farming offers fresh hope for Africa's declining agriculture



Agriculture contributes significantly to Africa's economy. However, despite its immense potential to boost economic growth and cut poverty, agriculture has continued to perform dismally.

Since the late 1980s, the continent has been losing out on the international markets. To date its share of world agricultural trade has declined for nine out of ten major exports, partly due to unfavourable trade rules that limit farmers' access to markets.

Contract farming has the potential to link farmers to markets and stimulate agricultural production in the face of globalisation.

Contract farming arrangements can also fill in the void left by governments in the wake of liberalisation by providing access to inputs, technologies, credit and other services.

Due to its immense potential, contract farming has been given a central role in the latest strategy by the Partnership for Africa's Development (NEPAD) to revive the continent's agriculture.

This policy brief presents an overview of contract farming in Africa, highlighting the key issues and challenges.





NEW STRATEGY TO REVAMP AGRICULTURE

African leaders recognise that agriculture is crucial to the continent's economy and overall development. To revitalise this key sector, the continent's leaders came up with the Comprehensive Africa Agriculture Development Programme (CAADP), a new framework to reduce food insecurity and poverty on the continent.

Initiated under the New Partnership for Africa's Development (NEPAD), CAADP seeks to achieve its objectives through four pillars:

- sustainable land and water management,
- improvement of rural infrastructure and enhanced market access,
- increasing food availability and nutrition, and
- improving agricultural research and technology dissemination and adoption.

In line with the Millennium Development Goals of halving poverty and hunger by 2015, NEPAD expects the new plan will push Africa's agriculture to grow at six per cent a year.



CONTRACT FARMING KEY TO REVIVAL PLAN

Embedded in CAADP's priority investments is contract farming, a business model that links production to markets by enabling smallholder farmers to practise high-value agriculture and reach markets at all levels — national, regional and international.



AT A GLANCE...

Contract farming (CF) may have different definitions and motivations, but basically, it commits the farmer to produce and supply a specified agricultural product and the entrepreneur to buy at an agreed price. This relationship thrives where there are incentives and ways to monitor and enforce agreements.

- CF arrangements are more significant with high-value crops and animal products. For instance, 88 per cent of poultry reared and 96 per cent of sugar cultivated in the USA are sold under contract farming. In Zambia, all the cotton is grown by contracted farmers.
- In many parts of Africa, contract farming has proved effective in integrating smallholder farmers into commercial agriculture. For instance, in Mozambique, most of the more than 400,000 producers that benefit from CF are smallholders with less than one hectare of land. These producers pool resources and their farm produce to cut production costs and reduce marketing risks. Collectively, they find it easier to get inputs, credit, technical advice and services such as processing and transport.
- Future opportunities will be in staple foods. By 2020, Africa's demand for staples such as maize, cassava, rice, sorghum, beans is expected to rise as its population reaches 1.26 billion. This will create a big opportunity for contract farming, especially as half the people will be in towns and unable to grow their own food.
- Smallholder farmers are scattered across farmlands, keeping the cost of CF transactions high. However, this can be reduced through effective farmer organisations that enhance business skills and the bargaining power of farmers. Interventions by governments, for instance by improving infrastructure, would also help.
- Although it has obvious benefits for smallholders, CF is not a solution for every market development challenge. Poor infrastructure, weak contract enforcement, limited markets for financial services and political interference in product and input markets undermine the viability of CF arrangements.



Contract farming in selected countries

USA (2001):	Sugar (96%), fruits (59%), cotton (52%), poultry (88%), pork (61%)
Brazil (2004):	Poultry (70%), pork (40%), soybean (35%)
Mozambique (2002):	Cotton (100%), tobacco (100%)
Zambia (2006):	Cotton (100%), tobacco (100%), paprika (100%)



CONTRACT FARMING SUCCESSES IN AFRICA

All the cotton and tobacco produced in Mozambique is done through Contract Farming. In Zambia, 100 per cent of paprika, tobacco and cotton are produced through the system.

In Kenya, contracted farmers produce 60 per cent of tea and sugar, and all the country's tobacco.

In these countries and elsewhere on the continent, contract farming is used to integrate smallholder farmers into commercial agriculture. The business model links them to markets and enables them to share production and marketing risks with promoters.

Contract farming has also given smallholder farmers new opportunities to earn income. For example, farmers have been able to enter into markets for high-value horticultural crops that require a high investment.

Farmers have also benefited through:

- Guaranteed markets (Malawi)
- Access to affordable credit in rural areas (Malawi and Mozambique)
- Higher prices
- Training in management

Lack of information -- indicating weak monitoring and evaluation systems in many parts of Africa -- makes it difficult to determine the success of current CF arrangements in improving agriculture and people's lives. Nevertheless, an analysis of the impact of incomes in Kenya's horticultural industry reveals that Contract Farming has enabled farmers to raise their incomes more than their counterparts outside CF arrangements. Adoption of CF has also created more jobs, especially for urban poor women, both on farms level and in cleaning and packaging.

NEGATIVE EFFECTS

As CF gains ground in Africa, it is imperative that all stakeholders know its inherent undesirable effects:

- CF leads to inequitable distribution of benefits and risks between landowners and tenants, agribusinesses and farmers, and men and women. It also tends to leave out the poorest, particularly those who do not have enough land to enter into contracts.
- Contract farming can undermine food security.



WHY CONTRACT FARMING HAS NOT WORKED WELL

1. Promoters bear high transaction costs because of poor infrastructure and dealing with individual farmers scattered over large areas.
- 2: Farmer organisations are weak. Most lack managerial, leadership and production skills.
- 3: International trade agreements put up barriers to trade and deny agricultural products from Africa fair access to world markets.
- 4: High production risks due to crop failure, resulting in insufficient volumes, or products that do not meet the standards.
- 5: Inability among farmers to predict prices or factor in unfavourable exchange rates and other marketing risks. This sometimes leads to buyers ending contracts prematurely.
- 6: Promoters who take advantage of farmers' weak bargaining position to exploit them.



WHAT CAN BE DONE TO IMPROVE CF IN AFRICA

- Often contract farming operates under outdated policies and laws. Governments should revise to align them to present-day realities.
 - Lack of harmony in the laws of various countries can deny farmers full access to markets. Regional blocs should push for uniform policies and laws, especially those that remove trade barriers.
 - Smallholder farmers are scattered across farmlands keeping transaction costs high.
 - Contracts should cover all important aspects of CF and be easily understood by all stakeholders to promote equity.
 - Development of all-inclusive contracts that cover important aspects of CF and which are understood by all stakeholders
 - To address production risks, promoters need to invest in production and control how much is produced at the farm level.
- They should give farmers the right inputs and training.
 - Frequent interaction and sharing of information on costs and market prices will build mutual trust between farmers and promoters.
 - Encouraging out-of-court settlements to resolve disputes quickly and cheaply, with non-governmental organizations and industry representatives taking on the role of arbitrators.
 - There is need for certification schemes that protect all stakeholders.
 - Collective action and building of strong umbrella organisations for farmers will increase their bargaining power. Such organisations need to be made more professional through training and other capacity-building programmes.
 - Continuous research is necessary to help identify and correct negative effects of contract farming.

The central role of contract farming in reviving Africa's agriculture and trade has been endorsed by key players, including regional institutions. These include the Africa Union, NEPAD, the Common Market for East and Southern Africa (COMESA), the Economic Community for Western African States (ECOWAS) and the Southern Africa Development Cooperation (SADC). These organizations were all represented at a workshop to discuss the future of contract farming in Africa that provided material for this policy brief.

NEPAD would like to thank Sida-RRD-Nairobi for the financial and technical support. NEPAD also recognizes the technical support from , ICRAF, the Government of Uganda and ISNAR. In addition, NEPAD acknowledges the institutions that presented thematic position papers: ISNAR, World Bank, FANRPAN, FAO, TechnoServe, and PPECB.

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