

Contract Farming in Zimbabwe...Business Unusual

Author: Sithembile Maunze

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CHALLENGES

For Ms Manyota, her only source of livelihood comes from agriculture farming on her 3 ha plot. She is so at ease with very basic means of survival –having enough food for her family as her main goal year after year. "Everything else doesn't matter", she chuckles. Ms Manyota and hundreds of thousands other communal farmers are faced with a myriad of constraints, which if addressed could help them to look beyond just food from their fields and think business. The deterioration of input and extension support services in Zimbabwe since year 2000 has contributed to low productivity in the agricultural sector. Government extension service is close to collapse due to low staff morale caused by poor conditions of service and lack of mobility. Productivity will not be sustainable unless the farmers have access to quality inputs and extension services. Farmers face other constraints such as lack of profitable markets, transport, business acumen, credit and infrastructure.



For Ms Manyota and fellow farmers, their answer came in late 2009 through a contract farming arrangement with Agriseeds. The company produces open polinated variety (OPV) seeds for maize and minor food crops like groundnuts, cow peas and sorghum. It sought to expand its production base from commercial farmers by contracting smallholder farmers. The company provided farmers with a comprehensive range of embedded services that included inputs, extension and transportation for both the inputs and produce, while the prices were worked out in a very transparent manner. All farmers signed the contract knowing the potential revenues that they could earn.

Traditionally, contract farming has been the domain of commercial farmers due to the perceived high risk associated with doing business with small holder farmers. After the land re-distribution program which drastically reduced commercial farming, many companies had to look for other alternative suppliers of agricultural produce and this presented an opportunity for small holder farmers. In Zimbabwe, many contract farming schemes involving small holder farmers have collapsed, even when farmers had been provided "with everything that they need." Contracting companies generally indicate that the major challenges they face in contracting smallholder farmers relate to low yields and poor quality because of inadequate farmer resources, poor management, poor timing of operations and side marketing. On the other hand, farmers feel that there is no transparency in the way prices are set by the contractors and that the output grading systems work against them.

Whilst contract farming and embedded services are not new concepts, the one thing that sets apart the Agriseeds contract scheme from the norm is the realization that there is a huge difference in terms of understanding business between the small holder farmers and companies. For the farmers to effectively participate in such inclusive business arrangements it is important to address the issue of business attitudes at individual level. Business training is expected to close the gap and make contract farming more of a relation between equals. Ms Manyota now knows how to calculate her costs of production and she now understands how Agriseeds arrives at the prices of produce. She is excited and will not engage in side marketing as she now understands her contractual obligations. Because of the changes in the farmers' mindsets, other companies have already expressed interest to contract the farmers for different crops.

CLIENTS

Agriseed (Pvt) Ltd is a relatively small Zimbabwean seed company. It has been contracting mostly large scale commercial farmers for their seed production. The company wanted to diversify its outgrower base and was also convinced of the necessity of including more smallholders into their business model. During the 2009-2010 cropping season Agriseeds, with the help of a donor funded programme aimed at improving food and income security for smallholders, embarked on a 2200 smallholder contracting scheme for Ms Manyota and other such farmers. The 2,200 small holder farmers (70% male and 30% female) were in Mutasa, Uzumba- Maramba – Pfungwe (UMP), Mutoko, Murehwa and Wedza. Each farmer was to grow, on a hectare of land cow peas (0.2 ha), sorghum (0.2 ha) for sale to Agriseed and groundnuts (0.2 ha) seeds and maize (0.4 ha) for household consumption. The farmers worked in groups of ten for the purposes of joint learning, peer support and coordination with the extension officers.

Agriseeds provided intensive agronomic extension, logistics for all input provision and a stable market. Local service providers (LCBs) Natgrid a small consulting firm and CTD, a capacity building NGO were hired to provide training in business skills and group formation to farmers.

Business training of the farmers is one of the most crucial aspects of the programme. SNV has been responsible for assisting the LCBs to develop relevant business training materials, and mentoring of the LCBs. LCBs trained the lead farmers who then trained the rest of the group

METHOD / SNV INTERVENTION

members. Focus on group work and the use of peer pressure to boost performance was emphasized. The business training programme included record keeping, business planning, budgeting, costing, pricing, profit calculation and contract negotiation and management. It is hoped that in future farmers will continue to demand the services provided by the LCBs in order to fully develop in the business of farming.

Due to the usual mistrust between farmers and contracting companies, relationship building became an important feature of the capacity development programme. Through regular field visits, SNV was able to interact with farmers and collected information that the company could use to improve the programme. Farmers have also channeled information through the LCBs and such information was discussed with the company during feed back meetings.

SNV assisted Agriseeds to develop the extension model to ensure efficient and effective training - the design of the farmer selection criteria, farmer contracts, baseline survey instrument and facilitating the analysis of the data, project implementation plan, overall programme coordination and reporting to donors.

OUTCOMES

The following are some of the outcomes acknowledged by the funding partners, beneficiary farmers and Agriseeds:

- Highly acknowledged quality of services delivered to farmers by both the LCBs and the contracting company.
- Smallholder farmers accessing inputs and other embedded services through contracts
- Improved agronomic skills of farmers resulting in yield increases of 150%
- Cordial relationship between the company and the farmers resulting in minimal conflicts
- Farmers proved to be reliable business partners and are honouring their contractual obligations to the company like delivery of produce and repayment of loans
- Acceptance of women as group leaders in a rather male-dominated society
- Neighbouring farmers are copying the best practices from the participating farmers
- Farmers are motivated and are already asking to increase the land size to 3 hectares per farmer in the next farming season.



IMPACT

Thirty percent (30%) of the farmers have already delivered sufficient produce to cover their input repayments, whilst others failed to deliver enough produce due to the mid season drought. The highest paid farmer so far has received \$600.00. This compares very favourably with an annual average income of 200 USD in the area. So far input recovery is estimated to be at 65% and is expected to exceed 80%. Full results will be available at the end of September 2010. Farmers are still delivering crops, and have so far delivered the following quantities:

Crop	Delivered (tons)	Target(tons)
Cowpeas	231,7	308
Sorghum	393,4	1320
N/ Common	374,6	600
Ilanda	85,1	60

The programme has attracted the interest of many companies like Delta Breweries (for sorghum,) and Capsium (for paprika exports), who want to enter into contract schemes with small holder farmers. The good crops produced by the farmers have created an awareness of the merits of the programme and many surrounding farmers have asked to join.

The initial project outlay should be viewed as an investment that can be recouped in future. From the USD 1, 5 million injected by the donors, USD 700 000.00 is the input revolving fund which farmers are paying back, USD120 000.00 for insurance against default, USD150 000.00 for capital expenditure, while the balance of USD 530 000.00 was set aside for capacity development support which included extension support and business training, which translates to a cost of USD 265 per farmer. It is envisaged that the extension and business training costs will decline every year, as the farmers' implement the lessons learnt. It is also possible that some of the good lead farmers could in future become extension agents, distributing inputs and training other farmers for a small fee, as well as being agents for bulking produce on behalf of companies. Companies who want to contract small holder farmers will do so if it benefits their core business, so there will be no need for capital expenditure as was in this pilot project.

LESSONS LEARNED

The lessons learnt from the project are numerous but the following are the most outstanding:

- Many communal farmers are capable of doing business on a small-scale commercial level, with the appropriate support.
- The appetite of private companies, such as Agriseeds, to contract smallholder farmers is high. To address the risks feared by companies, there is need to develop risk sharing arrangements with other stakeholders. Business training financed by donors is one such example and it does reduce the risk of default on the part of the farmers.

- Business training does contribute to improved relationship between the contractor and the farmers. Adult learning principles need to be applied to make the capacity building effective. In the Agriseeds project one of the aspects participants rated very highly was the business training provided by the LCBs. One farmer (a woman) in Wedza observed, during a field visit by Hivos, SNV, AusAid and Agriseeds officials, that *"The business training and the close support we receive from the extension officers makes the difference between this programme and others before it; now I can calculate my profit, interpret the contract and understand why I need to repay."*
 - Farmers should be contracted for different crops in order to diversify their source of income. However, the project should look at the skills management capacity and labour demands. Asked which crops they would prefer to grow in future almost 80% of the women prioritized the cash crops (cow peas, groundnuts and sorghum) over maize, whereas maize was given a bigger land area in the project.
 - Contract farming is only effective if it makes business sense to both parties. Where one party feels they do not get enough there is always the tendency to default. In this project all input costs and output prices were discussed, accepted and agreed by all parties, with mechanisms to react should things change. There was mutual trust which led to confidence in the programme, hence the high take up rate in the programme and interest in future programmes.
 - Despite the best efforts at planning and preparation, not all farmers will perform to the required standard. This could be improved through a rigorous screening process. This process was rushed in order to meet planting deadlines.
 - Even though LCBs trained lead farmers, who were expected to train their groups, it was noted, however, that some of the group leaders had no capacity to cascade the training. Business training could be more effective if delivered by Agriseeds Field Officers with more regular contact with farmers for ongoing mentoring. The LCBs should train the Field Officers instead of the lead farmers.
 - Some farmers outside the programme have benefited by learning from their neighbours. There is therefore a need to design mechanisms to ensure wider impact, and also to monitor and capture the indirect impact of the programme.
 - Most farmers failed to adopt conservation agriculture due to a number of factors including: late distribution of inputs, labor shortages and stigma that associates it with the poor. Emphasis should be on field training and monitoring through LCBs. Farmers could be encouraged to adopt it gradually, starting small and increasing each year.
 - While only 30% of the farmers were registered as women it was noted that more women actually participated in the programme. Due to cultural reasons, some women register their spouses as the beneficiaries. In future, married couples will be encouraged to register jointly so as to get a more accurate picture of the gender balance. In addition, there is need to address real empowerment issues related to sharing of the workload as well as control of the funds.
 - HIV/AIDS awareness raising activities should be part of the extension package.
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- Five advisors, two LCBs and one Consultant have participated in the Assignment.
 - SNV Advisors; 163 days, LCBs: 548 days, 2 Consultants: 21 days until 31 August 2010
 - Funding Agreements with Australian Agency for Development Corporation (AusAid), DGIS and HIVOS amounted to USD 1,508,381. Agriseeds contributed USD 252 880.00 making a total of USD 1,761,261.00.
 - SNV PPD's paid at the rate of USD 705.00 per day
 - Scores output and outcome measurements done on 26 May 2010.