

Contract Farming - A framework to link smallholder farmers to markets

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Contract Farming

Outline of the Presentation

- MMA Background
- Rationale for Contract Farming
- Defining Contract Farming
- Contract Farming Framework
- Contract Farming experiences
- Summary of CF key elements

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MMA - Background

- Match Maker Associates Limited (MMA) started in 2003
- Focus on private sector development (PSD)
- Approach – value chain development
- Experience in East and Southern Africa with occasional presence in West Africa and Eastern Europe
- Product lines
 - Consultancy – Long and short term projects
 - Training – VCD and MCFW
 - Match making – Passion Fruits (TZ), Organic high care facility (UG/KE), Cashew (Mozambique), vegetables (Zimbabwe), etc.
- Strategic alliances – FMS, EYAS, CarlBro, AFE, Twente Business School, UDEC and others

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MMA - in Contract Farming

- MMA consultants have worked as coordinators in various contract farming schemes in Tanzania, Zimbabwe, Zambia.
- MMA is often involved in the design and evaluation of contract farming schemes
- Last year MMA was commissioned by MAFC /PADEP to carry out an assessment of the status of CF in Tanzania and the way forward.
- MMA has designed a training course for practitioners and policy makers on "Making Contract Farming Work - MCFW" to be launched soon
- MMA is organising an International Seminar on Contract Farming in Amsterdam, Netherlands in September 2007

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Rationale for Contract Farming

- Globalisation and global value chains
- Stringent international market requirements
- Commercialisation of agriculture, private sector participation
- Market failures (weak position of smallholder farmer)
- Institutional failures (service delivery capacities)
- Equitable economic growth for SMEs (win-win benefits)

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Defining Contract Farming

FAO defines 5 broad models of contract farming depending on the product, the resources of the sponsor, and the intensity of the relationship between the farmers and the sponsor (FAO, 2001).

- **The Centralized model**
Large processors buying from many SHF
Use quotas and tight controls e.g. Dairies, Annual crops, etc.
- **The Nucleus estate model**
Sponsor is also involved in nucleus farm
- **The multipartite model**
Involve variety of organisations including statutory bodies
- **The informal model**
Individual small companies with informal contracts with SHF
- **The intermediary model**
Includes intermediary organisations between SHF and sponsors

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FAO Definition

"Contract farming can be defined as an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at predetermined prices. The arrangement also invariably involves the purchaser in providing a degree of production support through, for example, the supply of inputs and the provision of technical advice. The basis of such arrangements is a commitment on the part of the farmer to provide a specific commodity in quantities and at quality standards determined by the purchaser and a commitment on the part of the company to support the farmer's production and to purchase the commodity"

FAO (2001)

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CF Framework

Why framework?

- CF is an integral part of access to market process
- In this process there are different actors, services and environment forces that require crafting a structured approach

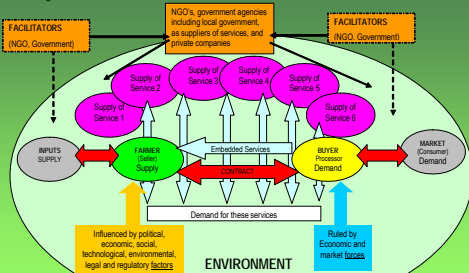
Key Aspects in the framework

- SHF and buyers require a comprehensive package (not only a sales agreement)
- Distinction is made between service providers and facilitators
- Emphasis is to develop market for business services
- Focus in CF program should be a chain approach (Value chain)
- Good practices suggest at least six generic services 1)business/entrepreneurial skills, 2) extension/agronomy, 3)group cohesion, 4)financial services, 5)advocacy and 6) market linkages

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CF Framework

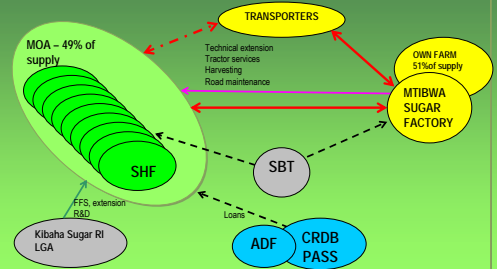
Figure 1: Access to Market Framework



Source: Adapted from VECO Tanzania National Stakeholders' Workshop Concept Paper March 2008, and adapted.

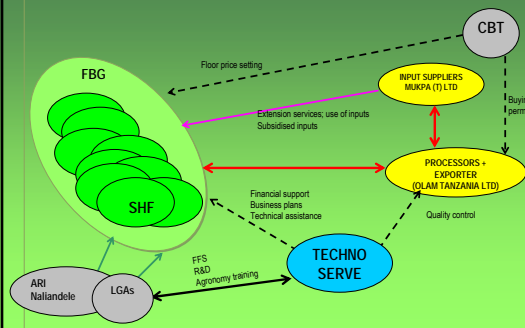
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Mtmbwa Outgrowers Association



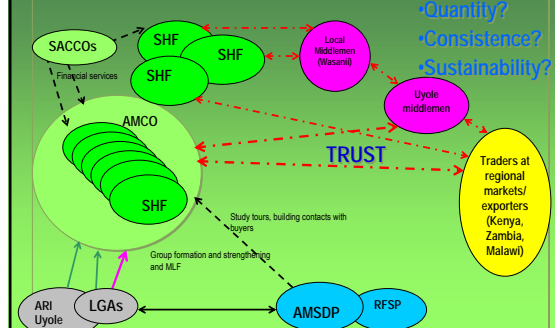
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Cashew - Model Mtwara

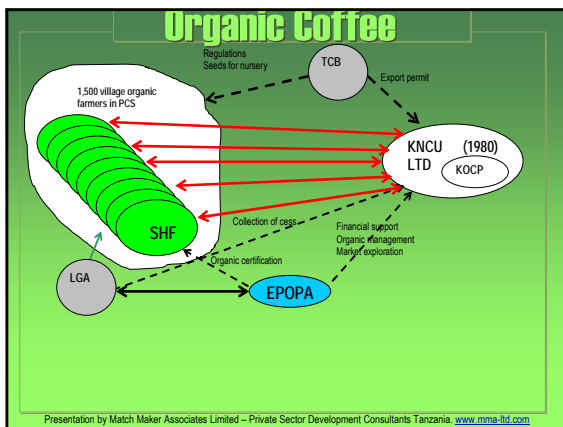


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Round Potatoes - Mbeya Rural



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Way Forward

Key elements for successful CF promotion in Tanzania (MAFC 2006)

- Careful enterprise choice (profitability and markets)
- Thinking beyond contractual documents (build trust)
- Clear role definition (governance, dos and don'ts)
- Supportive regulatory and developmental role of government
- Capacity of facilitating organizations (business approach)
- Assessment and development of farmers assets (financial, entrepreneurial, business groups)
- Scaling up (production, productivity and outreach)
- Risk management and exit strategies (don't overexpose SHF, spread risks, gradual growth, apply comprehensive approach)

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CF Framework

Experiences from elsewhere

- The PepsiCo model of contract farming, measured in terms of new options for farmers, productivity increases, and the introduction of modern technology, has been an unparalleled success in India.

Key elements of PepsiCo's success

- Core R&D team
- Unique partnership with local agencies including a public sector enterprise
- Execution of technology transfer through well-trained extension personnel
- Supply of all kinds of agricultural implements free of cost to contracted farmers
- Supply of timely and quality farm inputs on credit
- Prompt dispatch/delivery/procurement of the mature produce from every individual contracted farmer through the system of 'Quota Slips'
- Effective adoption/use of modern communication technology like pagers for communication with field executives
- Regular and timely payment to contracted farmers through computerised receipts and transparent system
- Maintenance of perfect logistics system and global marketing standards
- Tripling productivity at farm level – chillies from 6 to 20; tomatoes 14 to 52 ton/ha

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Policy and Legislations Elsewhere

Experiences elsewhere on regulatory and compliance instruments

Although most countries including Tanzania have no legislations that specifically regulates contract farming, there are a few countries:

- Malawi (Guidelines for CF)
- Canada (Arbitration council as a reference point for CF)
- India (separate Act /law and regulations for CF)
- USA (Producers protection Act) have justified the need for specific regulatory instruments to promote CF.
- India is ahead in CF as an explicit policy and has specific legislations anchored around Agric Marketing Policy.

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Way Forward

The role of the public sector (MAFC 2006)

Policy enabling and regulatory

- Improving investment climate (governance, infrastructure)
- Prioritize CF in government long-term development plans
- Agricultural district development plans to focus on growth potential sub sectors based on Tanzania comparative advantage analysis
- Ensure appropriate laws and efficient legal system is in place
- Maintain a balance between regulating and dominating (do not over regulate)

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Way Forward

The role of the public sector (MAFC 2006)

Developmental agenda

- Bring together public and private sector actors in CF programs – Facilitating sharing of lessons learnt with NSA e.g. FAIDA MALI, TechnoServe, AGRO-ECO, ACDI-VOCA, CRS, SNV, VECCO, OXFARM, TRIAS
- Build capacity of National, Regional and District level staff on CF and value chain approach
- Facilitate market development of service providers in CF
- Challenge the Private sector to develop innovative value chains involving SMEs
- Focus in R&D in partnerships with private sector e.g. Katani Ltd and ARI Mlingano (meristem tissue culture - MTC)
- Advocate for attitude change in Tanzania on adhering to contract terms

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Contract Farming

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