WORKSHOP REPORT

Expert Consultation on Contract farming in Africa

Johannesburg, South Africa (04 – 07 May 2009)

National Agricultural Marketing Council

Strategic positioning of South African Agriculture in dynamic global markets

FAO FIAT PANIS

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ACKNOWLEDGEMENTS

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ABBREVIATIONS

FAO	Food and Agriculture Organization
FANRPAN	Food, Agriculture, Natural resource Poverty Alleviation Network
ILRI	International Livestock Research Institute
M&E	Monitoring and evaluation
MGK	Magaliesberg Graankooperasie
NGO	Non Governmental Organization
PPP	Public Private Partnerships
CAZ	Cotton Association Zambia
RSA	Republic of South Africa
GDP	Gross Domestic Product
SAFEX	South African Futures Exchange
NAMC	National Agricultural Marketing Council

OBJECTIVE OF THE WORKSHOP

The meeting was held in order to bring together a number of experts on the subject of contract farming in sub-Saharan Africa to address four main issues:

- What are the best approaches to overcoming problems presently being experienced with contract farming in Africa? Such problems may include: (1) lack of political understanding and support; and (2) failure of both farmers and companies to honour contracts, thus placing sustainable development of contract farming arrangements in jeopardy.

- What are the best approaches to linking companies to farmers (and vice versa)? Techniques employed have included: working directly with individual farmers; working through cooperatives; working through groups managed by the company; working through groups supported by NGOs; and working with leading farmers. Is there a Best Practice that can be recommended or does it depend on crop and location?

- How can the contract farming concept be extended to further agricultural and rural development in Africa? Is there scope for value chain finance on a contractual basis to address credit constraints experienced by farmers? To what extent is the contract farming model applicable to smaller, often donor-supported, linkages between farmers and companies that may otherwise buy products on spot markets? Can services presently provided by companies be contracted out to rural service providers such as tractor hire services, pesticide application hire services, transport services, extension providers and research organizations, so promoting rural development and employment?

- What are the macro-level preconditions (the so-called "enabling environment") for successful contract farming? How can they best be achieved? What support institutions are required to facilitate contract farming?

SUMMARY OF MAIN POINTS DISCUSSED

General issues

During both plenary and group discussions, there was a general recognition among participants that contract farming was important and was likely to grow in importance. It had already had an overall positive impact in Africa. Nevertheless, many challenges exist with successful implementation of this type of farming, including:

- The preference of buyers to work with large growers.
- Contract farming is based on profitable practices and is thus not always synonymous with equity considerations. Only more "sophisticated" farmers may thus be able to adapt to needs of contracts and there is a recognised danger that rural inequalities may be exacerbated.
- The multiplicity of market standards is having a significant impact on smallholder contract farming.

Participants noted that the search for profitability was the basis of business decisions by contract farming companies and that the greatest potential of contract farming was in achieving economies of scale. They stressed that there was a need to look at contract farming within an historical and African context. Contracts had an element of "embeddedness", i.e. they are embedded in social, cultural and other context-specific characteristics. Contract farming often seemed to be successful under conditions of monopsony (although the latter is usually seen as politically unacceptable).

A particular concern of participants was to ensure equitable treatment in the event of problems such as crop failure and market collapse. They suggested that there was a need for risk-sharing mechanisms? Some participants asked what role weather or crop insurance could play. Others argued that companies do not have a realistic appreciation of risks faced by farmers.

Types of contracts

Workshop participants were of the opinion that no one type of contractual arrangement fits all situations. There needs to be a multiplicity of contract types covering degree of input provision; short or long-term duration; whether written or verbal, etc. They also noted that:

- Although in most cases companies will deal with associations or groupings of farmers in order to decrease transaction costs, there are many examples of where individual relationships with farmers are preferred by companies.
- Several examples were noted of where groups have not worked. Participants asked to what extent does group success depended on the particular commodity and market (domestic or export).
- Trust plays an important role in contractual arrangements. The level of trust often determines the contract type. One particular way of promoting trust is for weighing and quality assessments to be done at time of sale, although this can be expensive.
- Contract enforcement and conflict resolution is best done informally, such as through associations. In most cases recourse to the law is not feasible. Success with contract farming takes a long time to develop and relationships are more important than contracts.

Enabling environments for contract farming

"Enabling environments" are sets of policies, institutions, support services, and infrastructure necessary for successful contract farming. Contract farming cannot work well if the conditions are not right. Participants discussed the macro-level conditions for successful contract farming and concluded that there was high potential impact from interventions on enabling environments reforms.

Role of different actors

In developing contract farming there are roles for governments, the private sector, farmers, NGOs, and other civil society actors. Participants noted that:

- National policies are needed to support local interventions.
- Governments need a long-term vision of agribusiness development.
- Governments have a role to play in developing regulatory frameworks, registering contracts, improving rural infrastructure and strengthening education.
- Governments may have a role to play as contract incubators and as providers of safety nets when contracts collapse due to crop or market failure.

- There may be a role for Public-Private-Partnerships (PPPs) in developing rural infrastructure for contract farming.
- As the buyer of the product the role of the private sector is, of course, essential. Companies can supply farm inputs, provide technical support, assist with credit, provide agricultural insurance, and promote rural education.
- There is a need for training so that farmers understand what contracts require of them. In doing this there is a role for both government and private sectors. Exchange visits among farmers can play an important role.
- There are many examples of successful company-farmer linkage developments without external assistance. However, NGOs can also play an important role, particularly with group development. Problems with NGOs are that they usually have a short-term focus and sometimes absorb too many overhead costs, jeopardizing sustainability. In addition, NGOs are often not oriented towards profitable, commercial farming. Furthermore, there is some evidence that groups degenerate when NGOs cease operations.

Contract farming and rural development

Contract farming is an important way of promoting agricultural development. Participants noted that it can be a powerful tool to promote efficiency, engender growth, create off-farm employment, and promote social inclusion. They also noted that it multiplier effects are promoted through contract farming as a result of linking agriculture to agribusiness and that modern, better-aligned chains can engender growth and create employment. Contract farming plays a key role in relaying consumer demands to farmers. Nevertheless, issues remain to be addressed, such as how to promote contract farming that is efficient, equitable and inclusive.

Small-scale contractual arrangements: issues and areas for policy support

Participants identified particular issues that governments needed to address in relation to contract farming. These included enhancing access to appropriate financing (e.g. tripartite arrangements with banks) and, possibly, to insurance. They also noted a need for a framework for dispute resolution. Participants stressed that contract farming was not the only model to promote smallholder development. There were alternative institutional options, such as cooperatives and voluntary producer associations. In addition, participants identified the following requirements for effective government policy:

- Supporting market infrastructure and services (e.g., wholesale markets, transport and communication, inspection and storage facilities).
- Enabling environment that will facilitate effective public-private partnerships (e.g., private feed companies with farmer groups,).
- Making more efficient delivery of public extension and other supporting services to livestock producers, e.g., animal health and veterinary services.
- Trying to resolve problems of “side selling” and input diversion, e.g. Kenya’s regulation that all exporters must have registered farmers or Zambia’s Cotton Credit Management Data Base. Promoting flexibility in contract terms.

WELCOME AND INTRODUCTORY SESSION

Welcome by Ms. Mtombi Msimang, Chairperson, NAMC

In welcoming participants, Ms Msimang stressed that practical solutions are needed for Africa. There is a need to ensure transparency of cost along the supply chain and to develop financial models to spread risks. There is also a need to address the transformation issue, in particular to redress the inequities associated with previous paths of development, in particular in South Africa. This will not necessarily be achieved through transfer of ownership. Innovative ways must be found.

Welcome by Ms. Rosebud V. Kurwijila, FAO Representative to South Africa

Ms Kurwijila stressed that contract farming is a way to enable reliable and rewarding markets and can thus play an important role in rural development. It requires a stable economy to support investment and a proper legal and regulatory framework as well as a stable political environment. Contract farming can help to overcome the weaknesses of rural credit and financing issues through funding of inputs by companies and value chain finance. Ms Kurwijila stated that FAO was attaching great importance to contract farming in Africa and that she hoped that the workshop would make a major contribution to this.

Keynote address: “Why contract farming in Africa?” by Mohammad Karaan of the University of Stellenbosch

Prof. Karaan began by noting that in a competitive world, more and more farming has to involve contracts of various types, with different modalities. We have to move away from the concept of the “happy peasant” to avoid the poverty traps associated with peasant farmers and make them more competitive. That is why contract farming is so important. In Brazil, contract farming is making a huge contribution to agriculture. In South Africa, it is practised in particular in the sugar industry. About 50 000 small-scale farmers were involved in the past but when the sugar price dropped recently, the number of farmers decreased by about 50%. The cotton case is even more striking with the number of small farmers dropping from about 10 000 to about 1 000, as a result of standardization, regulations and volatility.

Prof. Karaan briefly discussed the theoretical justifications for contract farming, based on the theory of transactions costs and the existence of information asymmetry, asset specificity, opportunism, bounded rationality. He also noted the following trends that made such farming increasingly relevant:

- Growth in global markets (number farmers decreasing, demand increasing)
- Africa is a net importer of processed goods and has a diminishing share of world exports
- There is great potential for value addition but an underinvestment in agri-business
- Efficiency of scale (in volume, but also in control and monitoring) seems to be the greatest potential of contract farming.

He also noted the potential problems with contract farming, such as:

- Asymmetries in availability of capital, information, knowledge, and business intelligence.
- How to develop trust to deal with asymmetrical problems? Trust develops over time.
- There are challenges of enforcement, linked to opportunistic behaviours and to unanticipated and unintended outcomes. How do we monitor contracts? Are formal contracts effective? Informal enforcement might offer more answers.
- There is a problem of asset specificity in that investments by companies or farmers can not always be used for other purposes if the venture fails.
- Contract institutions in Africa are embedded in social, historical and cultural, and religious contexts (local structures). Contracts need to be supported by those local institutions.
- The most effective institutions are those that are flexible enough to evolve over time and are embedded in trust relationships.

Finally, Prof Karaan discussed what is required to develop contract farming in the future. He noted that there must be incentives to engage in such farming and that there is a need to reflect on the nature and structure of the incentives that encourage people to engage, especially in cases where small-scale farmers are involved as contract farming is less likely to occur otherwise. He considered that an innovative approach to provide temporary safety nets may be required in case of contract failures. This would not necessarily involve subsidies: farmers should, for example, be encouraged to multi-crop. He also raised the potential role of governments as incubators for contract farming development and raised the topic of Public-Private-Partnerships.

PLENARY SESSION 1 - THE CONCEPT OF CONTRACT FARMING

"The concept of Contract Farming: assessing its importance", by Kurt Sartorius of the University of Witwatersrand

Prof. Sartorius started out by noting the changing nature of supply chains and pointing out the specific social context surrounding the issue of contract farming in Africa. Relevant aspects included:

- Rise of supermarkets, increased use of standards, move away from open markets;
- Preference of buyers for larger growers
- Lack of a "green revolution" in Africa and persistence of the afro-pessimism;
- The dilemma between promoting economic development and the need to reach as many farmers as possible.

Prof. Sartorius then reviewed changes that had been taking place in contract farming arrangements, adopting a broad definition of these arrangements and thus encompassing any long term flexible form that coordinates procurement. He noted that there had been a shift away from government-led top- down contracting and a move away from the *ex ante*, classical type of contract to more *ex post* relational structures where adjustment is possible. An inflexible contract leads to high transaction costs. Monitoring a highly detailed contract is costly. If you superimpose trust, you can change the contract, so developing trust is a very critical issue. He argued that farmers need to operate in a multiplicity of contract structures and need to be comfortable with many different contract forms (marketing, production, short term / long term, growing programs, informal and hand shake contracts …). He also pointed out that sophisticated farmers are more likely to adapt to the increasing diversity of contract farming forms, which raises challenges on how to ensure that a broader range of farmers can adapt.

Prof Sartorius noted that small-scale farmers' activities usually are subject to high transaction costs given the critical lack of assets, skills, infrastructures and institutions at local level in Africa. This, he argued, tends to perpetuate top-down arrangements and disadvantages small-scale farmers. National policies are not reaching local areas and there is a major role for government intervention at local level. He concluded that there is a need for a much broader view of contract farming with a variety of structures and he pointed out that working with smallholders is costly, thus asking who should meet those costs.

"The concept of Contract Farming", by David Kamchacha of FANRPAN

Mr. Kamchacha noted that contract farming must be seen as a commercial transaction intended to be beneficial to both parties, with farmers understanding how they are to benefit from it. Any crop or livestock can theoretically be contracted. He outlined the different types of contracts that could be used, i.e.:

- The nucleus estate model – variation of centralized model with a sponsor, provision of materials and management inputs.
- The centralized model: centralized processor or packer buying from large number of smallholders (tree, annual crops, poultry, dairy, tea). Vertically integrated. Tight control on quality and quota allocation.
- The multipartite model: involve a variety of organizations. This can develop from the two models above.
- The informal model: involves individual entrepreneurs or small companies and informal contracts. Often requires government support services.
- The intermediary model: involves the company in subcontracting linkages with intermediaries.

According to Mr Kamchacha, African agriculture has decreased on international markets. While he recalled several contract farming success stories such as the case of paprika in Zambia or of tea and sugar in Kenya with 60% of farmers operating under contract farming, he also identified the various problems associated with contract farming as being high transaction costs, exclusion of the poorest farmers, and the possible unfair nature of contractual relations. He noted that for contract farming to be promoted outdated laws and policies must be reviewed, trust must be built and effective repayment mechanisms must be designed.

“The Harvest Farm Seed Company in Uganda”, by Mukiri Wagithendu, Kenyatta University (Kenya)

Mr. Wagithendu noted that most of the company’s transactions are done through contract farming with farmers’ associations. It was not cost effective for a company to try to do everything working directly with farmers. Spot transactions cannot be used for seeds: contractual arrangements are necessary. He stressed the importance of developing satisfactory credit arrangements, working with input suppliers and using contracts as credit guarantees. He also noted that companies should not compete with each other to work with groups of farmers and that it is important to develop methodologies for contract resolution based on enabling the dialogue between partners rather than on appealing to legal intervention. Ensuring that farmers can understand and properly take advantage of the company skills in trading commodity through their farmer organization is another key dimension.

“Contract farming in Tanzania: The Experience of Mtibwa Outgrowers Association”, by Reuben Matango

Tanzania has 22 million ha of arable land but only 4% is under cultivation. Agriculture employs 83% of the population and represents 53% of export revenues. Mr. Matango’s association was organized and registered in 1996 and has elected leaders and built its own constitution to ensure the representativeness of the farmers. It has increased farmers’ revenue. In 1997/98: 63% members were living below poverty line; 2005/06 only 23%.

Mr Matango argued that his association had been required because of farmers’ need for training, and their lack of skills, including negotiation skills. The association also engages in advocacy. Problems that continue to affect the industry include:

- lack of reliable and affordable loans
- poor infrastructure
- some practices by the company management
- monopsonistic business relations, without legal protection for weaker parties.

As a result, the association has been trying to promote improved payment arrangements, improvements to the factory, farmer representatives on the Board, and Government support to provide an enabling environment.

WAYS OF ADDRESSING CONTRACT FAILURE

“Ways of avoiding contract failure”, by Andrew Shepherd, FAO

Mr Shepherd noted that contracts can break down due to lack of understanding by farmers of companies’ requirements, inconsistency of supply (linked to production and socio-economic factors), diversion of inputs (inputs for cash or food crops), and due to poor organization of a group, association or cooperative.

He noted that some companies had worked directly with individual farmers but that this required a heavy field presence. Other options included working with lead farmers, involving NGOs, involving commercial intermediaries, and supporting managerial and operational skills of farmer organizations. The private sector was often not afraid to experiment until it found the best model for its circumstances, and Mr. Shepherd gave some examples of this.

He indicated that companies tend to think that farmers are unreliable. Ways of overcoming lack of trust included frequent farm visits and vice versa (extension workers, village leaders to visit the factory or store to understand company problems), timely payment, and agreed arbitration procedures. Side selling was perhaps the major problem with contract farming. Formal contracts and legislation can have very limited impact on this problem and this was now recognised by the move towards informal contracts. Ways of overcoming side selling included flexible pricing, extension staff on the ground, use of farm leaders, group organization ensuring extension delivery, contract adjustments, and legislation that controls buyers not farmers.

Mr. Shepherd indicated that a major problem with contracts was quality grading. Farmers do not have knowledge about quality, they are rarely present when quality is assessed, and the company or corrupt employees can misgrade. Ways of overcoming this included written outturn reports, having farmer representatives present at the factory when grading was done, and training farmers to fully understand quality requirements.

Finally Mr. Shepherd pointed out the policy failures to recognize the important linkage between input supply and output purchase as well as to provide a stable macro-economic environment.

"Paprika export: Business/company perspective" by Mark Terken – Cheetah Ltd (Zambia)

Cheetah has worked in Zambia, Malawi and Mozambique. It has worked directly with farmers and in partnership with intermediaries, such as traders, and NGOs in order to obtain volume and quality. Mr Terken noted that there is always a need to be flexible to respond to market conditions. He noted that NGOs have a short term, social and humanitarian action approach and often have no understanding of business, subsidizing costs and providing unfair competition. Furthermore, they have different agendas and their involvement is temporary.

Cheetah started in 1995. In 2003 it had 20 000 contracted farmers. It aimed to purchase a minimum of 500 000 kg of dry paprika per country. Mr. Terken stressed the strong reliance of the company on farmers for ensuring quality supply at competitive prices and questioned the ability of small-scale farmers to deliver. The company's model is to form groups, to use dollar-based pricing, and to work with both smallholders and commercial farmers. There is a pre-seasonal agreement with a guaranteed minimum price, and actual payment is done cash directly in the field. Seeds are provided on credit. Farmer groups allow for intensive training, and control over quality and quantity through the company's own extension network. However, there are overhead costs per kg, and the system is management intensive.

Mr. Terken indicated that the company's contract farming model is presently evolving. This is moving from group farming to individual farmer's contracts and from mass recruitment to selecting farmers who can provide the right quality at the right time. He pointed out that greater efficiencies still need to be created to compete on global markets, stressing the need to enhance farmers' ability and limit side selling as well as input diversion through promoting and retaining trust, using different pricing and monitoring strategies.

“Frigoken Ltd” by Peter Muthee, Kenya

Frigoken is a food processor processing premium vegetables and fruits for export. It operates an outgrower scheme involving 62 000 farmers who produce 16 000 metric tons. Mr. Muthee noted that a major challenge for such a large scheme was the multiplicity of market standards (Global GAP, phytosanitary certificates…), most of which had been developed for farms in Europe, which resulted in a complicated system for small-scale farmers. Furthermore, side selling and input diversion are major problems faced by the industry. Ways in which companies have tried to overcome this include farmer education, national regulations and enforcement (controlling buyers and exporters through export and trade permits), use of flexibility in contract terms (pricing, quality, payment of advances, crop loss insurance), peer pressure, and direct application of key inputs to avoid diversion.

The company’s scheme has evolved over time. Initially it operated individual contracts, then it moved to group contracts. However, working with groups led to high costs (especially input costs), so the company has now returned to working with individual farmers. For some products the company follows a policy of direct application (fertilisers and pesticides) with farmers being involved in the calculation of the amount applied, as they have to bear the cost.

Mr. Muthee listed the following criteria for successful contract farming:

- *education*: it is a big challenge for smallholders to understand contract obligations. Education produces results but it is time-consuming.
- *regulatory framework*: Kenya has a very elaborate regulatory framework. It ensures exporters follow regulations (buying only from registered growers or traders), making possible traceability and reduction of side-selling.
- *openness:* Buying at farm gate with farmers doing grading with staff reduces suspicion but requires a very large network of staff. Advances are provided to meet farmers’ need for cash to minimise side-selling.
- *flexibility in contract terms:* This takes account of potential crop failures and market price fluctuations. There is provision in the contract that the company will bear the costs on seeds, etc. in case of crop losses due to floods, etc.

During the short final discussion, precision was given regarding the Cheetah contract farming scheme. It was indicated that a staff of 1 500 persons was employed seasonally in the field to manage the individual – all written – contracts.

A participant from Nigeria stressed the importance of developing a proper insurance scheme against crop failure and mentioned the one that his company had developed. It is involving 20 000 farmers and consists of a contractual agreement between banks which contribute 70% to the scheme, the company 15% and the farmers' cooperative also 15%. He also noted that, in this case, there is no prefixed pricing, price being defined ex post based on price assessment in other regions.

Asked about the underlying cause of contracts failure when NGOs withdraw, Mr. Terken stressed the lack of exit strategies from NGO side and related it to the lack of understanding and trust between companies and NGOs as he had already noted in his speech.

Another participant pointed out again the lack of trust between the farmers and the companies, and the fact that many companies are not prepared to share risks. He stressed the need for contract procedures based on fair trade and fair practices as a critical success factor for contract farming.

WORKING GROUPS

Participants divided into two working groups to discuss different topics.

Working Group 1a - Is there a lack of political understanding of contract farming; is this a problem and, if so, how can it be overcome?

Group members concluded that the question should be broader, i.e. is there political understanding of farming/agriculture? Contract farming is one of the many aspects of agricultural development.

The question should be more nuanced as there is probably a 'selective understanding' of what contract farming is. The political focus will depend on the sector, the commodity, different crops, and different types of farming. Political understanding is linked to the question of priorities – what are a government's priorities? From a government perspective, there is often no understanding of why agri-business would deal with small farmers.

If some countries think they do understand CF, it is however in its old form. The sector changes (present complexities, marginalization of SSF). By consequence, rules and regulations are outdated (there is a requirement for new regulations – but government is taking forever to understand, to develop and implement requirements as the sector and market are changing fast).

There are different levels of misunderstanding – and therefore lack of adequate measures. Governments do not understand the huge transaction costs linked to contract farming. In addition there is little capacity to monitor, verify, or enforce any regulations introduced. Lack of inter-ministerial coordination is also a problem and does not enhance Government's capacity to follow up.

There is a need to make governments understand the importance of the topic, so that contract farming appears on the agenda. If countries would understand its benefits they would develop support systems. It is not the case presently – at the moment the (limited) initiatives come from the private sector.

There may be a role here for PPP – with a private sector that takes the initiative. Smallholders are not included in the development of policies. People are not consulted. This creates suspicion between farmers and governments. There is a need to promote associations and umbrella organizations that can link producers and agribusiness, in order to enhance lobbying in favour of certain measures and regulations.

Working Group 1b: New approaches to address contract failure

The following table summarizes the debates of working group 1b regarding new approaches to address contract failure:

- It states and ranks the reasons for failure;
- It indicates possible ways to address the failures; and
- It provides relevant examples or case-studies regarding the latter

Other aspects that have to be addressed in order to avoid contract failure are 5the latter could however not be detailed during the working group session):

- Information asymmetry
- Power asymmetry
- Risk asymmetry
- Enforcement asymmetry
- Lack of “Exit with dignity” mechanisms
- Asset specificity
- Incomplete contracts
- Embeddedness of contracts
- Unintended factors (climate, etc.)
- Lack of support by government / NGO
- Quality problems
- Not worth the cost anymore
- Lack of sharing of benefits
- Dishonesty and lack of integrity
- Lack of ownership

REASON FOR FAILURE	HOW TO RESPOND	CASE STUDIES / EXAMPLES
Capital asymmetry	• Specialization and contracting • “Agro-dealer” act as middle man between farmer and finances • Cooperatives/farmers partnership with government • Price determined • Association to draw up a code of conduct to protect farmers • Use contract to assist farmers with capital input from institutions	• Cotton Industry • Farmer can benefit from contractor: technical skills • Kenya programme supplying certain inputs • Cooperatives (NGOs) advising farmers e.g. seed producers, pricing • Sugarcane Industry, rates predetermined with no interest: Agricultural fund

Technical knowledge asymmetry	Developing sector supporting emerging market: • Develop robust private sector market • Nigerian model: Farmer training programme. Cost carried by processors. • SA, Sugar Industry partnership with Government (R50mil). Signing MoU with DoA to be trained in the Sugar Industry. Training farmers throughout provinces. Social facilitation planning for previous disadvantage. • Certified agreement with farmer. • Crops monitored by government inspectors	• Embedded service markets • Nigerian model • South African Sugar Industry • Zambia inspections
Management skills asymmetry	• Big company vs. Small scale farmers • Form formal farmer groups with skills and knowledge (economies of scale) • Process and markets with small scale growers. Institutions will provide credit.	• Farmer groups registered as cooperatives etc.

Lack of trust	• Sharing risk • Inviting people to factory • Transparency • Misunderstanding of pricing mechanism • Improvement of quality • NB in terms of money terms: Money determines trust • Gross margin calculation • Credit lines with MoU • Qualified trainers teaching farmers	• Misunderstanding with sugarcane quality • Sugar and sugarcane margin, how shown to the farmer • Tanzanian out grower scheme: exploitation
Opportunism	• Work out cash flow projection and discuss with farmers to eliminate possible problems.	
Lack of organizational skills	• Press to produce as much as possible and in the process incorrect selection of people	
Pricing policy	• Most NB reason for Nigerian contract failure	

PLENARY SESSION 2 - WAYS OF LINKING COMPANIES TO FARMERS

“Different types of contract farming”, by Andrew Shepherd, FAO

Mr. Shepherd identified six different types of contract farming linkages. These were for:

- products that require large-scale centralized processing (oil palm, sugar, tea)
- other export commodities involving processing (e.g. cotton)
- horticultural agro-processing
- the dairy industry
- supermarket supply, and
- fresh horticultural exports.

Mr. Shepherd noted that products that require large-scale centralized processing had limited alternative marketing opportunities and therefore side selling was less likely. Transport, extension and inputs were usually provided by processors and linkages with farmers were either direct or through groups. Production is highly asset specific (implying long term investment), requiring some protection for farmers. There were often disputes over quality.

Other export commodities involving processing (e.g. cotton) did not require immediate processing, so side-selling could be a major problem. Input support required from companies but no guarantee of their being able to buy the crop. Mr. Shepherd gave two examples from the Zambian cotton sector where companies had adopted different methods of trying to maximise loan repayment, one through the supply of inputs on credit through independent distributors and the other supplying inputs on credit through company staff. Neither worked well when there were competing buyers.

In the case of horticultural agro-processing contracts were necessary for guaranteed supply and required quality. Ensuring that these contracts worked often required significant ‘on the ground’ presence of company staff resulting in high transaction costs incurred in dealing with individual farmers. Side selling could be very significant, particularly when products had a local market. There was often a high turnover of farmers. In the case of the dairy sector Mr. Shepherd suggested that this may be the sector with the least problems as the market alternative was limited to sales of unprocessed milk in villages. This was a sector where cooperatives tended to work well, but direct company-farmer arrangements also common. However, quality control can be problematic

In the case of supermarkets, Mr. Shepherd noted that outside South Africa contract linkages on the continent were unsophisticated. Lessons could be learnt from Asia where supermarkets were tending to procure through established wholesalers and other intermediaries (cooperatives and leading farmers). Growing quality, safety and other requirements will dictate need for input provision and extension advice.

Smallholder involvement in fresh horticultural exports may be jeopardized by cost of compliance with GLOBALGAP and other standards. Certification usually requires farmers to be in groups. Donor support for certification is common but Mr. Shepherd questioned whether that was that sustainable.

“The case of the Cotton Association of Zambia (CAZ)”, Joseph Nkole (CAZ, Zambia)

Mr. Nkole indicated that CAZ worked with smallholder cotton farmers in Zambia. There are about 280 000 farmers in three provinces. The association is responsible for lobbying for the interests of farmers, carrying out training, disseminating information and farmer exchange visits. CAZ deals with 12 agribusiness companies which provide extension, markets and finance. There have been problems with the private sector as well as with group activities, as there was no incentive to maintain cohesion. Groups tended to be formed top-down and relationship with the private sector was highly seasonal. Small farmers had a poor yield average of 200kg, whereas large-scale farmers achieve 700kg per ha. Farmers have a poor understanding of contracts and repayment has been poor. CAZ had developed a credit management database to improve repayments and service delivery.

“SPAR – South Africa”, by Estelle Biénabe - CIRAD

SPAR is a supermarket that gives a good example of the private sector linking farmers to markets through individual informal arrangements. It is a typical example of establishing supply chains with smallholders. The company uses local procurement and this has led to increased market share for the store as well as increased income for the farmers. The supermarket provides extension and finance on an individual basis mostly. The contractual arrangements are non exclusive: farmers can sell to alternative channels but local procurement generally allows consistent supply, as well as low volumes (less storage costs) and greater freshness. There is scope for replicability of the model for stores that are located far way from the distribution centres of large supermarket chains and that promote local procurement as part of a local community involvement strategy . However, Ms. Biénabe also pointed out that success in developing business model of local procurement with small-scale farmers without external support was strongly related with the capacity from the store to understand small-scale farming systems and to deal with their specificities.

Participants then again divided into two working groups, this time to address the same topic.

Working Group 2-1: What ways can be recommended to best link farmers to companies?

Group participants first identified determinants of farmer-to-market linkages as:

- Nature of commodity/product
- Types of companies
- Availability of farmers’ associations and their nature
- Nature of commodity value chain
- Value chain drivers and stakeholders

However, the overall consensus was that there were no generic ways of conferring linkages between farmers and agribusiness companies. This implied that each situation (i.e. different smallholder farmers and/or commodities/products and different companies) is unique and requires specific solutions/strategies.

Subsequent to the above, the following were suggested as the guiding questions:

- What types of companies should smallholder farmers be linked to?
- What conventional ways exist and what innovative methods can be employed?
- What types of commodities/products are being produced by smallholder farmers?
- What are the unique characteristics borne by the commodities?
- What are the marketing needs of the commodities/products and nature of their (prospective) markets/value chains?

It was noted that most established agribusiness concerns were reluctant to take part in contracts with smallholder farmers as they considered the latter as unreliable suppliers and thus risky economic partners. It was suggested that linkages could be enhanced if smallholder farmers became shareholders of some of the agribusiness companies. However, as most smallholder farmers lack resources to buy shares, there may be need for external support such as provision of affordable credit to enable them to purchase shares.

Collective action, in the form of farmer associations, was suggested as an important vehicle with which to foster reliable linkages between farmers and companies. Participants agreed that it would be more plausible and economic for a group (organized farmers) than individual farmers to engage with companies. Such farmers' associations or organizations could become guarantors of any contractual arrangements.

Finally, some common considerations for ideal contracts were identified:

- Time lapse between delivery and payment of farmers
- Protection of farmers from unscrupulous deals
- Inclusion of all key stakeholders when drafting contracts (i.e relevant government departments) for contract efficacy
- Adequate legislation and commodity-specific legislation

Working Group 2-2: What ways can be recommended to best link farmers to companies?

Similar observations to the other working group were made. Each commodity varies in characteristics and production costs, and has different value chains, marketing needs and associated transaction costs. As a consequence, there is no one type of contractual arrangement per commodity, per situation, per customer. Referring to examples from Mr. Shepherd's typology, group participants noted:

Large scale immediate processing (tea, oil, palm, sugar)

- Centralised model – with organised farmers (quantity, quality, etc.)
- Farmers' shares in processing company could be considered
- Investment and set-up costs are high – long term contracts needed to balance this.

For consumer agro-processing (fruits and vegetables; processed meat)

- Short term – even seasonal and hand-shake – arrangements are satisfactory (as set up costs are low).

Group participants stressed the importance of education for farmers. There was also a need for more reliable sources of credit and financing. In sectors with high investment costs longer term contracts are necessary. Logically, for companies who link up with farmers' associations, there should be a representative of these farmers' associations on the company Board. Timing of payments was essential to address.

PLENARY SESSION 3 - ENABLING ENVIRONMENTS

"Enabling environments for successful contract farming" by Carlos da Silva - FAO

Mr. Da Silva introduced the topic by noting that:

- Conditions can be favourable or not
- Conditions can change
- Enabling environments can be seen as the general conditions, i.e. the set of policies, institutions and support services that create the conditions for enterprises to be started and grow. Contract farming cannot work well if the conditions are not right.

He then asked whether 'enabling environments' could be assessed. There has been an increased focus on this in the recent past. Good business practices go well with a good business environment. There is thus a perception of high potential impact from interventions on 'enabling environment' reforms. Evaluations of the business climate are being done. For example, since the late 1970s, there have been several ongoing surveys including the World Bank's "Doing Business" Survey. Through a benchmark of 10 items, this indicates the regulatory cost of doing business activity and is used to analyze regulations that enhance or constrain investment, productivity and growth.

However, Mr. Da Silva noted that this survey had been subjected to lots of criticism and that it was not specific to any economic sector, such as agriculture. He asked whether a similar framework could be used to promote contract farming and suggested what the key elements for such a framework would be, including:

- General contract laws and land tenure laws
- Contract enforcement mechanism and competition regulation
- Regulations on associations
- Grades and standards
- Finance and risk-mitigation issues and many others (prices linked to quality a good issues for productivity)

“A pragmatic view of contract farming”, by Peniel Uliwa of Match Maker Associates Ltd, Tanzania

Mr. Uliwa started his presentation by noting that whether or not to embark on contract farming was a key business decision. It had to happen by design rather than default and upfront business analysis and understanding of the supply chain was crucial. A whole range of questions need to be looked at, including political/legal issues, economic, social and cultural issues, technology and infrastructure. In particular he stressed the need for business management skills. Mr. Uliwa also highlighted the important role of input suppliers in ensuring successful contract farming.

Mr. Uliwa noted that the challenge was to identify the gaps in the provision of the critical services. There were service providers in Africa able to provide necessary services for successful contract farming. However they, too, needed to be trained. Markets are changing quickly and service providers needed to be aware of this.

“Who creates the enabling environment?”, Mukiri Wagithendu – Kenyatta University, Kenya

Building on the other presentations on this topic, Mr. Wagithendu highlighted issues related to insurance, financing organizations and quality control. He also stressed the important role of the media. He felt that African governments had made only limited progress towards creating the right environment for contract farming.

Other participants stressed a range of topics. Land availability and land tenure was highlighted in particular, as was the high cost of capital in many countries. Other participants highlighted quality issues, as well as the impact of misguided policies. Some participants indicated that they felt subsidies were required to promote contract farming while others questioned why this sector, in particular, should merit subsidies.

FIELD TRIP TO MGK PROJECT

Introduction to MGK project by Ben Lombard of MGK

MGK is a private company and TEMO Agri Services is one of its business subdivisions. MGK's support structure is divided in 5 services (Statusfin, Prodsure, Obaro, All-gro and Info-gro) in order to provide financial and technical services and knowledge, primarily to commercial farmers.

Temo Agri Services is a joint venture between MGK Operating Company Pty (Ltd) & Temo BEE Farmers Share Trust. Temo provides the following services:

- Production loan
- Crop insurance
- Production inputs
- Contractors' implements
- Marketing & logistics
- Mentorship, which is most important for the success of the project.

Farmers, TEMO personnel and SANTAM Agri-Insurance personnel participate in the management and decision-making structure. There is a Mentorship program design to train and develop emerging farmers. Selected farmers and mentors are organized into study groups, which hold regular meetings:

:

- ✓ To ensure that farmers acquire the necessary technical skills required to succeed in grain and oilseed farming.
- ✓ To train farmers on farm management
- ✓ To train farmers in finance planning and budgeting
- ✓ To train farmers on HR management.

All decisions (land preparation, planting and harvesting, crops to be planted and cultivar, appointment of contractors) are jointly agreed upon by the farmer and mentor. An account is opened for the farmer at the beginning of the contract.

This account is used to buy all the inputs and rent the farm implements. At the time of the harvest the difference between the value of the crop and the account will be paid to the farmer.

Between 2003 and 2008 there have been significant increases in the number of farmers involved in the project, together with an increase in the number of hectares and the number of jobs created. However, for further expansion Temo needs additional mentors, as well as partners willing to share the financing risk.

Field trip participants were very interested in this programme and asked many questions. It was noted that present interest rates paid by farmers were 8% in the first year and 15% after that. Most farmers were located on communal land, so the size of their fields varies significantly. If they are on communal land, they need a letter from the tribal authority to certify that they are farmers and they have a permanent access to the land. If the harvest fails there is a compensation system and the farmer is given additional time for loan repayment.

Mentors are paid by MGK. The farmer is not charged for the technical assistance. The average yield for cereals is between 600 and 700 kg/ha. Farmers have to provide “debushed” land as MGK does not pay to clean the land. The price paid is determined by the prevailing SAFEX price or, in the case of sorghum, by the price negotiated with sorghum buyers.

Field trip participants visited one MGK Feedlot Project and a Sunflower and Sorghum Project. Feedlot owners discussed the cycle of feeding and program of vaccination with the mentor; MGK provides the food and the medication and the cycle is organized in order to be able to deliver 30 animals a week and have a contract with the abattoir.

Feedback on the fieldtrip

In subsequent plenary discussions, participants considered that there was very good cooperation between MGK/Temo and farmers, on several levels, including technical support and credit. However, the possibility of more farmer involvement in the decision-making process was suggested. To get necessary economies of scale MGK would like to be working with farmers having access to a total of around 50 000 hectares. It was noted that there are similar arrangements in other countries, e.g. Kenya, the main difference being that farmers in other countries have access to very small amounts of land whereas some MGK clients were farming several hundred hectares. This led some participants to question whether the programme was really of assistance to disadvantaged farmers. In response, MGK stressed the employment opportunities generated by the programme.

Participants noted that side selling was not a problem as the economies of scale available to MGK through its relations with other commercial farmers meant that it was able to pay prices that could not be matched by other buyers. Participants also raised the question of loan collateral as farmers could not offer land as collateral because they farmed communal land. MGK acknowledged that this was a potential problem.

PLENARY SESSION 4 - CONTRACT FARMING AND RURAL DEVELOPMENT

“Contract farming and rural development”, Carlos da Silva, FAO

Mr. Da Silva started by noting that, according to the latest World Bank World Development Report, 75% of the poor in the world live in rural areas. Contract farming can therefore be a tool to promote rural development. It does not promote directly agricultural development but it is about modern and commercial agriculture which is a way to promote agricultural development.

The advantages of linking commercial agriculture and agribusiness through contract farming include: creation of jobs, with new opportunities of employment in added value production; provision of inputs and credit; greater regularity of agricultural product supplies to the firm and greater conformity to desirable product quality.

In conclusion, Mr. Da Silva noted that contract farming can be a powerful tool to promote efficiency, and better aligned chains that can engender growth and create employment. However, it is not a silver bullet. The challenge is how to promote contract farming that is efficient, equitable and inclusive.

“How can contract farming be used to promote rural development? – Case of ‘Faso Kaba’, a private seed delivery system in Mali”, by Maimona Coulibaly (Fuso Kaba, Mali)

Ms. Coulibaly started by placing her company in context. National seed demand in Mali has never been met and even the little produced is quite often not distributed effectively. National seed systems presently fail to fill the need of rural small farmers.

Fuso Kaba supplies 42 stockists in 4 different agro-ecological regions of Mali. Its objective is to have an impact by developing a positive chain of seed production and distribution. Producers will benefit through having an assured market at reasonable prices.

Contract farming for seeds depends on making inputs available on credit; and assuring that quality and quantity requirements are met. Given significant regional differences in Mali considerable attention also needs to be paid to meeting regional needs.

"FRESHCO Seeds", by Captain Karanja, FRESHCO Seeds, Kenya

Captain Karanja noted that FRESHCO is a seed company, which is part of the macadamia business group in Kenya. They work with 60 000 farmers who own on average 10 trees and are involved with different partners. Their main problem is: farmers used to farm with low yield variety.

FRESHCO Seeds actions are:

- Propagation and distribution of macadamia seedlings (40 000 valuable macadamia trees)
- Contracts with individual farmers
- Management of crop management sequences
- In season payment to farmers
- Credit funds
- Development of collection centers.

By doing so, FRESHCO has achieved a better income for the rural farmers, has created employment opportunity (seasonal and permanent job), provisions services and cash advances and created new company opportunities (out sourcing transport, transformation…). In terms of Rural development, it also provided new technology and skills for the farmers. Captain Karanja noted also that, as an indirectly effect, this kind of project encourages governments to improve infrastructure in the rural areas.

Finally, FRESHCO has diversified its business to other seed and planting material and developed Macadamia tree growing projects in other countries.

Dryland Seed Ltd - Edna Ngila - Dryland Seed Limited

Edna Ngila first decribed the context, which is characterised by individual ownership being a new concept in Kenya and less than 2% of farmers practice contract farming (however there are many cooperative, horticulture companies and seed companies).

The problems faced by the Dryland Seed Limited project are: farmers divert produce to avoid paying for supplied input, problems of price (grain price (food) > seed price), poor infrastructures.

Their biggest challenges are:

- 80% land unsurveyed, no title deeds, no guaranty for loan
- No irrigation infrastructure
- Problem of side selling
- International quotas
- High interest rates.

The solutions proposed by Dryland seed Ltd are better land policies, legislators should enact laws which encompass contract farming, conflict resolution trough arbitration and avoid lengthy court, the law should be harmonized for Southern African countries.

OLAM by Reji Jones of OLAM

Reji Jones started by presenting the company, which is an integrated model from farm to chain with 12000 employees, 20 products, 62 countries, 4000 customers, 18 000 hectares, 16 000 farmers. It concerns contract farming for rice, sesame, cotton, ginger, cashew (transformation in the country of production and then export). In 2005: development of a new business model, local production marketing for local purpose and developing modern agriculture.

Characteristics of OLAM contract farming are:

- Out growers programs (capacity building for SSF), extension programme; rice mill (providing credible markets)
- Provide credible market
- Payment to the farmers trough buy back system
- Involvement of different partners (Stake holders, Farmers cooperative, Banks, USAID markets, Olam Nigeria Ltd, ADP, NAIC)
- Support: all inputs (certified seeds herbicides fertilizers crop insurance)
- Payment within 48h
- Middle men system completely avoided
- Price committee in place include partners.

Through these activities it achieved a net income from 385$ to 900$/ha for the farmers.

Concluding remarks and discussion

There exist many success stories - Many countries, including in Africa, do have success stories in contract farming. The cases are, however, again, very specific.

Contract farming can be powerful tool to promote efficiency, engender growth, create off farm employment, promote social inclusion, and it can have strong multiplier effects.

It is however not a silver bullet. More thoughts are needed on how to promote contract farming that is efficient, equitable and inclusive.

SMALL-SCALE CONTRACTUAL ARRANGEMENTS

Small-scale contractual arrangements By Andrew Shepherd – Rome

Andrew shepherd started his presentation by questioning if there is scope to promote contractual arrangements to address credit constraints faced by African farmers? by crop traders? by input dealers? by commercial farmers?

Credit and input provision by crop traders is to a certain extent already done, although credit often extended the other way round (from farmers to traders). Crop traders are often remote from farmers and unable to monitor activities, so side-selling becomes difficult to control. Most small-scale traders lack cash flow to extend credit. Would banks lend them money for that purpose?

Inputs on credit from input dealers would require bank funding or value chain finance through input companies. Low population density in much of Africa means that input dealerships are thin on the ground and it is difficult for traders to monitor farmer loans. Would there be possible tripartite arrangement with banks?

Commercial farm support to surrounding smallholders are similar to "nucleus estate" concept, but less formalised. It was tried in Mozambique as condition for land allocation to Zimbabwe farmers; proposed as basis for WB irrigation project in Zambia; there are tentative moves in Namibia (Green Zones). Commercial farm to provide inputs on loan and carry out marketing output - would it work?

What is the role of NGOs? They are increasingly looking to play a role in linking farmers to markets. They tend to be strongest in farmer group development and weakest in business matters and can complement private sector, which has no strengths or time to organize farmer groups. But, NGO staff often hostile to private sector and usually require training in business to be effective and NGO involvement may lead to complicated multi-agency arrangements (Example: Strategicalliance for potatoes in Uganda (between Farmer groups, Naro, Nando's and PRAPACE, CIAT and AFRICARE).

There is a tendency for excessive donor and NGO interest in small-scale export and "niche" markets, with – subsequently – the potential exclusion of profitable local ones. There is often a contradiction between "making markets work for the poor" and capacity of "poor" to be assisted in this way. The starting point has always to be available and profitable markets.

Farmers must have capacity to exploit market potential in terms of: location and infrastructure, social structure and education levels, land area and tenure, agronomic suitability, climate, pests and diseases, assets and access to finance, access to extension, market information, capacity to meet market requirements, willingness to take a few risks.

It remains however unclear whether NGO interventions can be sustainable, replicable and suitable for scaling up. "Repairs and maintenance" and lengthy "handholding" are often required. Companies may have to invest by having field staff to support groups or linkages may collapse after NGO leaves.

Contract farming for Equitable Market-Oriented Swine Production in Northern Vietnam by Ma. Lucila A. Lapar - ILRI

Project tried to identify and characterize the different forms of existing contractual arrangements in pig production in N. Vietnam, identify the determinants of participation of producers, identify the scale bias of particular contractual arrangements, compare production costs and net returns and assess and evaluate broader institutional and policy environment.

Ma Lucila A. Lapar presented a context in which occurred increasing demand, structural transformation in the livestock sector, scaling up of production systems; changing market needs, and changing product attributes. It presented opportunities for all, but smallholders are often limited to take advantage of this (due to resource constraints, lack of access to information, limited skills, technology, lack of competitiveness, policies). There is a eed for organizational solutions (differential TCs and risk sharing) that can facilitate smallholder access to markets.

According to her, contract farming in livestock is important for several reasons. Firstly, there are high transaction costs in input procurement and output marketing; info and asset asymmetries. Secondly, there is an increasing demand for quality (uniformity, convenience, safety). Thirdly, there are increasing incidences of animal disease outbreaks (bio safety). Fourthly, it represents an opportunity for smallholders to participate in high value chains. Lastly, it simplifies production/marketing decisions by facilitating access to credit.

She developed a typology of contract farming arrangements/

- Formal contract - Closed loop (singular and extended configurations)
- Informal contract - Open loop (4 different configurations)
- Non-contract (independent) – input supply or output supply only

And identified the respponsabilities for each stakeholder.
* Integrator responsibilities: Provides assistance in infrastructure; provides inputs, e.g., stock (weanlings), feeds, veterinary supplies, technical services as required. Costs are borne by the integrator; monitors proper specification of pig pens, feed utilization, animal health condition, vaccination schedule, growth performance, and sets optimal marketing dates for outputs.
* Contract grower's responsibilities: Provides land for building the pig pens; provides labour for day-to-day operations.

Her main observations and key areas of result are two-foiled. Firstly, she notes that contract farming is not scale neutral in both formal and informal cases, not pro-poor? Secondly, contract farming can facilitate higher returns to labour (or higher average profit per unit output)…but not in all cases.

The key areas for policy support are:

- How to address barrier arising from scale (and/or capital requirements)? Improving assets (human, financial, social, physical)

Enhancing access to appropriate financing and insurance schemes (e.g., informal linkages with traders)

- Need for adequate/appropriate legal framework for dispute resolution in a fair and transparent manner; also product certification.
- Supporting policies for alternative institutional options, e.g., coops, voluntary producer association
- Supporting market infrastructure and services (e.g., wholesale markets, transport and communication, inspection and storage facilities)
- Enabling environment that will facilitate effective public-private partnerships (e.g., private feed companies with farmer groups, etc.)
- Making more efficient delivery of public extension and other supporting services to livestock producers, e.g., animal health and veterinary services, etc.

Discussion

The different presentations highlight that farming remains a business. It is however not an easy business.

There have to be incentives for farmers. The latter can include government support, interest cuts, etc.

As the degree of interdependency is high in farming, to make things work in farming, in addition to all other things (infrastructure, trust, etc.). Number of variables becomes high.

Insurance is important, as agriculture is risky. Alternative. An example could be input supply insurance. In order to diversify the risks – three parties should be included (farmers, suppliers, banks).

The cost of credit is not so much - the interest rate are often low, but it is the transaction cost (time) of acquiring the credit.

CONCLUDING PLENARY SESSION

Where can FAO assist you to assist on this topic of CONTRACT FARMING ?

- Improve accessibility to developmental credit (dealing with issues of lack of collateral). Access to credit – price of risk is high, and risk depends on collateral, leading to high interest rates. There should be two markets for credit: commercial and development. And how can the latter work? Alternative: value chain should provide collateral.
- Capacity development and training (of public sector, extension, private sector).
- Establish new CONTRACT FARMING models – stipulating obligations of different parties, enabling room for flexibility. However: contexts vary a lot. FAO wrote a brief about it and developed a data base with about 100 different types of contract.
- In-country feasibility studies to provide SSF to engage in value-addition, to engage in multiplier effects.
- Support group formation. Capacity building for local NGO's involved in farmer training.
- FAO engage in legal framework development for countries.
- Open a help desk and website in getting various markets (regional and continental) on e.g. commodity market outlets, demand, etc.
- Info on crops suitable in different areas to enhance market linkages.
- Code of conduct to be promoted at national level.
- Different business models – promote case study approaches.
- Promoting enabling environment at national and local level.
- Monitoring and Evaluation of national governments. Putting agriculture back on the table. There is a process of peer review – but where did it lead to? FAO can help there – lessons on where CONTRACT FARMING and other issues have been included in agric policies or where national policies have been successful/developed.
- Creating awareness on different subjects through workshops.
- Lessons on where contract farming has been included in national policies.

ANNEX 1

DETAILED PROGRAMME OF THE WORKSHOP

Tuesday 05/05/2009

08:30 – 09:40 WELCOME AND INTRODUCTIONS – *Lecture Room 7*

- 08:30 - 08:40: Opening Speech by Director General (Agriculture), South Africa
- 08:40 – 08:50: Speech by FAO Representative, Ms. R. B. Kurwijila
- 08:50- 09:10: Participants to introduce themselves
- 09:10- 09:40: Opening presentation: Why contract farming? *Prof. Mohammad Karaan (University of Stellenbosch, South Africa)*

09:40-10:00 TEA BREAK

10:00 – 12:30 PLENARY SESSION 1 – *Lecture Room 7*

10:00-11:15 - **Session 1a**: The concept of contract farming, assessing its importance

- addressing criticisms that there is unfairness in such arrangements
- different types of contract and production arrangements
- impact of contract farming in Africa
- ensuring political understanding and support for the concept and for necessary regulations

Topic introduced by: Prof Kurt Sartorius (Wits University – South Africa)

11:15-12:30 - **Session 1b**: Ways of addressing contract failure:

- Overcoming side selling and input diversion
- How can trust be promoted?
- Best practices in contract design for different products: clauses, provisions, sharing of risk and ensuring transparency in quality assessment, etc.
- Addressing the question of “asset specificity”
- Enforcement and legal environment

Topic introduced by: Andrew W. Shepherd, FAO, Rome

12:30-13:30 LUNCH

13:30- 14:30 PARALLEL WORKING GROUPS

Working Group 1a – *Lecture Room 7*

- Is there a lack of political understanding of contract farming; is this a problem and, if so, how can it be overcome?

Working Group 1b – *Lecture Room 6*

- What new approaches can be adopted to address contract failure?

14:30 – 14:45 TEA BREAK

14:45 – 16:00 PLENARY SESSION 2 – *Lecture Room 7*

Session 2a Ways of linking companies to farmers:

- different practices or business models according to the value chain
- direct links involving company staff or indirect links through farmer groups or leading farmers
- experiences with formal (e.g. cooperatives) and informal groups
- the role of NGOs

Topic introduced by: Andrew Shepherd, FAO, Rome

16:00- 17:30 WORKING GROUPS 2a

(Two Parallel Working Groups addressing the same topic):

Working Group 2a (1) – Lecture Room 7

Working Group 2a (2) – Lecture Room 6

What ways can be recommended to best link farmers to companies?

- for large-scale immediate processing (tea; oil palm; sugar)
- for other export commodities (cotton; tobacco; coffee)
- for consumer agro-processing (fruits and vegetables; processed meat)
- for dairy products
- for supermarket supply

19:00 GALA DINNER

Wednesday 06/05/2009

08:30 – 08:45 Summary of the first day *(Andrew Shepherd) – Lecture Room 7*

08:45 – 09:45 PLENARY SESSION 3 – *Lecture Room 7*

Session 3a: "Enabling environments"

- What "enabling environment" is required for successful contract farming?
- How close are African countries to achieving such an environment?
- What further reforms are required?
- What support institutions are required to facilitate contract farming (e.g. commodity associations, certification agencies, commodity development organizations)?
- Support for contracting arrangements
    - *Topic introduced by: Carlos da Silva (FAO, Rome)*

09:45 – 10:00 TEA BREAK

10:00 – 11:00 PLENARY DISCUSSION

- Are African traditional land tenure systems an obstacle to successful contract farming?
- To what extent are national regulatory frameworks and institutions related to agrifood quality and standards an obstacle to successful contract farming in Africa?
- Are national regulatory frameworks for agricultural marketing in Africa conducive to successful contract farming?

Introduction to Field Trip Working Groups *(Andrew Shepherd)*

12:15 – 13:00 Drive to MGK

13:00 – 13: 30 Introduction to MGK**:** *Ben Lombard*

13:30 – 14:30 LUNCH BREAK

14:30 – 17:00 Visit to an MGK project

17:00 – 18:00 Return from MGK

Thursday 07/05/09

08:30 – 09:45 PLENARY DISCUSSION ON THE FIELD TRIP

09:45 – 10:00 TEA BREAK

10:00 – 12:30 PLENARY SESSION 4

10:00-11:00

Session 4a: Contract farming and rural development:

- potential impact of contract farming on rural employment
- benefits of contract farming
- opportunity of promoting rural economic development through sub-contracting of services to rural companies and pre-conditions for this to be sustainable

Topic introduced by: Carlos da Silva (FAO)

11:00 – 12:15

Session 4b: Smaller-scale contractual arrangements:

- is there scope to promote contractual arrangements to address credit constraints faced by African farmers?
    - by crop traders?
    - by input dealers?
- what can NGOs and others looking to "link farmers to markets" learn from existing contract farming operations?

To be introduced by: Carlos da Silva (FAO)

Other speakers:???

12:15 – 13:15 **LUNCH BREAK**

13:15 – 14:15 PARALLEL WORKING GROUPS

- Working Group 4a. How can contract farming be used to promote rural development? – *Lecture Room 7*
- Working Group 4b: Is there scope for small-scale contractual arrangements involving, e.g., local traders? – *Lecture Room 6*

14:15 – 15:45 PLENARY – *Lecture Room 7*

14:15 – 15:30 Report back of working groups

- **Field trip Working Groups**
- **Working Groups 3**
- **Working Group 4a**
- **Working Group 4b**
- **Discussion**

15:30 – 15:45 Concluding Remarks (Andrew Shepherd and Carlos da Silva, FAO)

DEPARTURE

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