POTENTIAL OF CONTRACT FARMING AS A MECHANISM FOR THE COMMERCIALISATION OF SMALLHOLDER AGRICULTURE

THE ZIMBABWE CASE STUDY

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1. Introduction

1.1 Contract farming and the commercialization of smallholder agriculture

Contract farming, has in one form or another, been practiced since time immemorial and is a common feature of commercializing agriculture in developing countries as well as in developed countries. Its pre-eminence in developing countries is attributed to a response in the trend towards coordination of agricultural production and processing by agribusiness companies, and what some refer to as the "supermarketisation of food production. It is widely acknowledged that contract farming has considerable potential in countries where smallholder agriculture is widespread, and where agricultural processing and export enterprises are being promoted, as indeed, is the case in Zimbabwe and most countries in the southern African region. Little wonder that it has been receiving increasing attention as an institutional approach to commercialization[1] of smallholder agriculture and private sector-led agricultural development.

Contract farming has been defined as " a contractual arrangement between farmers and a firm, whether oral or written, specifying one or more conditions of production and marketing of an agricultural product" (Stringfellow, 1995) and entails "relations between growers and private or state enterprises that substitute for open-market exchanges by linking nominally independent family farmers of widely variant assets with a central processing, export, or purchasing unit that regulates in advance price, production practices, product quality, and credit (Davis, 1979 as cited by Watts, 1994). In essence, contract farming commits the grower to produce a certain commodity at a certain time for an agreed price and, in return, the firm undertakes to market the commodity, and may provide extension services and other facilities to producers in order to satisfy its production requirements in terms of quality and quantity.

The nature of the contractual arrangements between companies and farmers is enormously diverse and thus defies generalisation. Firm-farmer contractual agreements include verbal or "gentleman's agreements", "soft contracts" or Memoranda of Agreement, registration type contracts and written contracts with varying degrees of detail. Complete contracts that are very detailed and include clauses covering *force majeure* and all contingencies are rare in agriculture. Instead, most contracts tend to be fairly simple, unlike the detailed 18-page documents that were once produced by the Commonwealth Development Corporation (CDC). Furthermore, in the case of smallholder farmers, contracts can be concluded with either the individual farmer or a group of farmers, including cooperatives.

The simplest contract entails an undertaking whereby the producer and the buyer simply agree, usually verbally, on the amount and quality of commodity to be delivered at a given fixed price. The producer may be required to sign a "registration agreement" to confirm that s/he understands the company's requirements. However, neither party is bound by the agreement. The so-called "soft contracts" or Memoranda of Agreement represent a somewhat intermediate form of contract that binds the producer and company, but are usually not very detailed.

The more complex or "inter-locked" contracts are usually more detailed and entail the buyer providing a vertically integrated package deal which might include provision of basic farm inputs, credit facilities, marketing services (collection, sorting, transport, storage, etc.), as well as technical advisory services. Interlocking is defined as "provision of seasonal inputs on credit using the borrowers harvest of the crop in question as a collateral substitute to guarantee loan repayment" (Dorward et al., 1998). In return, the producer is required to sell all his/her produce to the company, whereupon the cost of some or all of the inputs provided on credit is deducted from the income realized. Contractual agreements that are "interlocked" across credit, input and output markets are sometimes referred to integrated "commodity-input-credit partnerships". Interlocked contractual arrangements are critical to the commercialisation of smallholder agriculture since rural financial and input markets are generally poorly developed or non-existent in most developing countries.

There are basically two types of company-smallholder farmer contractual systems: contract farming schemes (CFSs) and outgrower schemes (OGSs). Although they are sometimes used interchangeably, CFSs are based on less complex contracts and do not require the company to provide inputs or control the production of smallholder farmers. An outgrower scheme (OGS) is considered to be an extension of contracting farm/firm activities since the firm has considerable control over the smallholder production process and provides a comprehensive input/extension package that might include inputs, credit, tillage, crop protection (e.g. spraying including chemicals), and harvesting if necessary and in turn, the farmer provides the land and labour . The high cost of the services provided in OGSs is usually justified by the high value of the final product which is usually exported to more lucrative overseas markets in a semi-processed or processed form.

CFSs and OGSs are most common in the production of cash enterprises and very rarely in food crops. The main reasons why the production of food crops are generally not contracted out to smallholder farmers are that such crops, particularly staples, are of relatively low value and high risk to the sponsoring company due to widespread household retention for food and ubiquitous opportunities for side selling. CFSs and OGSs are therefore likely to work where organized production and marketing has comparative advantage and where informal marketing systems are underdeveloped.

In theory at least, contract farming offers many advantages to both the smallholder farmer and sponsoring company. Overall, it can offer increased incomes for producers and higher profits for investors, as well as reduced risk and uncertainty for both parties. However, the potential advantages of contract farming depend on the nature of the contract. The potential advantages for the smallholder farmer can include the following:

- Better access to sources of extension advice, mechanization, seeds, fertilizers and credit, and to guaranteed and profitable markets for their produce.
- Increased access to new market opportunities and services required to support intensification, diversification and commercialization.
- Introduction of new non-traditional export crops, varieties and technologies into smallholder farming systems.

- Higher productivity and increased awareness about improved farming methods, quality, consumer preferences, and health and safety standards. Contract farming usually makes smallholder farmers more aware that their products must satisfy the consumer, something that is often taken for granted in the case of mass-produced staple crops such as maize.
- Awareness and adoption of a business and commercial approach to farming.
- Awareness of the need for collective efforts for their common good and promotion of group and farmer association development.
- Household spillover effects that can include improved food security as a result of the adoption of improved husbandry methods in the production of food crops.
- Regional spillover effects associated with the improvement in services in the areas where contract farming is prevalent.

Contract farming can also provide opportunities for the creation of new market opportunities including export markets of non-traditional export products which smallholder farmers would otherwise not be able to participate in, as well as the introduction of value-added production activities.

With respect to the contracting agri-business, the main potential advantage is the guaranteed and reliable supply of the required quality and quantity of produce as opposed to relying on unreliable open-market spot purchases. Contract farming reduces the risks of planning for the agri-business firm's own production activities and can also contribute to the creation of value-added activities by facilitating the emergence of agro-processing opportunities which would otherwise not exist if certain levels of supply were not forthcoming in an organized and planned manner. It enables producers, buyers and processors to achieve economies of scale thereby lowering overhead costs and making the products more competitive.

The impetus for contract farming has changed considerably over the years. In the past, contract farming was promoted as a tool for achieving broad national development goals and hence received widespread support from governments and donors alike. Sadly, schemes based on this premise seldom if ever achieved their national development goals and have been discontinued or modified. More current thinking is that contract farming must be commercially based and driven by the private sector in order for it to be effective and sustainable. In other words, contract farming must make business sense for both the sponsoring company as well as the smallholder farmer.

While the virtues of contract farming are often extolled, it is not without its critics. In the first instance, it is important to bear in mind that contract farming is not a panacea for all the problems that confront smallholder agriculture. As such, its contribution to the commercialization of smallholder agriculture should be put into the proper context, and its limitations acknowledged. More importantly, it must be recognized that it can have negative consequences for the very people it is intended to benefit (i.e. smallholder farmers). Critics of contract farming with smallholder farmers argue that:

- **It is an agreement between two unequals; one the vulnerable and powerless smallholder farmer, and the other the all-powerful and profit-driven private sector.**

As such, contract farming never be equitable, unless there is some external and independent intervention, and protection is provided for the smallholder farmers.

- **It can only have limited impact because it cannot be extended to all smallholder farmers.**
- **It is an exploitative and even self-exploitative system whereby the smallholder farmer exploits his/her own household to meet the requirements and demands set by the company. More strident critics argue that contract farming results in the "proletariatisation" of smallholder farmerss and reduces them to servitude and bondage to private capital.**
- **It can create gender conflicts in rural households and exacerbate gender inequality.**
- **It is accessible and beneficial to only the better-endowed smallholder farmers and hence leaves the poorer farmers untouched, and maybe even poorer. It therefore exacerbates inequalities amongst smallholder farmers and can therefore lead to strife within rural communities.**
- **It impacts negatively on food security by promoting the production of export cash crops.**
- **It can lead to environmental degradation due to the intensified use of too much/many chemicals and might result in the adoption of extractive farming methods (i.e. mining of soils or cultivation of crops in areas that are not actually suitable for them) for the production of crops that provide ready cash.**

Some critics, as well as proponents of contract farming have therefore suggested that socio-economic studies should precede the implementation of CFSs and OGSs rather than being done later when the damage has already been done. However, there are counter arguments to some of these criticisms and some evidence that demonstrates quite the contrary. For example, recent studies in Zimbabwe indicate that production of cash crops (i.e. cotton) can have positive spillover effects on food crop production and development of services in areas where contract farming is practised (Govereh *et al*., 2003).

Consideration of the arguments on the pro and cons of contract farming should be used to provide a balanced view and appraise proponents and practitioners of contract farming so that they can take them into consideration during the design and implementation of CFSs and OGSs.

1.2 Objectives of the study

The purpose of the study is to closely examine the technical aspects of selected commercially driven contract farming and outgrower schemes in Zimbabwe with a view to identifying potential contract farming arrangements that can be introduced in the rest of Zimbabwe and elsewhere in the SADC region to so as to enhance the commercialization of smallholder agriculture. The study essentially sought to identify what contractual arrangements work best and under what circumstances, and how such arrangements can possibly be scaled up to the rest of southern and east Africa. The focus of the study is on the role of contract farming in linking smallholder farmers to buyers through advance agreements, pricing, production practices and quality control. Detailed Terms of Reference are presented in Appendix 1.

The specific objectives of the study are to:

1. Provide a brief overview of contract farming in SADC countries with special reference to Zimbabwe.
2. Review contract farming in Zimbabwe (and elsewhere in the region), highlighting the nature of the various contract arrangements. The review is in the form of case studies in which the main features of the contract and the undertakings by both the producer and the partner agri-business firm are highlighted. The characteristics which make the contract effective and sustainable are also identified.
3. Solicit views, opinions and ideas on contract farming from agribusiness firms, smallholder farmer associations, government management and financial institutions involved in agriculture/agribusiness with respect to the commercialization of smallholder agricultural sector.
4. Based on (2 and 3 above), identify the main issues in smallholder farmer contract farming and propose recommendations on potential contractual arrangements for different enterprises and farming conditions.

1.3 Approach and limitations to the study

This report is essentially based on a desk study on contract farming in Zimbabwe and other selected SADC countries. Both primary and secondary sources of information were used. Primary information was obtained by administering a questionnaire (Appendix 2) to several companies in the country, telephonic discussions with relevant persons, and personal interviews of key informants (Appendix 3). Response to the questionnaire was good, although in several cases the Consultant had to follow up with a telephonic discussion so as to obtain more information and clarify some issues. For several of the companies, the relevant information had to be obtained over the phone but using the questionnaire as a guideline. About 50 people were contacted in all (Appendix 3). Secondary information was obtained from the large volume of literature on contract farming, with an emphasis on the studies that were carried out in the country by the Natural Resources Institute (NRI) and Plunkett Foundation (UK) in 1995/96.

As to be expected, several of the persons contacted in the various companies were reluctant to divulge information on their contract farming or outgrower schemes for reasons of company policy or confidentiality. Some expressed concern that any disclosure could be detrimental to the company's operations and plans, and beneficial to their competitors. As a result, only superficial information was obtained from these companies. Other companies were willing to discuss their operations in general terms, but not to divulge details of their contractual agreements with farmers. Although several of the companies indicated that their contracts were available for perusal, only a very limited number of companies were willing to provide a copy of their contract with farmers. Confidentiality and an unwillingness to share their contracts, which in some cases have cost the company a considerable amount in legal fees, were cited as the main reasons. It would of course have been preferable to examine the actual contracts so as to more fully and accurately assess the obligations of both parties. However since this was not possible, for the sake of balance and fairness, none of the contracts that were obtained are included in this report.

Since there are many schemes in Zimbabwe based on contract farming and it was therefore not possible to study all their contact arrangements and procedures, a limited number of representative case examples were used to describe the present situation. The criteria used for selecting the case studies were based on the effectiveness of the contractual arrangement in the sense that the scheme is still functional, longevity of the schemes and, to some extent, the number of smallholder farmers involved. Needless to say, schemes that have been operating for a longer period of time provide much more useful information and insights into contract farming as opposed to new schemes that are largely untested and may not be operational for long. The schemes identified in Zimbabwe are listed and briefly described in Appendix 4.

The following CFSs and OGSs were selected for the case studies:

- **Cotton Company of Zimbabwe (Cottco) cottonseed outgrower scheme which dates back to the early 1990s, as well as the more recent cotton seed production scheme operated by its subsidiary Quton.**
- **Hortico vegetable outgrower scheme that has been operational since the early 1990s.**
- **Tea outgrower schemes that date back to the 1960s.**
- **Poultry outgrower schemes that have been operational for the last 8–12 years.**
- **An ostrich outgrower or “grow out” scheme that, although it is of fairly recent origin, exhibits some interesting features.**

In each case study, the scheme was reviewed, with emphasis on the main features of the contract, the undertakings of both the producer and the partner, and the characteristics of the contract that have made the scheme effective and sustainable. Wherever possible, operational and managerial aspects were also examined.

2. Contract Farming in SADC: An overview

Contract farming has been part of the agricultural landscape in southern Africa for several years and is now receiving increasing attention as governments strive to commercialise smallholder agriculture, improve the incomes and livelihoods of smallholder farmers, diversify the agricultural production base, increase export earnings and create local employment. Furthermore, it would appear that contract farming is set to become even more important as governments, donors and development agencies place more emphasis on a private sector led approach to development.

Contract farming schemes (CFSs) and outgrower schemes (OGSs) are widespread throughout the SADC region (Appendix 4). They include schemes for a variety of perennial and annual crops as well as, livestock (including domesticated ostriches), timber and wildlife. In the case of crops, virtually all the schemes are based on cash crops such as sugar cane, tea, cotton, spices and export vegetables and fruits. Food crops have historically not been produced using CFSs or OGSs largely due to the problems associated with widespread household retention and copious opportunities for side selling. Interestingly it is reported, that the Agricultural Development and Marketing Corporation (ADMARC) in Malawi is now contracting production of grain maize through smallholder farmers.

Livestock CFSs are largely restricted to poultry "grow out" schemes for broiler production and similar schemes for ostriches. However, in Zimbabwe, the Cold Storage Company, (then a Commission), once ran a contract scheme for cattle production with large scale commercial farmers (LSCFs). A smallholder dairy OGS for milk production was previously managed by the Agricultural and Rural Development Authority (ARDA) in Zimbabwe, but has for various reasons, not been operational for some years now.

The reasons for the widespread adoption of CFSs and OGSs are both historico-political and socioeconomic. In the colonial past, OGSs were promoted as an extension of large plantations for crops such as sugar cane and tea and as a means of resettling areas contiguous to such plantations. These schemes received strong support from national governments and were readily financed by organisations such as the Commonwealth Development Corporation (CDC), usually in joint ventures with national governments and sometimes with the private sector. Although most of these schemes have since disappeared or been transformed as a result of liberalization, withdrawal of CDC funding, privatisation of these firms and political changes; it can perhaps be argued that these schemes engendered a "culture" of contract and outgrower based farming which still exists today.

Well known and classic examples of CFSs and OGSs in eastern and southern Africa include the sugar cane schemes in Kenya, Malawi, South Africa, Swaziland and Zimbabwe, horticultural schemes in Kenya, Zambia and Zimbabwe, and tea schemes in Kenya, Malawi and Zimbabwe. Many of these schemes have been operational for several years and, despite being plagued with problems from time to time, bear ample testimony to the feasibility and success of contract farming in the eastern and southern African region. They

also provide valuable lessons on how contract farming can be used to integrate smallholder farmers into mainstream agriculture and more lucrative export-oriented enterprises. The socioeconomic reasons for the pre-eminence of CFSs and CFSs are embedded in the realities of the region where by far the majority of the populations are rural-based and highly dependent on agriculture and yet still have great difficulty accessing productivity-enhancing inputs (i.e. seeds, fertilizers and pesticides) as well as markets for their produce. Linking these smallholder farmers to agribusiness companies through contractual relationships or OGSs offers real prospects for improving their access to inputs and markets and, in turn, improving their incomes and livelihoods.

Of recent, government policies aimed at diversifying the agricultural base, primarily through the production of high-value export commodities, has provided a major impetus to contract farming. Diversification has largely, or almost exclusively been led by private sector initiatives which provide the much needed "node" or driving force for CFSs and OGSs. All indications are that contract farming is set to rapidly become an important feature of agriculture through the southern and east African region.

3. Contract Farming in Zimbabwe: Case Studies

3.1 Introduction

Contract farming has been part of the agricultural landscape of Zimbabwe since the mid-1950s and continues to be practised in both the crop and livestock sectors using a variety of mechanisms such as verbal agreements, "soft contracts", registrations, memoranda of understanding, as well as actual contracts. Input credit or inputs-for-outputs schemes also abound.

More recently, the Government of Zimbabwe (GOZ) has explicitly targeted contract farming as well as farmer commodity association development under its recently promulgated National Economic Revival Programme (NERP). Accordingly, the GOZ has pledged to (i) facilitate agro-processors and seed houses to enter into seasonal contracts with farmers, (ii) establish a Unit within the Ministry of Lands, Agriculture and Rural Resettlement to promote fulfillment of such contracts, and (iii) spearhead the development of new farmer commodity associations which would provide leadership over contract farming as well as technical and marketing support to smallholder farmers. In addition, the GOZ has concluded Memoranda of Understanding with several agribusiness companies in an effort to bolster its land reform programme, facilitate linkages between smallholder farmers and agribusiness, and facilitate access of smallholder farmers to much needed inputs.

Although Government's rationale for explicitly targeting contract farming in its NERP was not been clearly articulated, it is evident from the Memoranda of Understanding that it has signed with several companies, that it views contract farming as an effective method of garnering private sector support for its land reform programme, acknowledging as it does, that it does not have adequate resources to finance the programme. It is also clearly seen as a means to achieve the long-standing goal to commercialise smallholder agriculture, an objective that has for several years now, constituted one of the "pillars" of Government's agricultural policy.

While contract farming has largely been restricted to cash crops, it is also evident in the livestock sector especially in poultry production. Contract farming in Zimbabwe has been practised in sugar cane, tea and cotton production for several years, as well as in the production of seed of a variety of crops. More recently, contract farming has been extended to other crops such as groundnuts, paprika, chillies, and a variety of export vegetables (Appendix 4). A revival of contract farming for beef production is now being mooted.

3.2 Cotton Company of Zimbabwe (Cottco) and Quton Cotton Seed Company

The Cotton Company of Zimbabwe (Cottco) is a well-established and listed company that accounts for about 80% of the national crop and owns two Export Processing Zone (EPZ)-zoned ginneries. The company has its origins in the then Government-owned Cotton Marketing Board (CMB) which underwent commercialization and then privatization in the early-mid 1990s in response to the GOZ's privatization policies. As the CMB it enjoyed monopsonistic status in the cotton industry, a situation that facilitated the emergence of its

widely known input credit scheme that is reportedly highly successful and in great demand by smallholder farmers.

Cottco's widely known input credit scheme started in 1992/93 when it was still a parastatal (i.e. Cotton Marketing Board) and presently caters for about 55,000 – 60,000 smallholder farmers. Inputs valued at about $10 billion are slated for distribution to eligible farmers during the 2003/4 season. The scheme was, however, started, with some financial assistance from the World Bank, when it was the CMB and the sole buyer and ginner of cotton. The company maintains that although the funding to start the input credit scheme was originally obtained from the World Bank, it was nonetheless a loan that had to be repaid and was taken on as a revolving fund, with the risk shared 50:50 with government.

The Cottco scheme is operational in all the main cotton growing areas (i.e. Muzarabani, Gokwe and lowveld) and is based on a detailed written contract with individual farmers as opposed to groups of farmers. However, for the purpose of management, monitoring and ensuring compliance with the contract, the farmers are organized into groups with the assistance of Cottco staff. Selection of farmers for the scheme is generally based on previous production and delivery history, with higher output farmers being given preference. Under the contractual input credit scheme, smallholder farmers are given a credit limit based on previous production history and then allocated inputs against this amount. The contract specifies the credit limit for each farmer and the amount of cotton that must be delivered to meet it. In accordance with the contract, smallholder farmers receive inputs (i.e. seed, fertilizer, chemicals, sprayers, picking bags, cotton bales) as well as tillage and transport. The scheme also provides cash loans to deserving farmers so as to enable them to pay their labour for weeding and picking. Each contract is seasonal but outstanding debt can be carried over into the next season. Interest accrues on any outstanding debt. In accordance with the contract, the farmer is compelled to deliver all his/her cotton to the company.

The input credit scheme is co-ordinated and managed by an extensive network of Loans and Extension Officers who disburse inputs in tranches and according to growth stage, provide technical advice and extension services, closely monitor the farmers and co-ordinate collection of the crop after harvest. The company's extensive network of depots in the main cotton growing areas, and provision of transport, provides for relatively easy marketing of the smallholder crop. Payment is effected using a combination of cash and cheques. The scheme has now developed into a highly sophisticated system whereby Cottco maintains a detailed database on all its outgrowers.

Cottco employs a group peer monitoring mechanism to enforce compliance with the contract and reduce side marketing and "strategic default". Accordingly, the selected smallholder farmers are organized into groups and the entire group must repay their loans each season in order for its members to be eligible for inputs in the next season. If any member of the group fails to repay or side markets his/her crop, the entire group is penalized and risks being dropped from the scheme. This group peer monitoring mechanism has proved highly effective but the company is not sure if this will be the case in the future. In the past, the company resorted to seizure of the assets of defaulting farmers as an enforcement mechanism. However, this practice has been discontinued and

enforcement is now effected through close monitoring by field staff and group peer monitoring. Incentives in the form of supplementary payments for high quality cotton, elevation to "Gold Class" status, cash bonuses and annual competitions that award substantial prizes have also been introduced.

The sustainability of the scheme has been questioned in the past largely due to the low interest rate (about 25%) that is charged for credit extended in the form of inputs or cash to smallholder farmers and it must surely be now of great concern given the hyperinflationary conditions (annualized inflation currently stands at about 400%) and spiraling cost of inputs. Cottco is apparently still charging interest at a rate that is considerably lower than the current market rate and it is not clear for how long this situation can be maintained.

While the Cottco OGS has previously been reported to be insured against death and default, company officials indicated that this is not the case. They maintain that the "insurance" lies in contracting a larger volume than they really need. As such, if the growers achieve higher yields than those stipulated in their contracts, the extra yield is the company's insurance.

Quton, a subsidiary of Cottco supplies all the cotton seed for the country and is presently contracting about 15,000 smallholder farmers to produce cotton seed. It's LSCF grower base has shrunk from well over 100 farmers to just over 10 as a result of Government's acquisition of commercial farms. Quton contracts smallholder farmers who are already on the Cottco input credit scheme but pays them extra for growing a certified crop according to specifications. Selection of farmers for the Quton seed scheme is more rigorous since only top grades qualify for seed.

In view of its dominance in the industry, Cottco has played a leading role in the formulation of a regulatory framework that has been submitted to Government by the Cotton Council. The Council is eager to have the framework enacted into law by the end of this year. The framework is designed to address two issues. First, to get all buyers to adhere to a basic grading system and implement agreed proposals to limit known quality risks such as contamination with synthetic fibres. Contamination poses a serious threat to Zimbabwe's hand-picked cotton which is internationally renowned for its quality and "purity". Second, to reduce the incidence and negative inpact of "free riders" (i.e. companies that opportunistically purchase cotton without investing in the provision of inputs and support services) and make sure that all new players operate in a level playing field and do not reap where they have not sown. There is some concern among the more established cotton companies that opportunistic traders and companies, or what have recently been referred to as "vultures" are making rapid inroads into the industry and "reaping where they have not sown". The National Cotton Council is therefore trying to ensure that newcomers play their role in promoting the crop at equal risk with existing players before they benefit from the seed cotton produced. In this regard, it is noteworthy that the company already has a high court order against ginning companies that use packs that they have not paid for and both Cottco and Cargill will empty packs at competitor's depots if they are being used illegally.

Cottco is also presently engaged in an aggressive expansion campaign and has already secured a concession in neighbouring Mozambique in partnership with an as yet unnamed Mozambican company. It maintains that Mozambique has huge potential for cotton production, and that if the infrastructure could be improved, it could well rival and even surpass the Zimbabwean industry. Cottco has already placed some Loans and Extension staff in that country and intends to implement an input credit scheme similar to the one it is using in Zimbabwe.

The characteristics that make the Cottco and Quton contracts and OGSs effective and sustainable are as follows:

- **The OGS effectively started when Cottco (then the CMB) effectively had monopsony in the cotton sector. As a then parastatal, it was able to secure concessionary finance from the World Bank through a 50:50 cost share arrangement with government. This arrangement clearly gave Cottco a head start and allowed it to develop a strong and well-entrenched OGS. While it may have gained some notoriety for seizing mallholder farmers' assets during the early stages of the scheme, it has, over time, weeded out the poor and unreliable farmers, and built up a formidable reputation and following.**
- **The OGS is based on a detailed and well written contract that has clearly cost the company a considerable sum in legal fees. Investment in such a contract clearly demonstrates that it takes its OGS very seriously and does not wish to be found wanting.**
- **The company has invested heavily in the procurement of inputs, and delivery of support and monitoring services for its outgrowers. Not only does it have properly trained personnel who provide extension and input provision services and throughout its targeted cotton growing areas, but it also has developed a sophisticated database that tracks all its outgrowers.**
- **The company facilitates the marketing of the crop through its extensive network of depots, provision of appropriate packaging materials, collection and transport, and prompt payment in the form of cash or cheque.**
- **Its use of a group peer monitoring system and holding the entire group accountable for the actions of individual members has proved to be a very effective mechanism for ensuring compliance.**
- **By appointing Chairperson from the various groups, and paying them to monitor group members, cotton collection and compliance, the company has built a cadre of pseudo-employees amongst the smallholder farmerss themselves, and thereby further entrenched itself in most rural communities.**
- **The company invests heavily in the advertisement and promotion of its input credit scheme.**

To date the scheme has proved to be sustainable but it must nonetheless be of some concern as to whether it can continue to be viable and sustainable in the face of:

- **increasing competition from other companies;**

- **low interest rate charged for inputs and cash provided on credit; and**
- **the prevailing hyperinflationary environment.**

However, as long as international cotton prices remain attractive and exchange control regulations are favourable to exporters, it will very likely continue to be sustainable. But, should any of these conditions change, it, like other industries, could face considerable difficulties. Perhaps this partly explains why the company is aggressively venturing into Mozambique where investment incentives and economic conditions are generally more favourable than those in Zimbabwe. At present though, the greatest challenge to the sustainability of the scheme is the emergence of a multitude of competitors and "free riders" who threaten to undermine the company's outgrower base.

3.3 Hortico and Hortico Agrisystems

Hortico, a privately owned, EPZ-zoned and well-established export-oriented horticultural company operates a smallholder farmer outgrower scheme that is wholly owned and managed by its subsidiary, Hortico Agrisystems. The scheme has been operational for the last 12 years and currently includes about 4,000 outgrowers, 60% of whom are women. Under the scheme, Hortico Agrisystems contracts the production of horticultural products by smallholder farmers and on-sells to Hortico which in turn, markets the produce internationally, primarily to supermarkets in the UK. The scheme has been dubbed a great success and a model that could possibly be widely emulated in the horticultural sector. At present, the company produces a range of horticultural products on its own farm as well as on nearby leased farms, with the remainder of the produce is supplied by smallholder farmers.

Hortico's OGS traces back to the early 1990s when the company realized that there was a good overseas market for fresh vegetables but because LSCFs, were realizing a better return from tobacco, it would have to source the produce from smallholder farmers. Having made the strategic decision to do so, the company initiated a pilot trial with selected smallholder farmers on irrigation schemes in the early 1990s. At that time, the company already had about 15 years experience in exporting fresh produce to the European market, primarily to UK-based supermarkets. As such, it had already established itself as a pioneer in horticultural exports. As a result of the success of these initial trials, the company decided to develop a highly disciplined smallholder farmer OGS starting in the early 1990s.

Initially, the smallholder farmers were required to produce the crops, primarily baby corn and mange tout, under rainfed conditions on micro-plots as small as 600 square metres using watering cans to irrigate their crops. Although the company still restricts plot size to maintain control on production and quality, it is now sourcing produce from irrigation schemes as well. It is also diversifying the location of its outgrowers so as to exploit geographical difference and secure supplies throughout the year. The company's main packing facilities are located in Arcturus, about 60 km outside Harare, and most of its outgrowers are located in relatively close proximity in the provinces of Mashonaland Central and Mashonaland East.

The crops contracted out to smallholder farmers include baby corn, mange tout, sweet corn, fine beans and butternut. A written contract is concluded with each individual farmer and for the specific crop. Despite the large number of smallholder farmers involved, Hortico is averse to group-based contracts because it prefers to deal with individual smallholder farmers rather than farmers' organizations or groups which may have interests of their own and would come in between the company and the farmers themselves. It prefers to deal one-on-one with the smallholder farmers, an arrangement that probably makes it much easier for the company to discipline any errant producers. Discipline is, afterall, of crucial importance to satisfying the exacting and ever-changing export market requirements in a sustainable manner.

Under the contractual agreement, the company supplies all inputs on credit. Because of the stringent health and safety standards for horticultural exports, pesticides are applied by company personnel so as to ensure that the types and amounts of pesticides, as well as the application regimes (e.g. safe periods) are adhered to. Technical advice, training and transport are also provided. All production is closely monitored by the company which has now established 30 service centers for its outgrowers, some of which are equipped with charcoal coolers. In return, the smallholder farmers are required to strictly adhere to the production guidelines set by Hortico Agrisystems and market all their produce to the company. All produce is graded, semi-processed (e.g. topping and tailing) and packaged by the company. Prices are set through a combination of a guaranteed pre-planting price and an adjustment, if necessary, based on prices realized on the international market. Payment is prompt and effected through cash and/or cheque.

To date the company has experienced very little problems with side-marketing and has recorded a very high credit recovery rate. Any disputes are solved internally but are reported to be few because the company has a long-standing working relationship with smallholder farmers and understands that contract farming must be based on trust and mutual respect, rather than contracts *per se.* The main problem confronting the OGS is inadequate transport to service the needs of all its outgrowers.

The OGS employed by Hortico Agrisystems has been termed a "benign dictator" model because the company maintains strict control over production, including the area to be planted to each crop; when and what should be planted; and even undertakes all spraying for disease and pest control on its own. All this control is necessary to ensure the desired flow of production of the different commodities; that quality is not sacrificed for quantity; that the produce meets the health and safety standards of the importer; and that the produce can be traced to a particular service centre, although not to the individual farmer. Health and safety standards as well as traceability are very important requirements in the horticultural export market.

Hortico is reportedly the most vocal proponent for donor and development agency financial support for commercially oriented and private sector-led OGSs with smallholder farmers. It has argued that concessionary finance, in the form of a venture capital fund or something similar, should be made available to private companies that are operating OGSs, as opposed to the many public sector oriented initiatives that have had limited impact and

proved to be unsustainable. However, it has not yet received any direct donor support although its outgrowers have apparently received some training with funding from USAID and, more recently, DFID.

The characteristics that make Hortico Agrisystems OGS effective and sustainable are detailed below:

- **The company made a strategic decision to source the required commodities from smallholder farmers soon after the trial plots had proved successful and it has adhered to this decision and made the necessary investments to develop the OGS.**
- **For most of the products produced, Hortico Agrisystems enjoys a monopsony. Therefore, there are little or no prospects for side selling of produce. Although the commodities produced are food crops, they are "foreign" (to smallholder farmers at least) food products and there is generally little likelihood of them being retained for household consumption or for local sales.**
- **By adopting a "benign dictator" model, it has instilled the required discipline in its growers but also rewarded them with improved skills and prompt payment for their produce.**
- **The company recognizes that trust and mutual respect are key to contract farming, more so than the contract itself, and has accordingly devoted considerable effort to fostering a good and harmonious working relationship with its outgrowers.**
- **The OGS is entirely commercially driven even though the company has, in the past, strongly argued for concessionary financing.**

3.4 Tea outgrower schemes

Private and state-run plantations dominate tea production in Zimbabwe. From humble beginnings in 1928 on a small plantation in Chipinge belonging to the Tanganda Tea Co, the industry has steadily grown and now comprises five large commercial plantation companies and the state-owned Katiyo Estates which is managed by the Agricultural and Rural Development Authority (ARDA), a parastatal under the MoLARR. Over the last 70 years, tea growing has also expanded to include large-scale commercial outgrowers, as well as several planned and spontaneous small-scale outgrowers; the latter more so in the Communal Areas surrounding Katiyo Estates.

Although Zimbabwe's tea production is very small by world standards, it is nonetheless an important source of much needed foreign currency, a very important provider of employment in view of its high labour requirements, as well as a source of income for several smallholder farmers. Last year, outgrower production totaled 1,600 tonnes, or 7.1% of the total crop, of which about half was produced by small-scale producers. Although the industry presently occupies only about 7,700 hectares, there is huge potential for expansion of up to 20,000 hectares, provided financing can be secured for the high start-up costs. The long developmental period (up to 5 years) for tea also poses a major challenge to the further development of the industry and participation by smallholder farmers.

The outgrower schemes of three leading tea estates - two private and one state-owned - are detailed below.

Tanganda Tea Estates

The Tanganda Tea Company has been operating an OGS for large-scale outgrowers for several years. In 1975, it ventured into outgrowing with smallholder farmers and presently has about 700 small-scale outgrowers who, because of the nature of tea harvesting, transport and processing, and for purposes of being able to effectively deliver services, are generally restricted to a 20km radius around the factory.

The company's "contract" with its smallholder outgrowers is essentially verbal but conveyed in both English and the vernacular, and it is of indefinite duration. Under the agreement, the company provides seedlings and fertiliser on credit, with payment being deducted against the final green leaf payment. It also provides technical advice and transport at no cost to the grower. In some instances, the company has introduced a weed spraying scheme whereby experienced Tanganda workers spray the weeds in outgrowers' tea fields on a cost-recovery basis. This approach has proved popular. The pricing mechanism is based on 70% of average realization at factory, including a foreign currency conversion, of which 70% is paid on delivery of green leaf and the remainder after the annual audit. Incentives are offered for good quality leaf, while bad leaf is penalized.

In 1998 the company appointed a full-time Outgrower Extension Officer with the specific objective of increasing the contribution of small-scale outgrowers to its production. At that time, the EU was actively supporting the OGS and outgrowers were encouraged to form groups and apply for the promised EU funding. Unfortunately, the EU support was withdrawn in 2000 and the company has had to rely on its own resources, as well as those from some NGOs, to carry on this activity. The company also provides seedlings at a highly subsidised price.

The company credits its OGS with its simplicity, low cost, and "peasant-friendly" nature although it does have a slow return period of up to 5 years. To date the company has recorded excellent loan recovery for credit extended for fertilizers and seedlings. Of recent it has received numerous requests for assistance from people resettled under the Land Reform Programme. Unfortunately, it is presently unable to provide any assistance because the current nurseries were built and planted for the existing outgrowers who had requested assistance some years ago as. A very important consideration in this regard is that it takes at least 6-12 months to prepare seedlings for the outgrowers.

In order to support growers that are entering the tea industry for the first time, and not yet delivering green leaf, all the tea companies have agreed that charges to these growers will be highly subsidised at $1-2/plant, but payable in cash up-front. Each new A1 scheme (i.e. resettled small scale) grower will be supplied with 5,000 plants and A2 (i.e. resettled small scale commercial) farmers will be supplied with the same number unless they can demonstrate that they can handle more. Tanganda and Southdown Estates have also proposed an accelerated OGS for new settlers in which some 2 million plants would be

made available each year for 6 years, at an estimated cost of $30 million. The proposal has been delivered to the Provincial Administrator for the Governor to carry it forward to the National Lands Committee. As of yet, no response has been received from GOZ as to whether or not the scheme will receive full government support.

Tanganda has also assisted in the establishment of a 15ha coffee OGS for those smallholder farmers who wish to grow tea but are located too far from the factories. Coffee was suggested because it can be transported without much deterioration and is harvested fewer times.

Southdown Tea Estates (Ariston Holdings)

Southdown Estates is also a well-established estate that has a variety of outgrowers that include large-scale commercial producers, SSCFs, smallholder farmers and resettled farmers. Its small-scale OGS was initiated in about 1966 and presently consists of about 800 outgrowers, most of whom produce tea, and few coffee.

The OGS is based on a written ninety-nine year contract although it is not clear if it concluded with individuals or groups. Under the contract, the company undertakes to provide inputs (i.e. fertilisers and chemicals) on a 90-day credit facility, free collection of green tea, tillage (fuel being available), training and supervision. A supervisor that has been specifically employed to service the needs of smallholder farmers. All services are provided free to the smallholder farmers. In return, the smallholder farmers undertake to market all their green leaf to the company. A Management Committee elected by the outgrowers meets regularly with company representatives to discuss issues of concern to either party. To date, these meetings have effectively resolved all maters of concern or dispute.

Like Tanganda Tea Estates, Southdown has established tea nurseries for its outgrowers and is producing seedlings which are being sold to small-scale outgrowers at a highly subsidised price of $1-2 each (as opposed to real price of about $5-10 each) in an effort to facilitate expansion of its OGS.

It is noteworthy that Ariston Holdings recently concluded an $8 billion financing agreement with Trust Bank, part of which will be used for expansion of its small-scale outgrower scheme. Precise details of the agreement are still sketchy.

ARDA Katiyo Estates

Katiyo Tea Estates is a state-owned estate that has been operational for several years and is presently managed by ARDA. The estate has a complement of about 1,500 small-scale outgrowers located in surrounding communal and resettlement areas.

The "contract" for the more autonomous Katiyo outgrowers of the 1980s is not written or signed, but is nonetheless cemented in the conditions of sale of green leaf to the Katiyo factory (Jackson and Cheater, 1994). It is based on what is known as the "Chipinge

formula" and is essentially an "input repayment" contract which is of one-year duration, and concluded with either individual smallholder farmers or groups of farmers. However, the contract does not require that the smallholder farmers must sell their tea to Katiyo Estates.

Outgrowers are given a fixed first payment based on the weight of green leaf delivered, and a variable supplementary payment based on the price achieved for the manufactured tea when it is auctioned on the world market.

Under the "contract" outgrowers receive seedlings and fertilizer on credit, as well as technical training through outgrower supervisors and assistance with transport. All loans are recovered from the green leaf deliveries. A transport charge and an administrative and extension services levy are imposed on the green leaf deliveries.

The tea OGSs have been operational for over 40 years now and are set for expansion, if the required financing can be obtained. The characteristics of the contracting system that have made the schemes effective and sustainable are as follows:

- **The schemes generally have a monopsonistic origin and their outgrowers do not therefore have other outlets and are used to selling to the companies from which they receive seedlings and inputs.**
- **Tea must be harvested at the right time and processed quickly. The growers have to be organized and must already know who the buyer is, to provide timely deliveries to the factories.**
- **The contracting system is simple and "peasant friendly".**
- **The schemes have been in operation for several years and have developed a cordial and trusting working relationship with their outgrowers.**
- **The areas planted to tea are almost exclusively suited to this crop. Hence, farmers have little option but to grow tea.**
- **Management Committees have been established to improve company-outgrower relations and resolve any disputes in an amicable and transparent manner.**
- **Despite the fluctuations in world tea prices and the very small size of the Zimbawean crop, the industry has continued to perform reasonably well and offer a profitable return to both the companies and the outgrowers.**

3.5 Irvine's Day Old Chicks and Suncrest Chickens

Irvine's Day Old Chicks is the largest producer of day-old chicks and broilers in the country and also exports both chicks and broilers to neighbouring countries. It runs an expansive and elaborate operation on the outskirts of Harare that includes hatcheries, broiler houses, laboratories and veterinary services and a facility for feed production. The feed produced by the company is used for its own operations whereas that required for its outgrowers is primarily obtained from National Foods, a specialized animal feed manufacturer. Suncrest Chickens also located near Harare, is primarily engaged in broiler production.

Both companies operate broiler outgrower schemes; Irvine's since the early 1990s and Suncrest Chickens for the last 12 years. Due to the nature of broiler production, and the cost and ease of transport, both outgrower schemes are limited to farmers who are able to provide the required housing facilities for an economical flock size (about 10,000 birds), and are located in fairly close proximity to the processing facilities (up to 100km). The systems are therefore not suited to subsistence small-scale farmers, but rather to the small-scale commercial or resettled A2 farmer. Still, Irvine's maintains there is a real opportunity for smallholder farmers to engage in commercial broiler production if indigenous entrepreneurs can be convinced to establish approved abattoirs in close proximity to communal and resettlement areas.

Of recent, Irvine's has also ventured into contract farming for grain (i.e. maize, sorghum, soyabeans and barley) production in an effort to secure a more reliable supply of the raw materials for its feed production. It maintains that under the prevailing harsh economic conditions and instability being experienced in the agricultural sector, the most critical issue confronting the poultry industry is the availability of grain for feed production. It believes that if this problem can be solved, the industry could experience unprecedented expansion due to the increasing demand for poultry which is partly attributable to the spiraling beef prices. Poultry also offers the added advantage of a much shorter production cycle.

Broiler production

Irvine's outgrower broiler production scheme started informally in the early 1990s with two farmers in the Darwendale area. The scheme was formalized in 1997 and, although it has peaked at about 16 outgrowers, it is presently limited to about 7 outgrowers (5 of whom are "indigenous") as a result of the exodus of white LSCFs whose properties have been acquired under the "fast track" land resettlement programme. As in virtually all broiler production outgrower schemes, the scheme is limited to more established farmers that (i) can provide the required rearing facilities for an economically viable flock size (at least 10,000 birds) and (ii) are located within specified radius (80-100km) from the processing facilities. Proximity to the abattoir is very important because it is highly risky and costly to transport grown birds over long distances.

The contractual agreement between Irvine's and the farmers is written but simple. Under the agreement, Irvine's undertakes, after carefully examining the farmer's capacity and facilities, to supply internal equipment (i.e. hoppers, feeders, watering units, etc.); the day old chicks, feed and vaccines on credit; as well as technical advice and support. The internal equipment is provided on an interest-free loan which is deducted from realized sales, but over several flocks. In contrast, the entire cost of the chicks, feed and vaccines is deducted when the broilers are delivered to the company. In keeping with good husbandry and hygienic practices, production is based on an "all in-all out" system with a 3 week clean out period between flocks. In return, the farmer undertakes to sell all the broilers to Irvine's at a mutually agreed price.

Suncrest Chickens started its broiler outgrower scheme 12 years ago and currently has 15 outgrowers. The scheme is based on a verbal agreement rather than a written contract. Under the agreement, Suncrest provides the day-old chicks and feed on credit, as well as training, technical advice and transport for the chicks and broilers. In return, the outgrowers pledge to raise the broilers in accordance with the guidelines and requirements set by the company, and to sell them exclusively to Suncrest. The scheme is reported to be working satisfactorily but is plagued by rapidly escalating costs.

Grain production

Irvine's first ventured into contract farming for grain (i.e. maize, sorghum, soyabeans and barley) during the 2000/1 season in an effort to secure a reliable supply of raw materials for its feed production. The CFS is based on a unique, progressive and highly commendable approach that is based on a mutually beneficial working relationship between the company, large scale commercial farmers (LSCFs) and both the communal and resettled A1 and A2 farmers. At present, 180 farmers are involved in the scheme.

The contract is a simple and written (in English but full explanation provided in the vernacular if necessary) "supply of produce" contract between Irvine's and the individual farmer. It is generally for one season and not automatically renewable. Conditions in the contract primarily refer to quality and delivery details (e.g. bagged or bulk delivery). A separate document is used where inputs are supplied on credit. Under the contract, the company provides seeds, fertilizer and selected crop chemicals on credit, as well as tillage, transport and technical advice. The important point to note is that the tillage is provided by a LSCF who is located in close proximity to the smallholder farmers, and is contracted and paid by Irvine's to provide this vital service. Irvine's is testing this approach and believes that it holds considerable promise for Zimbabwean agriculture, more so in view of the land reform programme.

Because the company presently has limited capacity to assess risk, it tends to use extension agents to select the farmers. In instances where an agent is used to assist in managing the farmers or farmer groups, a commission is paid to him/her as a percentage of gross. In general, the company and agent tend to select farmers who have some collateral and are clustered in close proximity to a LSCF who is willing to provide tillage and other services to the smallholder farmers under a contractual agreement with Irvine's. The company is working towards an ideal situation whereby a group of smallholder farmers geographically located close to a LSCF are supported by that farmer, with Irvine's supplying inputs, guarantees to the smallholder farmers, and the market for their produce. However, it is not clear if the costs incurred by the company for the tillage services are passed on or shared with the smallholder farmers.

Irvine's is vigorously championing its "company-LSCF-smallholder farmer linkage" outgrower model as an effective way to utilize the skills, capacity and goodwill in the large scale commercial farming sector to support and commercialise smallholder agriculture. It maintains that as long as the capacity of smallholder farmers remains limited and their yields are low, companies will be reluctant to deal with them. But, if they are linked to

LSCFs and companies and thereby able to gain access to much-needed tillage services, the expertise and experience of LSCFs, as well as inputs, then they can become meaningful commercial farmers and business partners for the private sector. This observation indicates that contract farming with smallholder farmers is not only about the transaction costs of doing business with them, but also about productivity and quality. Clearly, if the productivity of smallholder farmers can be raised substantially, companies will be more willing to deal with them because a smaller number of farmers will be needed to meet its requirements, thereby reducing its transaction costs.

While the company is fully supportive of contract farming, it, and indeed many other companies, laments the fact that under current legislation, their contracted maize must be channeled through the GMB, rather than being delivered directly from the farmers, as was the case in the past. It, and the other companies, would like to see a move towards liberalization of maize marketing.

The Irvine's broiler OGS and grain CFS, much like the Khula Sizwe Trust ostrich OGS and sorghum CFS which is documented later in this report, demonstrate an increasing trend towards coordination and vertical integration of both agricultural production and agro-processing. This trend is consistent with developments elsewhere in the world and is likely to become more prevalent in the country.

The two broiler OGSs operated by Irvine's and Suncrest have proved effective and sustainable because:

- **both companies provide full support and it would appear at least in the Irvine's case, very generous terms for the outgrowers;**
- **the contractual agreement is simple and straightforward;**
- **outgrowers must meet the minimum standards set by the companies;**
- **the number of outgrowers is small and can therefore be closely monitored and readily assisted; and**
- **the companies have developed a close, personal and cordial working relationship with the small number of outgrowers in each scheme.**

It is still too early to assess the effectiveness and sustainability of Irvine's grain CFS. Nonetheless, it is an interesting model that ought to be closely monitored as it could have widespread implications for smallholder farmers.

3.6 Khula Sizwe Trust ostrich outgrower scheme

Khula Sizwe (Ndebele for "Let the nation grow") Trust is a Bulawayo-based non-profit organisation that was officially constituted as a notary trust in 2001, even though it began its outgrower operations as far back as 1996. The Cunningham family which has run a commercial farming operation in the Matopos areas for several years is the driving force behind the trust which is based on strong Christian beliefs and motivated by a desire to see "God honoured and people helped in these semi-arid areas…." and the "transformation of rural communities" effected. The Trust is administered by five (5) trustees, three directly

related to the operation of the Trust, and two drawn from the private sector. Professional staff have been hired to manage the administrative and financial affairs of the Trust, as well as those of the outgrowers.

The activities of the Trust include:

- **Facilitating linkages between rural farmers, financial institutions, input suppliers, markets and commercial enterprises.**
- **Identifying areas of opportunity including geographical areas, business opportunities, groups of farmers and strategic business partners.**
- **Providing training in technical skills, as well as business and organisational skills, for small-scale farmers.**
- **Provision of administrative support to smallholder farmers including the establishment of a physical and financial database which provides farmers and other partners with monthly financial statements, physical performance indicators and position reports.**

In keeping with its strong religious convictions, and its belief that there can be no meaningful social or economic transformation without "transformation of the whole person" the Trust also fosters spiritual development and the development of life skills.

The main activity of the Trust is its ostrich OGS which started unofficially in 1996. Since then, the Trust has expanded its activities to include the contract production of broilers, sorghum and paprika. It currently has 20 broiler outgrowers, and 554 sorghum outgrowers. After experiencing some problems which led to its closure about 2 years ago, the broiler scheme has restarted as a pilot and the first batch of broilers will be ready in a few weeks time. The scheme is very similar to the ostrich "grow out" scheme. In 2002 the Trust entered into an agreement for the production of about 100 hectares of paprika by smallholder farmers located on government irrigation schemes in the Matabeleland area. Unfortunately, the scheme stalled after the Government directed that all government-owned irrigation schemes in the target area had to produce maize due to the crippling food shortages in the country. The case study will therefore be restricted to the Trust's very interesting and innovative ostrich OGS.

The ostrich is a fairly common wildlife feature of the semi-arid savannas of southern Africa but has gained considerable economic importance as a domesticated bird that is reared for its high quality meat, hide and striking feathers. Its meat is rated as one of the finest quality and healthy (i.e. low fat) red meats and commands a premium price on international markets. High quality, attractive and durable products are produced from its uniquely dimpled leather. Furthermore, its striking feathers adorn some of the most elaborate and ornate costumes and head dresses, and are still the pride of fashion and entertainment shows throughout the world. Production is presently restricted to three southern African countries (i.e. South Africa, Zimbabwe and Botswana) and, to a limited extent, Namibia. The Zimbabwean ostrich is renowned for its superior meat and feed conversion efficiency, unlike the South African bird that has primarily been bred for its feathers.

From humble beginnings in the late-1980s when Government authorized the collection of eggs from the wild, and the first small farm was established in Mazowe, the ostrich industry has grown into a formidable export industry that includes several commercial farmers, sophisticated EU-approved abattoir facilities, specialized tanneries, and a national Ostrich Producers' Association of Zimbabwe (TOPAZ). In addition to its fine meat products which are marketed both locally but mainly internationally, the skins are tanned locally and either exported whole or as finished products such as shoes, handbags, etc. It gigantic eggs, particularly when artistically decorated, have also proved to be popular in tourist-oriented curio shops and, to a limited extent, for export. However, until the advent of Khula Sizwe Trust, ostrich production was essentially restricted to large-scale commercial farmers (LSCFs).

Ostrich production is generally capital intensive and subject to strict veterinary regulation by the EU which is the main importer of ostrich meat. The typical production cycle entails the following steps: breeding, incubation and chick production which is capital intensive, demanding and specialised; chick rearing and "outgrowing" to 6 months of age and about 60kg; growing to slaughter for about three (3) months on an EU-approved facility; slaughter and marketing.

All the stages except chick rearing or "grow out" are capital intensive and controlled, and are therefore best undertaken by a specialized commercial operator. In contrast, chick rearing is very labour intensive and requires great attention to detail although it does not need much capital. As such, it is ideally suited to small-scale outgrowers. Furthermore, raising a limited number (about 100) of chicks on small farms reduces the chances of disease (primarily Newcastle) outbreak and rapid spread, as would be the case in large flocks. The Khula Sizwe OGS is therefore based on the "growing out" of ostrich chicks by smallholder farmers through an interesting and innovative contracting system.

The ostrich OGS started informally in 1996, and formally in 2001 when the Trust was constituted. The scheme is presently restricted to Bulawayo North and South (i.e. Tsholotsho down to Mawabeni) and essentially operates as follows:

- **Potential outgrowers are identified in consultation with local leaders, chiefs and councilors, church leaders and extension officers, and in relation to set criteria such as capacity, distance (100km radius from Bulawayo), number of dependants, etc. Preference is given to unemployed, widowed or orphaned sole providers.**
- **Selected outgrowers then undergo a 3-day training course on basic pen design, ostrich care and handling, nutrition and feeding, veterinary aspects, record keeping and administration. The cost of the training is charged to the smallholder farmers.**
- **Final selection is then made and a contract is entered into between the selected smallholder farmers and Ostrama Feeds, a duly authorized franchisee of the Trust.**
- **The selected smallholder farmers are provided with the necessary building materials and, once the penning facilities are ready and deemed satisfactory, chicks, feed and the necessary veterinary medicines are also delivered. Under the close supervision of Trust staff and the government veterinary services, the smallholder**

farmers are then required to raise the chicks to the desired weight of 50kg, a process that takes about 6 months. By clustering 10-20 outgrowers in an area, efficiency can be increased by, for example, bulk delivery of feed and collection of birds. The loan range of farmers is restricted to $2-6 million each.

- **Upon attainment of the required weight, and if the "grow outs" are in satisfactory condition, they are bought back by the Trust, on a live weight basis at loading. The buyin price is linked to the commercial selling price per kg live bird and is driven by US$ prices and the prevailing official exchange rate.**
- **After deduction of all costs and charges, the smallholder farmers are paid, usually within 4 days Payment is in the form of roughly 10% cash and the balance by cheque.**
- **PT Royal Ostrindo, an EPZ-zoned company, markets the meat and skins and provides all marketing services including slaughtering, packaging and export, as well as tanning.**

Although the Trust's activities are based on strong religious convictions, and the desire to integrate smallholder farmers into ostrich production and contribute to rural development, the OGS is a strictly commercial undertaking and nothing is provided free of charge However, the Trust does underwrite any smallholder farmers who make a loss and reserves the right to exclude them from the scheme. The scheme is based on sound financial and cash flow modeling which demonstrates that the smallholder farmers can realize a meaningful profit with the stipulated flock size, and provided they raise their chicks in the recommended manner. The Trust maintains detailed financial records on the outgrowers so as to assess their viability.

The contract entered into between Ostrama Feeds and the smallholder farmers is annual and renewable, subject to satisfactory performance and compliance. It is written in English, although it has also been translated to Ndebele, and is normally discussed with smallholder farmers in the vernacular. It is a fairly elaborate 3-page document that has clearly had professional legal input. Under the contract, the company undertakes to: supply approximately 100 three-day-old chicks at a set price; deliver the chicks on a mutually acceptable day; deliver feed and the birds in accordance with its laid down schedules; buy back the birds when they have reached the desired weight of 50kg; and sell the birds on behalf of the outgrowers at the best price possible. In return, the outgrower undertakes to raise the chicks to the desired weight in accordance with the requirements and guidelines set by the company, and to maintain all the required records.

The chicks, pen building materials, training, feed and veterinary medicines are provided on credit which is recovered when the birds are bought back by the company. Any credit charges are based on the prime bank rate plus 2%. Interest is charged at the rate at which the finance was sourced. In 2001/2 finance was sourced from Trust Bank in the form of a Z$20 million loan facility. A levy of up to 13%, but presently set at 10%, of turnover is charged to cover the costs of general administration, field extension, transport and training, etc. Outgrowers are charged for all direct services such as transport, veterinary medicines, feed, pen materials, etc. The outgrowers are also required to reinvest a minimum of 20% of their profit if they wish to continue with the scheme into the next

season. In the event of any unresolved dispute, "both parties agree to abide by the decision of the small claims court of Zimbabwe". The Trust reports that contracting and administration fees for the scheme are very high and currently amount to $6-7 million for each grower over a 6-month period.

The OGS has been set up so as to be commercially viable for the smallholder farmers, the suppliers and the marketers, as well as the Trust. Sustainability is also given due consideration. In this regard, the idea is that the Trust will manage a revolving fund which, as smallholder farmers repay their loans, will be used to finance the following season's operations. While the companies that are responsible for chick production (Bubi Dollar) and feed production (Ostrama) have expressed a willingness to guarantee the loans obtained from financial institutions by the growers themselves, they do not provide any financing. However, Ostarama Feeds and Dollar Bubi have each contributed approximately $180 million this season in the form of supplier credit.

It would appear that the scheme is proving popular among smallholder farmers. In 2001/2 5,100 chicks were delivered to 51 farmers; an additional 24 smallholder farmers underwent training in 2002/3 and there are presently 74 outgrowers. However, the operators of the scheme claim that it faces a real threat if the government veterinary department cannot fulfill its obligations in accordance with EU export requirements.

It is interesting to note that the scheme has caught the attention of the African National Congress (ANC) in South Africa, and that its founder has been invited to start a similar initiative in the impoverished Eastern Cape. Apparently, some activities have already started near Grahamstown. Such an initiative must surely be very welcome in South Africa where there is essentially no "indigenous" (black) participation in the lucrative ostrich industry.

The Trust is also involved in an OGS for the production of sorghum which is used in ostrich feed preparation. Under this scheme, the Trust sourced seed, provided technical training for smallholder farmers, and linked the smallholder farmers with a commercial feed company that has undertaken to purchase their excess production, given that sorghum is also used as a food crop in the semi-arid areas.

The characteristics of the contract and the scheme that make it effective and sustainable are outlined below. In particular, it exhibits unusual features that, if successfully implemented and fully adhered to by the outgrowers, could ensure its sustainability and enhance the prospects for the outgrowers to be "weaned off" the scheme, if they are truly committed and disciplined.

- **The contract is well articulated, clearly sets out the obligations of both the company and the outgrowers, and allows for a credible conflict resolution mechanism.**
- **The scheme is highly transparent and, even though it is commercially based and averse to the provision of free services and subsidised credit, recognizes the important developmental role of CFSs and OGSs.**

- **The scheme has adopted a very bottom-up approach which starts with extensive consultations with tribal leaders, community leaders and farmer groups. This ensures that it is demand-driven and acceptable to all levels of rural communities. However, it is not clear if the scheme is fully participatory, i.e. if, for example, outgrowers are represented on the Trust or some kind of Management Committee.**
- **The scheme is truly commercially based and inculcates a culture of paying for services, and reinvestment in the business. The requirement to reinvest 20% of their profit engenders a sense of ownership in the business. However, it is not clear how the 20% reinvestment is effected, particularly given that the Trust is a non-profit organization, and presumably smallholder farmers cannot acquire a shareholding in it.**
- **The scheme includes training in business management. Outgrowers have to learn about loans and interest, financing, how to apply for financing from lending institutions, management and, perhaps most importantly, the need to reinvest in the business if it is to flourish and grow. The lack of reinvestment is a major impediment to the commercialization of smallholder agriculture and is not given the attention it deserves.**

3.7 Summary of main features of the different contract farming arrangements and reasons underlying their success

The five (5) Zimbabwean CFSs and OGSs examined in this study represent a variety of commercially-driven schemes for both crops and livestock, as well as one state-owned tea outgrower scheme. The main features of these CFSs and OGSs can be summarized as follows:

- **In the case of crops, the schemes are largely restricted to high value export crops such as cotton, tea and horticultural commodities, as is typical of most outgrower schemes elsewhere in the world. The livestock schemes are essentially for poultry, although a unique and interesting ostrich outgrower scheme is also in operation.**
- **The contracting arrangements differ among schemes but essentially all the schemes entail provision of inputs on credit and repayment when the commodity is delivered to the company. In essence, the commodity is used a substitute for collateral. However, Cottco also provides cash loans to enable the smallholder farmers to pay for labour. Technical advice and other support services (e.g. transport, grading, etc.) are also provided where necessary.**
- **In the case of those commodities in which the company enjoys monoposony or near monopsony, or smallholder farmers have little or no prospects of side marketing, the contract is either simple or non-existent. Where the prospects of side marketing are greater and "free-riders" are very likely to try and purchase the commodity from contracted smallholder farmers (e.g. cotton), the contract is more detailed and stringent. Enforcement mechanisms are also stronger, as is the case in Cottco's cotton outgrower scheme where the entire group is held responsible for compliance and repayment. The penalty for non compliance is generally exclusion from future participation in the scheme as opposed to litigation to recover any debt.**

- **The export-oriented horticultural scheme employed by Hortico is based on a "benign distatorship" model so as to ensure that the smallholder farmers comply with production methods that are acceptable to overseas buyers. Without such a production system, the company would not be able to compete on the international market.**
- **Pricing mechanisms differ among the schemes. However, in most instances the smallholder farmers appear to receive a price that is related to the world market price although they and their associations or ZFU have little say on how these prices are determined. Also, it is not very clear as to precisely how these prices are actually determined. The following issues are presumably taken into account when determining the price to be paid to the smallholder farmers: input costs and the cost of financing input procurement (i.e. interest rate); exchange rate and prevailing financial regulations for exporters (e.g. at present 50% of external revenues must be surrendered to the Reserve Bank at the official exchange rate while the remaining 50% can be traded on the "parallel" market); transaction costs; and the cost of providing technical and other support services.**
- **Payment of smallholder farmers is effected promptly after delivery of the commodity and in the form cash and cheque payments.**

There are several reasons as to why the selected schemes have proved to be effective and sustainable. They include the following:

- **Zimbabwe has a long history of contract farming and the concept has been readily embraced and supported by government, the private sector and smallholder farmers.**
- **Zimbabwe enjoys preferential access to EU markets under the Lome Convention and now Cotonou Agreement. These trade agreements have enabled the export horticulture sector to develop and subsequently expand its outreach to include smallholder farmers.**
- **The Cottco scheme started when the CMB effectively had a monopsony in the cotton sector and was also able to secure concessionary finance from the World Bank through a 50:50 cost sharing arrangement with government. Similarly, Hortico, Irvine's Day Old Chicks and Khula Sizwe Trust enjoy monoposony for the commodities they contract out to smallholder farmers. In the case of tea, monopsony is not absolute but smallholder farmers are bound to sell their tea to the nearest estate that has provided them with seedlings and inputs due to the processing requirements of the crop. These monopsonistic or near monopsonistic conditions have enabled the schemes to establish themselves and cope with subsequent problems such as "strategic default" and side marketing.**
- **In almost all cases, the companies have made a strategic decision to source the required commodities from smallholder farmers and have therefore made the necessary investment to develop the scheme and provide the necessary technical advice, inputs and other support services. Making a strategic business decision to source the commodity from smallholder farmers and provide them with the required support is of crucial importance to the success of credit-based CFSs and OGSs.**

- **The companies has invested heavily in the procurement of inputs, and delivery of support and monitoring services for their outgrowers. In most instances they have employed properly trained personnel who provide extension and input provision services, as well as other support required by the smallholder farmers.**
- **In the case of the Cottco scheme, the use of a group peer monitoring system and holding the entire group accountable for the actions of individual members has proved to be a very effective mechanism for ensuring compliance. The threat of exclusion from the scheme has in most instances encouraged farmers and their groups to honour the contractual agreement.**
- **The schemes have been in operation for several years now and have weathered the problems that invariably beset most, if not all, CFSs and OGSs at their outset. Although some of the schemes are still confronted by serious problems (e.g. side marketing in cotton), most of the schemes are now characterized by cordial and trusting working relationship between the companies and smallholder farmers.**

4. Views of stakeholders on contract farming

The views of the various key stakeholders on contract farming are presented in this section. For the sake of presentation and simplicity, the views are attributed to the organizations and institutions. However, the Consultant is fully aware that they may not necessarily reflect the position, or consensus, of the entire organization or institution. Due care should therefore be taken in attributing the views to the entire organization or institution.

4.1 Government

That the GOZ is fully supportive of contract farming is abundantly clear from its undertaking, under the National Economic Revival Programme (NERP) promulgated in February 2003, to (i) facilitate agro-processors and seed houses to enter into seasonal contracts with farmers, (ii) establish a Unit within the MoLARR to promote fulfillment of such contracts, and (iii) spearhead the development of new farmer commodity associations which will provide leadership over contract farming, as well as provide technical and marketing support to smallholder farmers. These noble intentions are clearly intended to complement the land reform programme and provide a framework that is conducive to contract farming.

To date, Government has lived up to its word and established the said Unit within the MoLARR. That the Unit is considered to be very important is amply demonstrated by the appointment of the Under-Secretary in the MoLARR, a senior civil servant, to head the Unit. Due to the difficult circumstances prevailing in the country, and in view of the numerous demands being placed on the MoLARR, it must surely be of concern to all stakeholders in agriculture and those in contract farming in particular to ensure that the Unit is amply staffed and financed to enable it to execute its responsibilities in an effective and efficient manner.

Although the emphasis in the NERP appears to have been placed on establishment of the Unit, it is important to note that Government efforts to promote contract farming did, in fact, precede the promulgation of the NERP and the idea of a Unit specifically dedicated to facilitating and promoting contract farming. In this regard, Government last year signed Memoranda of Understanding (MOU) with several companies (e.g. Delta Corporation, Cottco, FSI-Agricom, Origen, Ingwebu Breweries, Irvine's Day Old Chicks, etc.) in a deliberate effort to garner private sector commitment financial support for its land reform programme, which it acknowledges it cannot finance on its own.

Under the MOU, each company has pledged to support the production of specific crops that it requires for its own operations, by providing inputs to farmers selected by the company. The inputs provided (including extension services where required), are to be treated as loans which will be repaid upon delivery of the crop to the company (except for maize which is controlled and must be exclusively marketed through the GMB). Administration of the scheme is left to the discretion of the company and it is agreed that "…formal legally binding agreements will be prepared and signed between ………(***insert the company***) and recipient farmers"**. In essence, it is expected that a legally binding contract will be signed by the companies and the selected (by the company) farmers before inputs are made available.**

In accordance with the MOU, the only resettled farmers who are eligible for participation in the scheme are those who have received a legitimate Letter of Offer from the MoLARR. Furthermore, the Minister has undertaken that the tenure of the recipient farmers will not be interfered with during the period 2002-2004. These provisions in the MOU clearly demonstrate that the legal status of resettled farmers, and the thorny issue of tenure, are very important considerations with regard to contractual relationships between agribusiness and farmers resettled under the "fast track" resettlement programme. More will be said of this later in the report.

It was also agreed, but not stipulated in the MOU, that the companies would provide the MoLARR with lists of the farmers who have participated in, and benefited from, the input support programmes, so as to enable the MoLARR to assess the extent of the programme. It was also envisaged that the programme could allow for a contract enforcement mechanism since Letters of Offer could readily be withdrawn from those farmers that renege on their contractual obligations with the companies, typically through "strategic default" or side selling to other companies.

While it is still too early to determine if this arrangement has been effective, and that it is achieving the intended results, Government is concerned that some of the companies have not lived up to expectations; the reason being that they have failed to provide lists of the beneficiaries of the scheme, a situation that casts some doubt as to whether they have actually provided inputs to many resettled farmers. As a result, Government is beginning to question their commitment to supporting the land reform programme.

Furthermore, Government is of the opinion that:

- **It has rightly identified and prioritized contract farming as an appropriate institutional mechanism for the commercialization of smallholder agriculture, as well as the provision of inputs to farmers through its cooperative agreements with the private sector.**
- **Although the current difficult economic conditions are a constraint to the establishment and expansion of CFSs and OGSs, these conditions should be viewed as transient and not permanent. As such, conditions are set to improve in the not too distant future, particularly after the land reform programme has been completed.**
- **It has shown a willingness to work with the private sector and cooperate in the enforcement of contract agreements by offering to withdraw Letters of Offer from those farmers (essentially A2) who fail to honour their contractual obligations with the companies.**
- **Contractual relationships with communal and previously (i.e. early 1980s) resettled smallholder farmers "are not a problem", presumably because unlike the newly resettled farmers, these farmers have a long history of participating in CFSs and OGSs.**
- **Although it is fully supportive of contract farming, the private sector must find its own way in the market and not expect too much from Government in the form of concessionary finance and special considerations just because the companies intend**

to enter into contractual relationships with disadvantaged smallholder farmers. In essence, the companies must decide whether or not it makes business sense for them to engage in CFSs or OGSs. This approach is consistent with the prevailing paradigm whereby it is widely argued that contract farming should be based on commercial considerations rather than broad national development goals, if it is to be viable and sustainable.

- **Both the private sector and farmers should not expect too much of Government which is already hard-pressed and extended by the multitude of problems confronting the country. Government is confronted with many other problems and challenges, and companies must therefore muster their own resources to undertake CFSs and OGSs.**
- **It does not wish to become too embroiled in the regulation and overseeing of contract farming. Afterall, contract farming has been a feature of Zimbabwean agriculture for many years and there is therefore no need to "reinvent the wheel" or place unnecessary impediments to its progress and expansion. Rather, the agricultural sector should build upon its considerable experience, and strive towards making contract farming a dynamic and progressive method for not only commercializing smallholder agriculture, but also enhancing the contribution of the sector to the national economy.**

It should be noted that in 1996 Government established a facility that is favourable to the operations of export-oriented agro-industrial enterprises which in most instances provide the foundation and focal point for CFSs and OGSs. Through the Export Processing Zone (EPZ) Act, and the establishment of the EPZ Authority (EPZA), Government is availing a variety of incentives to companies that apply and qualify for EPZ status, and establish themselves in designated EPZs or, are conferred EPZ status without necessarily being located in a designated EPZ. EPZ status offers the company special concessionary status and a variety of tax and other incentives which might well off-set the additional start-up and transaction costs that are incurred in contract farming with smallholder farmers.

Surprisingly, the survey indicated that some companies are not aware of the concessions offered through the facility, and the fact that EPZ status can be granted regardless of location. This matter requires further investigation, as does the issue of whether EPZ status can be granted retroactively. In this regard, the Consultant noted that while agro-processing facilities established after the Act was passed have indeed qualified for EPZ status, those established by the same company but before the Act, appeared not to enjoy such status.

4.2 Private sector

A stable yet vibrant private sector is essential for the initiation and expansion of CFSs and OGSs that are demand-driven, responsive to market opportunities, and sustainable. Without it, CFSs and OGSs must rely on the outdated and niggardly public sector/donor model that has been shown to be largely ineffective and unsustainable.

Representatives of a large number of companies that are operating CFSs or OGSs were asked to comment on various aspects of contract farming, particularly with regard to smallholder farmers. The views are presented below. Some of the opinions were shared by almost all companies, whereas others were shared by only some, or a few, of the companies. The nature of the survey does not, however, allow for a quantitative assessment of their opinions.

- **Although fully supportive of the idea of contract farming with smallholder farmers, the companies unanimously lamented the parlous state of the Zimbabwean economy as evidenced by macroeconomic instability, hyperinflation, a severe shortage of foreign currency, high lending rates and widespread shortages of agricultural inputs. As to be expected, the companies felt that these conditions are not conducive to the development of agriculture in general, and CFSs and OGSs in particular. However, most companies indicated that they expect the situation to improve considerably once the land reform exercise is completed and the current political situation is resolved.**

- **Virtually all the companies lamented the lack, or very high cost, of finance and the unavailability of foreign currency. Several of them argued that some form of concessionary financing should be made available for to them smallholder because CFSs and OGSs with smallholder farmers (i) have very high start-up costs, (ii) are characterized by high transaction costs, and (iii) are developmental in nature.**

  As has been argued in the past (i.e. by Hortico in the late 1990s), some respondents felt that companies that wish to engage in or expand their CFSs and OGSs with smallholder farmers should be considered for some form of donor funding and support because their operations are developmental in nature (i.e. lead to improved livelihoods for rural farmers and communities) and of tangible and sustainable benefit to the rural poor.

- **On the very important issue of government's role in the promotion of contract farming and, more specifically, the role of the Unit that MoLARR has established to facilitate contract farming, the companies felt that Government should:**

  - **Strictly adhere to its undertaking to facilitate and support contract farming, and refrain from trying to control it.**
  - **Not introduce red tape and bureaucratic hurdles to companies that want to do business with smallholder farmers. The companies unanimously argued that Government must not get too involved in contract farming. Some companies questioned if it even has adequate capacity and resources to get involved in a meaningful manner.**
  - **Create a conducive and enabling environment for the private sector to initiate and expand CFSs and OGSs. Suggestions included bringing back a sense of macroeconomic stability to the country's economy; reigning in hyperinflation; addressing the dire input supply situation; and improving infrastructure (e.g.**

roads, communication, etc.) so as to make it easier and less costly to do business with smallholder farmers located in remote areas.
- **Consider offering incentives for companies that engage in CFSs and OGSs. Suggestions included tax concessions, special treatment (e.g. guaranteeing supply of fuel under the presently trying conditions).**
- **Expeditiously act on the regulatory framework that has been submitted to Government by the Cotton Council. The framework calls for the enactment of legislation that will safeguard the quality of Zimbabwe's cotton crop, and reduce or eliminate the activities of "free riders" who are undermining the input credit schemes of more established companies that have invested in the production of the crop.**
- **Restrict itself to what it knows best, and can do best, and leave the rest to the private sector, the smallholder farmers themselves and their representative organizations, and the financial institutions.**

- **Some companies vehemently argued that market forces and reality, rather than policy and legislation must drive the inception and progress of CFSs and OGSs. Liberalising markets and limiting the involvement of Government were considered to be key requirements for creating an environment that is conducive to the emergence and expansion of commercially-driven CFSs and OGSs.**

- **Some companies expressed serious concern that Government has, at times, politicised credit, for example through its various input credit schemes, and inadvertently created a culture of non-payment amongst smallholder farmers. This attitude is considered to be endemic among smallholder farmers and therefore a major impediment to not only contract farming, but commercialization of smallholder agriculture in general.**

  It is worth noting that there is widespread belief that Government provides free inputs to smallholder farmers, particularly through the GMB Scheme, and thereby engenders undue dependency and a culture of non-payment. The concern is that this culture has rapidly spread to sectors other than maize (since it is the same farmers who produce the other crops), and that this attitude is counterproductive, and has negatively impacted on other CFSs and OGSs.

  However, it should be noted that Government is adamant that smallholder farmers have not been provided with free inputs but that, instead, the inputs distributed under the GMB scheme are, in fact, provided on credit which must be paid back when the maize is delivered to the GMB. Credit can be rolled over, if there is need to do so (e.g. due to drought), and only in cases where smallholder farmers have been repeatedly unable to repay (e.g. due to persistent drought), has the credit been "forgiven". Perhaps this gesture has given the wrong impression that the inputs are provided free of charge.

- **On the issue of regulations and legislation relating to contract farming, opinions varied widely. They included the following:**

- **There is no need for any further legislation to be specifically enacted for contract farming because there is already adequate legislation that covers contracting in general. What is required is for all parties to familiarize themselves with the relevant laws before calling for more laws and for the courts to enforce them expeditiously, if called upon to do so.**
- **Current legislation is inadequate to protect companies against smallholder farmers who side market to other companies, as well as other companies who opportunistically purchase - usually at a higher price - commodities from smallholder farmers who have been contracted to, and received inputs on credit from, another company.**
- **Most respondents seriously questioned the ability of the courts to deal with and resolve contractual disputes given their limited capacity, the long delays in court proceedings and the often reported considerable backlog in court cases.**
- **Several companies were of the opinion that it is not even worthwhile to take farmers to court because of the costs and productive time lost. Dropping them from the input scheme is more effective and solves the problem permanently.**

- **On the issue of resolution of disputes between companies and smallholder farmers, companies had divergent opinions that included the following:**

  - **Government should produce the necessary legislation, in consultation with the companies, but leave dispute resolution to the particular industry itself.**
  - **Government should play an active role in the resolution of disputes.**
  - **Resolution of disputes should be provided for through the enactment of appropriate legislation.**
  - **Resolution should be provided for through arbitration, as long as the arbitrator's decision is legally binding and enforceable. As to whom or what should arbitrate in the case of disputes, suggestions included government itself, a recognised body (e.g. Cotton Council or HPC), or an organisation mutually agreed upon by the company and smallholder farmers at the inception of the CFS or OGS. Most respondents preferred arbitration through an independent body.**

- **Several companies that are clearly eager to get on with their business unimpeded, and are somewhat frustrated by the economic conditions in the country, indicated that not too much emphasis should be placed on the contract issue *per se* (i.e. legal and regulatory issues), and indeed the "institutional issue" at this stage. What is far more important to the promotion of contract farming is for Government to (i) fully address the rapidly deteriorating economic situation, (ii) take measures to restore confidence in the agricultural sector, particularly in agribusiness, and (iii) address the shortages of inputs, fuel and foreign currency. Once these issues are resolved, the companies maintain that the private sector can then get on with what it knows best and "drive" the contract farming initiative, free of Government intervention and influence.**

- **A few companies expressed serious reservations about engaging in contractual agreements with smallholder farmers and indeed other farmers who do not have**

collateral in the form of title to their land. Like other companies which have "burnt their fingers" because of extending credit-in-kind to smallholder farmers, these companies were adamant that unless the tenure issue is resolved, more so for the newly resettled A1 and A2 farmers, doing credit-based business with these farmers will be too risky. Clearly, these companies, which fortunately are in a minority, have had bad experiences with smallholder farmers and are no longer prepared to accept the contracted crop as a collateral substitute, as is usually the case in CFSs and OGSs.

- **Some companies identified side selling as a major problem, particularly for those commodities in which there are many buyers, and more so where there is an opportunity to earn foreign currency (e.g. cotton). Not surprisingly, one company has, recently branded competing companies and traders that have descended on smallholder farmers who have received inputs and support from other companies, as "vultures". In contrast, well-established companies that have developed trustworthy and cordial working relationships with their farmers (after weeding out the bad ones by dropping them from the CFS or OGS), reported little or no problems with side marketing. This finding adds credence to the argument that trust and mutual respect, developed over a long period of doing business with integrity and transparency, is more relevant to the success of contract farming than contracts *per se*, no matter how well written and comprehensive they are.**

- **Those companies that are procuring maize for their operations (e.g. for feed production) through a contractual arrangement with commercial farmers, expressed strong reservations about Government's insistence that the maize must be delivered to the Grain Marketing Board which then allocates it to the companies. They claimed that this is a cumbersome arrangement that only serves to increase transaction costs (which are invariably passed on the consumer), and causes unnecessary delays in operations. As a result, some companies are resorting to the illegal practice of buying maize directly from farmers and cooperatives, a development that has recently resulted in the seizure of sizeable quantities of maize from the companies.**

- **One major multinational company expressed some reservations about contract farming with smallholder farmers because it believes that CFSs and OGSs can quickly lead to indebtedness which is counterproductive to agriculture and its business interests. Instead, the company prefers to concentrate its efforts on improving marketing rather than production and input credit, and thereby offer smallholder farmers better and easier access to more profitable markets. To address the input supply situation, the company operates an input voucher scheme which allows the smallholder farmer to obtain inputs either upon sale of his/her crop, or at a later stage by redeeming his/her coupons. This way, the smallholder farmer is able to procure his/her inputs without necessarily being locked into a contract with the company. However, it interesting to note that despite this company's official position, it is reported to be also venturing into an input credit scheme, *albeit* on a much smaller scale than Cottco. This change in approach can perhaps be attributed**

to recent developments in the Zimbabwean cotton industry whereby a number of local companies as well as traders from other countries (e.g. Malawi and Tanzania) are competing for the smallholder crop.

From this survey, as well as the experience of the Consultant, it is abundantly clear that agribusiness companies have accepted that the agricultural sector has changed forever as a result of the land reform programme, and that if they are to survive and prosper, they will have to quickly adapt to the changing landscape. There is widespread recognition that the way of doing business in the agricultural sector has to change, from one previously focused on LSCFs to one more focused on smallholder farmers and SSCFs, as well as the emerging "indigenous" (i.e. black) commercial farmers. This widespread change and acceptance of the realities of the land reform programme bodes well for the future of agriculture, even though it is presently confronted with daunting problems. Several of the persons interviewed indicated that it is important to keep in mind that the current difficulties in the economy and the agricultural sector are not destined to be a permanent feature of the country. As such, they should be viewed as transient and surmountable problems which should not detract from the positive aspects of contract farming.

4.3 Farmers organizations

Zimbabwe currently has three farmer organizations: the Zimbabwe Farmers Union (ZFU) that represents the many smallholder farmers; the Indigenous Commercial Farmers Union (ICFU) that represents the emerging indigenous (black) commercial farmers; and the long standing Commercial Farmers Union (CFU) which historically represented the interests of white large scale commercial farmers (LSCFs). The opinions of these organizations *vis-à-vis* contract farming are summarised below:

Zimbabwe Farmers Union

The Zimbabwe Farmers Union (ZFU) welcomes the increasing interest being shown in contract farming in the country given that it offers real prospects for improving its members' access to much needed inputs and output markets. Furthermore, it feels that this study is very opportune, given the agricultural situation in the country, and the fact that it, too, is in the process of carrying out its own investigations into contract farming.

More importantly, the ZFU expressed serious concern over the proliferation of contract farming and outgrower schemes in the absence of an environment or framework that safeguards the interests of smallholder farmers. Reference was made to some farmers complaining that some CFSs and OGSs are rapidly turning them into "labourers on their own land".

The ZFU is of the view that although it welcomes the inputs provided to smallholder farmers by some CFSs and OGSs, it does not want its members to be held to ransom by the companies, a situation that can easily arise under the difficult economic conditions currently prevailing in the country. Other issues raised by the ZFU are:

- **Smallholder farmers are generally not fully informed and conversant with the contractual agreements they enter into. As a result, they only realize their implications when something goes wrong and it is too late.**
- **Contracts are not negotiated with the smallholder farmers as they should be. Instead, they are essentially foisted upon them, sometimes in a coercive manner by the companies.**
- **Smalholder farmers are not adequately informed and prepared to negotiate the details and terms of contracts.**
- **There is no, or inadequate, farmer representation in the management of CFSs and OGSs.**

In view of the above, the ZFU is of the opinion that there should be some form of contract farming policy or even legislation that addresses the concerns of its members, and provides for some control or regulation of contract farming in the country.

The ZFU is in the process of collecting contracts from its members with a view to examining them in more detail. The intention is to collect contracts for all the CFSs and OGSs that its members have entered into. However, it is not clear precisely what the ZFU intends to do after it has examined and analysed the contracts.

Indigenous Commercial Farmers Union

The Indigenous Commercial Farmers Union (ICFU), like the ZFU, has mixed feelings about contract farming and is concerned about some of the emerging developments. It is of the opinion that:

- **Contract farming is essentially better suited to smallholder farmers who do not have adequate resources to purchase the required inputs. It contends that more established farmers who are able to find alternative sources of financing for their operations, and are able to independently market their produce, are averse to entering into any contractual relationships with companies because they see no benefit from doing so.**
- **There is a need to regulate and control contract farming so as to ensure that smallholder farmers are not "ripped off" by the companies. It envisages legislation being passed to this effect.**
- **Overseeing of contract farming must be provided by an independent and neutral entity which has no vested interests in the contractual relationship.**
- **Although contract farming can be beneficial to the smallholder farmer, it is highly undesirable for these farmers to become "perpetual contractors or outgrowers", forever reliant on the companies to provide them with inputs (on credit) to produce crops that are exclusively marketed by the companies. It is adamant that smallholder farmers must be "weaned" off such relationships, sooner rather than later, so that they can become independent commercial producers; free to procure inputs as they wish; free to grow the crops that they**

think are most suitable and profitable to them and their environment; and free to market their produce where and when they wish, and to whom they wish.

The ICFU's contention that contract farming is suited only for smallholder farmers who cannot purchase inputs and not more established farmers is worthy of further investigation. In other countries, and indeed in highly developed countries such as the USA, contract farming is widespread, even among farmers who can presumably purchase their own inputs and market their produce. If so, then why is not suitable or acceptable here?

Commercial Farmers Union

The views and opinions of the Commercial Farmers Union (CFU), even though it represents the interests of large-scale commercial farmers (LSCFs) only, are nonetheless important to contract farming for two reasons. First, LSCFs can play the role of initiator or focal point for export-oriented CFSs and OGSs as is already happening in the horticultural sector. Second, some LSCFs are well positioned to provide services (e.g. tillage, harvesting, etc,) to smallholder farmers who are participating in CFSs and OGSs and as described in the Irvine's Day Old Chicks case study, a limited number are already doing so. Their participation in CFSs and OGSs as service providers to smallholder farmers or SSCFs is vigorously championed by Irvine's Day Old Chicks, and represents an innovative, progressive and highly welcome approach to contract farming that could be extended to other fields.. Furthermore, the CFU has considerable experience in contract farming because, in the past, several of its members participated in contractual production through agreements that were brokered by the Zimbabwe Agricultural Commodity Exchange (Zimace).

The views of the CFU must, however, be seen against the backdrop of the ongoing wrangle between itself and Government over land acquisition and compensation under the "fast track" resettlement programme. The union is of the opinion that:

- **In principle, contract farming is a very good idea but the current environment is not conducive to the initiation and expansion of commercially driven CFSs. It argues that contract farming can only be successful in an environment that is both economically and socially conducive; an environment where both parties are obliged to respect and honour contractual relationships, as well as one in which competing companies, particularly those that have not invested in a particular commodity, respect and do not undermine CFSs and OGSs started and supported by other companies.**
- **Side selling and "strategic default" are major impediments to contract farming. Furthermore, the inability of Government and the GMB to enforce compliance with the input credit scheme and punish those smallholder farmers that have deliberately reneged on the "agreement" (since there is no written contract as such) has created an environment that is not conducive to contract farming.**
- **It has strong reservations about becoming involved in contract farming activities with farmers that have been settled on farms that were acquired from its members, and for which they have not yet been adequately compensated. In its view, it cannot**

be seen, by its membership, to be sanctioning and supporting activities on farms from which its members were evicted. Like other organisations and companies, it is quick to differentiate between communal smallholder farmers, the "old resettlement" farmers that were settled in the early 1980s under the willing seller-willing buyer arrangement, and the newly resettled farmers that have been resettled under the "fast track" programme. In this regard, it is fully supportive of contract farming and whatever other support its members can provide to the former, but not the latter. Hence, it is supportive of the "company-LSCF-smallholder farmer" linkage arrangement being championed by Irvine's Day Old Chicks (see case study) only if the LSCF provides services to smallholder farmers that have either been allocated plots on his/her farm, or are communal or "old resettlement" farmers.

- **Government should not be involved in contractual relationships between companies and farmers. It vehemently argues that if a company provides inputs and services for the production of a crop under a contractual agreement with a farmer who is in effect, paid for the use of his/her land (sometimes through a lease agreement), labour and management, then it effectively owns the crop. As such, it sees no valid reason why any other party including government, should be involved in this business arrangement, as is the case with maize and wheat. Instead, companies (including) LSCFs who enter into contract farming with farmers should be able to do so in a free and unfettered manner.**
- **Tenure is a crucial issue and should be addressed by Government. It argues that without tenure, farmers will not be able to actually commercialise their operations as independent producers since they will not be able to secure independent financing by using their land title as collateral. Furthermore, it maintains that an agricultural production system based upon titled smallholder farmers who are able to independently raise their own financing is the best route to commercialization, as opposed to various other schemes that are benevolent but not commercially viable or sustainable. It acknowledges though, that many smallholder farmers are likely to fail under such an arrangement, but views this as one of the inevitable consequences of any commercially driven production system.**

Horticultural Promotion Council

In addition to the views of the farmers' organizations detailed above, it is essential for Government to take particular note of the following very important issue that has been repeatedly raised by the HPC. The issue centres around the implications of the fast track land reform programme on the acceptability of Zimbabwean horticultural products on the international market.

Zimbabwe has essentially built its horticultural industry on exports to the EU under preferential trade agreements, in particular the Lome Convention and now the Cotonou Agreement. The preferential treatment accorded to Zimbabwean horticultural produce under these agreements is essential to the survival and future growth of the industry and, of course, its ability to integrate smallholder farmers as outgrowers. Any threat to this export industry thus poses an indirect threat to smallholder farmers as well. The current situation is that EU importers are expressing some reluctance to purchase commodities

that have been produced on acquired farms but for which adequate compensation has not been paid to the previous white owner. While this precondition may appear to have negative consequences for only the indigenous farmers that have been allocated such farms, it could also have negative ramifications for smallholder farmers if the said farms previously supported a smallholder farmer OGS, or are well positioned to do so in the near future. The serious nature of this issue, and its likely negative implications for the export horticultural sector, and both commercial and smallholder indigenous farmers, dictates that the Government address it as a matter of urgency. It should also be noted that this problem may be more pervasive and, as such, extend to other export-oriented industries such as the ostrich sector.

Surprisingly, one company representative indicated that land acquisition under the "fast track" land reform programme may, in fact, enhance the prospects of exporting agricultural commodities to non-traditional markets such as the Far East. The argument, in this regard, is that importers from such countries are likely to view agricultural production from acquired farms, regardless of whether adequate compensation has been paid or not, as being more stable and reliable because it is in the hands of the rightful owners of the land. While this might be considered to be an interesting argument, it remains to be seen if these countries offer really meaningful and stable markets for Zimbabwean agricultural products, particularly given the many highly publicized political and trade missions to these countries.

4.4 Financial institutions

Due to time constraints, the views of only two key financial institutions (i.e. Reserve Bank of Zimbabwe-RBZ, and Trust Bank) were solicited. However, it is widely known that several financial institutions in particular, the relatively new "indigenous" banks, are very interested in investing in and providing financial support to the agricultural sector. Whether this is motivated by genuine business interests or the need to appear politically correct is not clear. In this regard it should be noted that financial institutions have recently come under criticism from government for not being fully supportive of the land reform programme.

The RBZ indicated that it is fully supportive of the agricultural sector and that the much talked about $50 billion export and productive sector facility is still available to those companies that qualify. However, it is not clear if these facilities are particularly suitable for companies that wish to initiate or expand CFSs or OGSs. More careful analysis of these facilities is required to address this question.

Trust Bank has established an Export Agriculture financing facility that is targeted at large scale commercial and export oriented horticultural producers but has also recently concluded an $8 billion agreement with Ariston Holdings to expand the smallholder tea OGS associated with Southdown Holdings Tea Estate in Chipinge. In addition, it is working on an as yet undisclosed mechanism for raising funding for the agricultural sector. Clearly, this leading "indigenous" bank is demonstrating commitment to agriculture.

Further engagement with financial institutions is required to better inform them about the financial attractiveness of CFSs and OGSs, and their importance to not only smallholder farmers, but also the economy as a whole.

5. Main Issues and Recommendations

In this Chapter the main issues arising from the survey of government, agribusiness, farmers' organisations and financial institutions as well as the GOZ are discussed. Recommendations to address these issues are also proposed.

The survey carried out, as well as the extensive literature review undertaken during this study, raise a number of very important issues that need to be addressed by the relevant stakeholders. Some are of the issues are pressing, and should therefore be addressed as a matter of urgency (e.g. macroeconomic situation, land tenure, regulatory issues, etc.), whereas others can be addressed later but are nonetheless important. The issues in themselves have been identified and elaborated upon in the previous Chapter. In this Chapter, the main issues are briefly revisited and recommendations made. Other issues that are considered to be relevant to the promotion, expansion and sustainability of contract farming in Zimbabwe, as well as the southern African region, are also discussed.

The main issues identified are:

- **The role of government in the promotion, support and regulation of contract farming**
- **Financing of contract farming, particularly in view of the high start-up and transaction costs associated with dealing with large numbers of smallholder farmers**
- **Regulation of contract farming, possibly including legislation, and the nature and requirements of contracts**
- **Institutional framework and support for contract farming**
- **Preparing smallholder farmers for contract farming**
- **The socioeconomic impact of CFSs and OGSs**
- **Regional aspects of contract farming especially with regard to the prospects of expanding the Zimbabwean models of contract farming to other countries, and the prospects for "cross-border" contract farming**

Other issues that emerged during the study include the following:

- **Commercialisation of smallholder agriculture may be dependent more so on improving productivity through technological change rather than simply linking smallholder farmers to agribusiness through contractual agreements. If so, what should be the role of government in supporting complementary technological change and productivity?**
- **Contract farming is not necessarily synonymous with commercialization. Therefore, commercialization can be pursued without necessarily promoting CFSs and OGSs. Furthermore, contract farming need not, and perhaps should not, be viewed solely in the context of input credit schemes, as is commonly the case. That is, contract farming without input credit is a viable alternative that could provide smallholder farmers with better access to markets but without necessarily locking them into credit arrangements.**

5.1 The role of Government

Government has explicitly articulated its support for contract farming for reasons already described and has already effected several agreements with leading agribusiness companies in an effort to garner financial support for its land reform programme. However, the questions that immediately come to the fore are:

- **Is this sufficient, particularly given the difficult economic conditions prevailing in the country?**
- **Since the private sector is the most important component for the initiation and expansion of commercially based and sustainable CFSs and OGSs, is the Government addressing the pressing issues raised by key stakeholders in this sector, i.e. macroeconomic stability, input availability, infrastructure development, and possibly enactment of legislation or some form of regulation in response to the regulatory framework proposed by the Cotton Council?**
- **Furthermore, can it satisfy the many expectations of the various stakeholders?**

The survey of both the private sector and farmer organizations indicates that the following issues should be addressed by government so as to create an environment that is conducive to the further development of commercially based CFSs and OGSs:

- **The declining economic situation that is characterized by macroeconomic instability, hyperinflation, a questionable somewhat fixed exchange rate, widespread shortages of fuel, foreign currency, and essential commodities.**
- **Lack of confidence in the agribusiness and commercial farming sectors as a result of the above.**
- **The negative implications of the "fast track" land resettlement programme, particularly as regards the acceptability of export-bound commodities that are produced on resettled farms for which adequate compensation has not been paid to the previous owners.**
- **Continuing controls in the marketing of essential commodities, in particular maize and wheat.**
- **Tenure of farmers resettled under the "fast track" resettlement programme.**
- **Inadequate infrastructure (roads, irrigation, communication, etc.) to support business with smallholder farmers located in the rural areas.**
- **Availability of concessionary financing to off-set the high start-up and transaction costs of CFSs and OGSs involving many and widely dispersed smallholder farmers.**

Recommendations:

- **The GOZ should take heed of the concerns and constraints created by the current macro economic situation and address them as a matter of urgency. If commercially driven, equitable and sustainable CFSs and OGSs are to take root and flourish in**

- **While GOZ has placed major emphasis on contract farming as a means of garnering private sector support for its land reform programme and making inputs available to newly resettled farmers, it must bear in mind the following:**

  - **Economic and financial issues are much more important to contract farming than agreements (e.g. the MOU concluded with several companies), legislation and regulation. Therefore, as long as the economic environment is not conducive to private sector investment in agriculture, and the transaction costs of doing business with smallholder farmers are very high, commercially driven and sustainable CFSs and OGSs are unlikely to develop.**
  - **Contract farming is not the only option available for commercializing smallholder agriculture. Raising smallholder productivity and supporting complementary technological change is equally, if not more, important. Unless productivity is improved, smallholder farmers will not be able to make the transition from largely subsistence to commercial agriculture.**
  - **Contract farming is not suitable for all commodities and market situations. Therefore, the suitability and feasibility of contract farming should be assessed on a case by case basis. In general, contract farming is best suited for commodities whose production has high labour and standards requirements, as well as those which have a high value and export potential.**
  - **Contract farming should not be viewed simply as a mechanism for making inputs available – on credit - to smallholder farmers; it must be a profitable venture and more competitive option for them. Contract farming without input credit is feasible and may well be more advisable under some circumstances. However, if contract farming continues to be viewed as simply a means of making inputs available to smallholder farmers, and not as a means of improving their marketing options, incomes and livelihoods, opportunities for contract farming without credit could be overlooked.**

5.2 Financing of contract farming

The seasonal financing of agriculture is a vexing issue, more so in an environment of hyperinflation, macroeconomic instability and high expectations from both smallholder farmers and commercial farmers resettled under the "fast track resettlement programme". Everyone is exhorting Government to provide them with financial and other support, and it must surely be under immense pressure to do so.

Sadly, because of the manner in which the fast track resettlement programme was widely perceived to have been undertaken, external financial support has not been forthcoming. Furthermore, recent attempts to raise the required funding using various financial instruments (i.e. sale of agri-bills and bonds), has been negatively affected by under-subscription (e.g. the agri-bill issue was intended to raise $64 billion but only managed to

raise just over $7 billion) and controversy surrounding the disbursement of the limited funds that were raised.

Furthermore, it is important to recognize that the financial requirements of CFSs and OGSs with smallholder farmers are generally unlike those for other agricultural operations because (i) the start-up and transactions costs are high, (ii) some schemes need to go through a pilot phase to assess their feasibility, and (ii) gestation periods are usually longer. In essence, CFSs and OGSs generally take much longer to realize profitable returns for agribusiness companies, a factor that should be taken into consideration in their financing, in addition to their high start-up and transaction costs.

Still, it is evident that Government and the financial institutions, more so the new "indigenous" commercial banks, are eager to invest in agriculture, hopefully for business rather than political reasons. The just announced transformation of the Agricultural Bank of Zimbabwe (Agribank) to both a commercial and Land Bank (i.e. Agricultural Development Bank of Zimbabwe), and Government's announcement that it will make $64 billion available through the bank, for the purchase of inputs and capital equipment by resettled farmers, must surely be a very welcome development. But, it remains to be seen if this funding will actually materialize and, perhaps more importantly, if it will be made available to the intended beneficiaries.

Of more importance to the development of contract farming is the issue of whether *some of these funds will be made available, under concessionary terms, to companies that have ongoing CFSs and OGSs, or those that wish to establish such schemes?* In view of the recent negative publicity over the disbursement of most of the funds raised through the sale of agri-bills, a development that even publicly raised the ire of the President, it is highly unlikely that some of the funds will be allocated to agribusiness. This time, the Agricultural Development Bank must clearly and unequivocally demonstrate that the funds have been disbursed to the intended beneficiaries, i.e. resettled farmers. However, allocation of the funds to smallholder farmers need not detract from the development of contract farming since, as mentioned earlier, contract farming without credit remains a real possibility for improving smallholder farmers' access to markets.

The idea of establishing a venture capital and revolving fund that is exclusively reserved for the provision of concessionary finance for companies that are already engaged in CFSs and OGSs or wish to expand has been mooted in the past. When the idea was proposed by some companies in the mid-1990s, it was expected that donors and development agencies would seriously consider contributing to the fund rather than continuing to support public sector-based CFSs and OGSs and other rural development projects that have had questionable impact and proved to be unsustainable. However, while the idea continues to have some credence, it has failed to attract any interest from donors or development agencies.

Recommendations:

- - Agribusiness could be more pro-active and aggressive in sourcing concessionary finance as well as the scarce foreign currency that it requires for establishing and expanding CFSs and OGSs. It should not sit back and wait for things to happen. There will undoubtedly be immense competition between agribusiness and farmers themselves for what little finance will become available. If agribusiness is to gain a foothold in concessionary financing, it will have to educate financial institutions about the benefits of contract farming and argue its case persuasively and convincingly. In this regard, it should be noted that participants at a 1998 national workshop on contract farming concluded that financial institutions are not well versed or familiar with CFSs and OGSs and their potential benefits to smallholder farmers and the economy and that there was a need to inform and educate them.

- Agribusiness should take full advantage of the trend towards support for private sector-led agricultural development and engage government and donors alike, with a well thought-out and structured approach to contract farming that is equitable and beneficial to smallholder farmers. Although this case has been argued before (i.e. Hortico in the late 1990s) without any success, it may well have better prospects now or in the near future. Rather than a single company arguing the case, perhaps what is required is a company-wide initiative that is more likely to receive greater attention and empathy.

    - Financial institutions, including the Reserve Bank of Zimbabwe (RBZ), should specifically target agribusiness companies and readily provide them with relevant and up-to-date information on what financing facilities are available to them. Also, financial institutions should be more sensitive to the needs of companies that are already engaged in contract farming, or wish to venture into it. Financing for CFSs and OGSs with smallholder farmers is unlike that for other businesses. The high start-up and transaction costs, and often long gestation periods of such ventures - depending on the enterprise - must be taken into consideration so that appropriate and realistic financial products can be developed in close consultation with the private sector.

- Before setting up a new revolving fund that is specifically designed to meet the special needs of companies that are engaged in, or wish to engage in, CFSs and OGSs, it must be determined whether better use can be made of already existing funds such as those offered by the RBZ, and some financial institutions. Should such a fund be established, it is imperative that strict guidelines be set for companies that wish to access the concessionary financing, together with a comprehensive monitoring system. Funds of this nature are easily open to abuse and must therefore be disbursed in a transparent manner, and their use must be closely monitored.

5.3 Regulation and legislation for contract farming

The ZFU, ICFU and indeed some companies are, for different reasons, adamant that there should be some form of regulation of contract farming. The ZFU's main concern is that some of its members are being exploited by such schemes and that they are particularly vulnerable at present due to the widespread shortage of inputs and financing. The ICFU also feels that smallholder farmers stand to be "ripped off" unless some legislation is

enacted. The Cotton Council, on the other hand, has proposed a regulatory framework to protect the reputation of the cotton industry and guard it against "free riders" who have not invested in the crop. Some view the Cotton Council's position as an attempt to exclude other companies from the sector, a claim it vehemently denies.

The idea of regulation or legislation *vis-à-vis* contract farming is a contentious and sensitive issue that requires very careful analysis and widespread consultation. It must be driven by envisaged economic benefits and due consideration of the likely effects on contract farming and smallholder farmers. Over-regulation could be counter-productive and discourage companies from engaging in contract farming with smallholder farmers. Also, a very important issue that should to be addressed is what the intended regulation is required for. Is it for contract farming *per se* or only specific aspects of the contractual relationship between agribusiness and smallholder farmers? Proponents of regulation or legislation must guard against calling for overall regulation when in fact they really refer to only specific aspects of the contractual relationship.

Recommendations:

- **- Before proceeding with any attempts at overall regulation of contract farming, it should be established if there really is a need for regulation or legislation. While it is fully understandable for the ZFU and ICFU to call for some form of policy, regulation or even legislation on contract farming, the underlying reasons for this request should be very carefully examined. Given there are different types of contractual arrangements that can be undertaken between producers and buyers, alternative ways of dealing with the concerns of both producers and companies under the different arrangements should be explored. Formal policy, regulations or legislation should only be considered if there are no other ways of dealing with the concerns of both parties. The pros and cons of regulation and legislation need to be very carefully examined, including examining ways in which other countries have dealt with similar issues. The issue of regulation or legislation must be openly discussed among farmers' organizations, agribusiness and government. Only then can the suspicions and concerns that often plague contract farming be allayed and addressed.**
- **- It is worth noting that in its NERP, Government has proposed that "new" commodity associations should provide leadership over contract farming. Whilst it is not clear precisely what leadership is expected from these associations, perhaps they can play a leading role in the discussions with agribusiness and government, and thereby complement the efforts of the ZFU.**

Two issues are of importance with regard to the legal framework for contract farming. These are: enforcement of contracts *per se,* and protection of contracting companies that have invested in CFSs and OGSs from unfair competition in the form of opportunistic companies and traders that offer contracted smallholder farmers higher prices because they have not invested in the development of the CFS or OGS.

As mentioned in the previous Chapter, opinions differ as to whether or not the legal framework in the country is adequate to enforce contracts and deal with unfair competition from other companies. Some companies maintain that it is adequate while others feel that it is inadequate. Others indicated that although the laws are adequate, the will and capacity to enforce them is grossly inadequate. The majority of companies felt that the legal framework does not provide any protection against unfair competition from "free riders".

Enforcement of contracts from the perspective of the company has been effected by using a variety of measures. These include:

- **Outright seizure of assets to "teach the smallholder farmers a lesson" and to show them that the company "means business". This mechanism is highly unpopular and applicable only where the company has extended credit to the farmer.**
- **Close monitoring and supervision.**
- **The threat of immediate and permanent withdrawal of all support to the offending smallholder farmers and, in some cases (e.g. cotton industry), sharing of information on bad debtors among companies.**
- **Implementation of group-based CFSs and OGSs whereby the groups are self-constituted through an internal vetting mechanism, members are monitored and held accountable to the group through a peer monitoring system, and the entire group is held responsible for the misdeeds of any of its members,**

These measures alone or in combination, are reported to be working effectively. To date, hardly any smallholder farmers have been taken to court for reneging on their contractual agreements with companies. Instead, companies have preferred to use one or more of the above mechanisms to deal with "strategic default" (i.e. the calculated decision not to repay a loan even when able to do so) and side selling. Taking smallholder farmers to court is generally considered to be a waste of time.

It is abundantly clear from the literature and from discussions held with various stakeholders, that the issue of compliance and enforcement of contracts is almost exclusively viewed from the perspective of the company, and seldom if ever from the perspective of the smallholder farmer. This bias is regrettable and requires redressing. Afterall, a contract obligates both parties, and therefore compliance and enforcement should apply to both parties as well; not just the smallholder farmers. The fact that compliance and enforcement are viewed in this manner implies that the smallholder farmers are always the villains whenever compliance breaks down in a contractual relationship. Surely not; many sad stories are told of companies that have misled, and made promises to, smallholder farmers, yet reneged on their promises or obligations later on. The obvious question then is: ***If the company can adopt certain measures to ensure compliance with the contract and enforcement, what can smallholder farmers or their associations do to ensure compliance and enforcement vis-à-vis the company?*** **This important question also requires serious consideration by all stakeholders, rather than assuming that companies always meet their contractual obligations whereas smallholder farmers do not.**

Recommendations:

- **Current legislation that is pertinent to contract farming should be carefully examined by legally competent personnel before jumping to any conclusions. Both the legislation covering contractual relationships and unfair competition, if any, should be scrutinised. Only then can an informed and rational decision be made as to whether current legislation is adequate or not.**
- **Where necessary, regulations should be considered as an alternative to legislation given that the enactment of laws is much more demanding and takes much longer to effect. Furthermore, self-regulation by the relevant industry, for example as proposed by the Cotton Council is probably preferable to regulation by Government.**
- **Both companies and smallholder farmers should be encouraged to commit themselves to building long term business relationships that are based on trust, mutual respect and transparency, rather than on contracts and draconian enforcement mechanisms. It is a truism that "….** ***the existence of contracts in itself does not guarantee the development of successful linkages (between agribusiness and smallholder farmers). Mutual trust, assured through regular monetary transactions, is more important than the existence of a legal contract between parties, especially where legal enforcement procedures are weak or non-existent*** **" (Rottger, 2003).**
- **An independent arbitration mechanism as opposed to legislation should be considered as a means of resolving any disputes between companies and smallholder farmers. Such a mechanism could also provide an opportunity for smallholder farmers to raise issues of concern to them. Arbitration could be provided by the industry itself (e.g. cotton), a government agency, or an agency mutually agreed upon by the producers and companies.**

5.4 The nature of contracts

As mentioned at the outset, contract farming is characterized by a diversity of arrangements and contracting mechanisms that defy generalization. No one contract can suit all situations. However, it would appear that the issue of contracts is likely to surface in the near future. The fact that ZFU is collecting contracts from its members suggests that it will compare the contracts and raise a number of important issues about their nature. Invariably, it will agitate for changes that safeguard the interests of its members and increase the obligations of companies. Some companies should not be surprised if they are asked to make changes to their contracts or to completely revise them. Also, it is very likely that the ZFU will approach Government to intervene in instances where it feels that the contract is prejudicial to its members. Furthermore, should an institutional mechanism be established to provide oversight over contract farming, it will have to deal with the issue of the structure and content of contracts.

Recommendations:

- **All parties should guard against over complicating the issue of contracts between companies and smallholder farmers. Complete contracts that are all-encompassing and cover all contingencies are rare in contract farming throughout the world. Simple contracts are not necessarily ineffective. In general, contracts should preferably be as simple as possible so that they can be easily understood by smallholder farmers. The temptation to produce elaborate and "complete contracts" that cover all contingencies and situations should be avoided. Contracting arrangements that are already in place, and presumably working satisfactorily, should be taken into consideration and form the basis for any further refinements.**
- **The approach to contracting must be pragmatic and appropriate, and bear in mind that the transaction costs of doing business with smallholder farmers are already high, and must therefore be kept to a minimum.**
- **As most contacts are drafted in English they should, if need be, explained to smallholder farmers in the vernacular. Whether or not contracts should also be written in the vernacular is a moot point. The considerable difficulties likely to be encountered in preparing legal documents in the vernacular must also be borne in mind.**
- **A legal advisory service to advise producers on how contracts should be structured and prepared should be considered. Alternatively, as is done in Kenya, guidelines should be developed to assist companies and producers to set up or modify their contractual agreements.**

5.5 Institutional framework and support for contract farming

The idea of establishing an "institutional mechanism" for contract farming has been muted by various stakeholders but received mixed reactions during this survey. Some respondents expressed reservations about the formation of yet another institution which they felt would bureaucratize contract farming even more, especially given the fact that a Unit already exists within MoLARR. Others felt that the establishment of such an institutional mechanism is highly desirable because contract farming is very important to the future of Zimbabwean agriculture and has special requirements that can only be met by some form of "institutional mechanism". Still others felt that the concept of such a mechanism should be clearly articulated so that all stakeholders can fully understand what it would entail.

Recommendations:

- **The difference between the proposed institutional mechanism and Government's Unit that has been set up to facilitate contract farming must be clearly delineated and explained to all stakeholders. The idea of an "institutional mechanism" still appears to be somewhat hazy and nebulous. The idea of establishing such a institutional mechanism must be discussed amongst all stakeholders so that a consensus can be reached as to whether or not such an institution is called for, and if so, how it should be constituted, what it should do, and how it should be financed.**
- **The critical issue of sustainable financing of such an institution must be addressed. The mandate and hence the duration of the institution also requires some**

consideration because this has very important implications for it's financing. Will it be a permanent feature of the contract farming initiative or just a short-lived entity that will serve to "jump-start" and catalyse contract farming in the country?

- **Should there be a consensus that such an institution should be established, then among its responsibilities could include include the following:**

  - **Articulate the needs of stakeholders to Government, financial institutions and donors and lobby for financial support of CFSs and OGSs from them;**
  - **Act as a focal point for all matters relating to contract farming and as a liaison channel between all stakeholders and keep all stakeholders fully informed on any new developments that have a bearing on contract farming;**
  - **In concert with the MoLARR Unit, develop guidelines and "best practices" for contract farming with smallholder farmers;**
  - **Act as an information centre for all stakeholders. In this regard it could (i) provide agri-business with up-to-date information on favourable financing opportunities as well as export opportunities (perhaps in collaboration with Zimtrade), (ii) provide farmer organizations with relevant information on contract farming, and (iii) commission studies that are relevant to contract farming; and**
  - **Act in an advisory capacity to Government, agribusiness and farmers organizations on all matters relating to contract farming.**
  - **Assist the contracting partners to access arbitration facilities in the case of disagreements and conflicts**

As contract farming spreads to include crops such as tobacco, there may well be a need intervention from an independent yet informed body.

5.6 Preparing smallholder farmers for contract farming

Contract farming, even though desirably based on commercial interests rather than broad development goals, should in the context of Zimbabwe and other southern African countries, be ultimately beneficial to smallholder farmers. As mentioned earlier, contract farming, in theory at least, and if properly managed, offers real prospects for the commercialization of smallholder agriculture.

One of the key issues is whether smallholder farmers are sufficiently informed and prepared to effectively participate in CFSs and OGSs, and in a manner that does not undermine the integrity and sustainability of the schemes? The key questions are: Do smallholder farmers adequate bargaining power to ensure that they obtain the maximum benefits from contractual relationships with private companies? Are they able to negotiate the terms and conditions of contracts from a position of knowledge and strength? The response from the ZFU and some companies indicates that most of them are not adequately informed and prepared to participate in CFSs and OGSs . In fact, there are indications that many smallholder farmers opt to participate in such schemes simply because they provide relatively easy access to inputs and markets and not because it makes good business sense for them to do so.

In this regard, it should be noted that most of the training, advisory services and information provided to smallholder farmers is of a technical nature. Yet, commercialization has to be based not only on the acquisition of improved or new technical skills, but also on better management and business skills. While it is understandable that there is a need to raise productivity by adopting improved technologies, there is clearly also a need for smallholder farmers to become more business-minded, and for companies to view them as business partners rather than as mere producers.

Commercialisation of smallholder agriculture must surely also engender a business approach to farming amongst smallholder farmers and in the case of contract farming, a better understanding of contractual relationships and obligations of both partners. Although some efforts are being made to educate smallholder farmers about the business aspects of farming, it is readily apparent that not enough is being done to specifically educate them about contract farming. If contract farming is going to assume increasing importance in the country, then this issue must also be addressed.

Recommendations:

- **Capacity building to empower farmers and farmers associations to increase their bargaining skills should be considered as the primary step in improving CFSs and OGSs. Education on what are the responsibilities, obligations as well as the rights and expectations of both contracting partners should be the prime purpose of the training.**
- **A greater and more sustained effort should be made to educate smallholder farmers about the business aspects of farming in general, and contract farming in particular, so as to enable them to better understand contractual relationships and make informed decisions. Training in the essential aspects of contract farming should be included in the curriculum of the training offered by the public extension service (AREX). Furthermore, the many NGOs involved in smallholder farmer assistance and Market Linkage Programmes should be sensitized as to this important requirement and encouraged to offer relevant training in their programmes. If possible, a collective effort involving AREX, NGOs and private companies should be made to develop appropriate training materials which can be shared amongst the organizations.**
- **The prospects for implementing a sustainable model of training delivery as proposed by the Zimbabwe Agricultural Market Development Trust (AGMARK) should be investigated. The model, currently in concept form, is based on (i) companies offering incentives for smallholder farmers to undergo and pay for the training, (ii) the willingness of smallholder farmers to pay for the training and (iii) commercial delivery of the training by private trainers who are paid either directly by farmers, or by the companies which can then recover the costs from smallholder farmers. The main purpose of the model is to enable "Farming as Business" training to be offered in a sustainable, replicable and "scale-upable" manner, so that it can reach many smallholder farmers; in contrast to the more common once-off training that is usually offered to a small number of smallholder farmers at no cost to them.**

It is also designed to encourage smallholder farmers to pay for services which they perceive to be beneficial to them.

6. Recommendations for potential contract farming arrangements and further studies

6.1 Potential for contract farming and arrangements

There is little doubt that contract farming has considerable potential for commercializing smallholder agriculture in southern Africa, linking smallholder farmers to agribusiness and integrating them into more lucrative export markets. But, it is not a panacea for smallholder agriculture nor it is suited to all enterprises; some commodities and marketing conditions are better suited to contract farming than others. More importantly perhaps, the conditions must be conducive in order for CFSs and OGSs to be commercially driven, effective and sustainable.

Despite the success of the Zimbabwean schemes examined in this study, scaling up of such schemes to other countries in southern and eastern Africa should be undertaken with due regard to differences in the political, economic and social conditions prevailing in each country. Contract farming schemes are very diverse in nature and therefore cannot be standardized. Also, like all social and financial relationships, they are subject to social, cultural, economic and political influences. As a result, they cannot simply be replicated -as is- in different countries. Invariably, some modifications will have to be made to the contractual arrangements so as to make them compatible with the prevailing agricultural, political, cultural and socioeconomic conditions in each country. Due consideration must be taken of the idiosyncracies of each situation.

Nonetheless, those schemes that have proved to be effective and successful, as well as those that have been tried but failed, provide an opportunity to better understand what works and what doesn't work. In the southern and east African context, the lessons learned in one country can be very useful to other countries and provide invaluable insight into the key requirements for CFSs and OGSs to be commercially driven, effective and sustainable.

Recommendations:

- **Detailed and thorough region-wide comparative studies (e.g. comparison of Hortico and Agrisystems in Zambia, as well as the various horticultural schemes in Kenya) should be undertaken before the concept of contract farming can be scaled up throughout the southern and eastern African region. Such studies will provide a better understanding of what works and what does not in a regional context, and provide for a more informed approach to the expansion of contract farming throughout the sub-region.**
- **Proposals for CFSs and OGSs should take the idiosyncracies of each situation into account. No two situations are alike, more so in different countries.**

While the concept of contract farming appears to be gaining momentum in the sub-region, it is of paramount importance for all stakeholders to recognize that there are key conditions for the inception and operation of commercially driven, effective and sustainable CFSs and OGSs. These conditions can be summarized as follows:

- **In the first instance, it is very important for the idea of contract farming to be acceptable to governments, agribusiness and smallholder farmers. Without such acceptability and support, the concept cannot be successful.**
- **A stable, favourable and enabling economic and political environment that is conducive to private sector investment in agriculture must prevail.**
- **The physical and economic environment must be conducive to doing business with smallholder farmers. Important aspects include adequate infrastructure, input availability, availability of land and preferably secure tenure.**
- **The costs of doing business with smallholder farmers must be kept to a minimum. If these start up and transaction costs are excessive, the private sector will be hesistant to enagage in contract farming with smallholder farmers.**
- **A profitable market must exist for the private sector to invest, recover its costs and make a profit on a long-term basis.**
- **Contract farming must offer smallholder farmers a more profitable return and stable income than other marketing options. They should not be compelled to join CFSs and OGSs just so as to gain access to inputs and markets. Contract farming must make business sense to both them and the contracting companies.**
- **Governments must recognize and acknowledge that they have a very important role to play in the establishment and expansion of commercially driven, equitable and sustainable CFSs and OGSs. Among the contributions a government can make are:**

    - **Create an environment that is conducive to private sector investment in agriculture. Providing support in the form of improved infrastructure, research and extension services are important in this regard.**
    - **Institute innovative and progressive measures to mitigate against the high start up and transaction costs of doing business with smallholder farmers.**
    - **Enact suitable laws of contract but, perhaps more importantly, promote a culture of compliance with contractual obligations and payment for inputs and services; attitude is perhaps more important than laws and regulations.**
    - **Refrain from instituting restrictive and over-bearing regulations and legislation.**
    - **Enhance the ability of smallholder farmers to better understand contract farming and bargain with agribusiness from a position of knowledge and strength.**

    Government can also play an important role by facilitating and promoting linkages between agribusiness and smallholder farmers, rather than leaving this to the companies and NGOs. Where NGOs are active in Market Linkage Programmes as indeed is the case in Zimbabwe, political support for such activities would be highly desirable.

Recommendations:

- Governments wishing to promote contract farming in their countries should take note of these key requirements and institute measures to create conditions that are conducive for commercially driven CFSs and OGSs. In particular, governments should recognize that economic issues are far more important to the success of contract farming than regulation or legislation. There are financial limits to contract farming that cannot be resolved no matter what the legal or regulatory framework in a country. If commercially driven CFSs and OGSs and to take root and flourish, companies must find it profitable and worthwhile to invest in such schemes.

- **Both Government and financial institutions should be sensitive to the special needs of CFSs and OGSs with smallholder farmers, more so due to their high start-up and transaction costs.**
- **In view of the generally high start-up and transaction costs of most CFSs and OGSs, both the private sector and smallholder farmers must accept that some cost-sharing will be required if contract farming is to take root and be sustainable. In particular, smallholder farmers and their associations must accept that CFSs and OGSs are generally more costly than other institutional and marketing arrangements (e.g. spot markets) and that they too must share in the cost of establishing such schemes.**

It is also of paramount importance to recognize that contract farming is not necessarily synonymous with commercialization. Therefore, commercialization of smallholder agriculture can be pursued without necessarily implementing CFSs and OGSs. Furthermore, contract farming need not, and perhaps should not, be viewed solely in the context of input credit schemes, as is commonly the case. It would appear that there is a tendency to view contract farming as simply a mechanism for facilitating smallholder farmers' access to inputs. This parochial perception can obscure and detract from the wider and more permanent benefits of contract farming. Also, it is important to recognize that contract farming without the provision of credit is a viable alternative that can still give smallholder farmers better access to markets without necessarily locking them into credit arrangements.

Recommendations:

- **Contract farming should be viewed and promoted as an improved institutional mechanism for commercializing smallholder agriculture, linking smallholder farmers to agribusiness and more lucrative markets and not simply as a mechanism for facilitating their access to inputs.**
- **Contract farming without input credit should be more carefully investigated as an option for smallholder farmers, and compared with the input credit schemes that are prevalent in the sub-region.**

As mentioned earlier, contract farming is not suitable for all commodities and should therefore not be viewed as a panacea for all the problems that currently confront smallholder farmers throughout the sub-region. In general, contract farming is best suited to high value commodities whose production is labour intensive and possibly requires high standards of management.

Furthermore, it should be noted that the type of contract and support services depend on the commodity. As shown in this study, high value and perishable export commodities such as horticultural products require a stringent contract, close supervision and monitoring of production, and the provision of considerable support services during production, harvesting, sorting, grading and cooling. Furthermore, the stringent health and safety standards requirements for such commodities must be taken into account in the contract and service provision. In contrast, for less demanding commodities such as cotton or tea, a less stringent contract and lower level of service provision will suffice.

Recommendations:

- Contract farming must be promoted only for those commodities for which it is suitable and not as a general approach for commercialization of smallholder agriculture. Some commodities are suited to contract farming whereas others are not. The suitability of contract farming for a particularly enterprise or commodity must be very carefully evaluated before promoting or embarking on such schemes.
- The nature of contracts *per se,* and level of services offered by the company must take into consideration the nature of the commodity and its requirements. Contracts and support services must be tailored to the requirements of the market for the commodity, the nature of the production process, and the needs of smallholder farmers.

6.2 Further studies

The following are recommended as further studies on contract farming:

- **Comparative studies of different CFSs and OGSs throughout the southern and eastern African region.**
- **Comparative studies to investigate whether schemes that provide credit, inputs and other services are more competitive than those that do not provide such services.**
- **Socioeconomic studies on the impact of contract farming on smallholder farmers.**
- **Investigation of the regional aspects of contract farming, in particular “cross-border” contract farming.**

6.2.1 Comparative studies

The need for more region-wide comparative studies of different CFSs and OGSs has been alluded to earlier. Such studies would provide for a better informed approach to the expansion of contract farming in the sub-region.

Another interesting area that requires investigation is the competitiveness of input credit schemes in relation to CFSs and OGSs that do not provide inputs and other support services. It is generally assumed that input credit schemes are better and highly desirable because they make both inputs and markets more readily available to smallholder farmers. But, are they equally or more competitive than other options, e.g. spot markets? This matter requires further investigation particularly given the reservations that have been raised about CFSs and OGSs by the ZFU and ICFU. If contract farming is to receive widespread support, and particularly so from skeptics who argue that is only suitable for smallholder farmers who have no or little access to inputs, then it must be demonstrated that it is more competitive than other production and marketing options.

6.2.2 Socioeconomic impact of contract farming

Contract farming has been touted as an effective institutional mechanism for integrating smallholder farmers into mainstream commercial agriculture, improving their incomes and livelihoods and in general, assisting them to effect the transition to commercial production. However, as to be expected, and as reported earlier, opinions differ as to whether CFSs and OGSs are actually achieving the intended objectives of improving smallholder farmers' incomes and livelihoods, and commercializing smallholder agriculture. To answer these questions and provide a rigorous assessment of the socioeconomic impact of CFSs and OGSs it is recommended that:

- **Detailed studies should be commissioned to assess the impact of CFSs and OGSs on the socioeconomic status of smallholder farmers. The investigations should address the plethora of socioeconomic issues including impact on incomes, food security, and gender imbalances in access to inputs and cash. Only very limited investigations have been done on this topic in Zimbabwe although more progress has been made in east Africa.**
- **It is further recommended that companies operating contract farming schemes should be encouraged to cooperate in the studies as it is in their best interests to do so. Some of the schemes have been operational for several years and should therefore provide a wealth of valuable information.**
- **Parallel to these studies, other investigations should be undertaken to examine and compare different approaches to the development of agribusiness-smallholder farmer linkages within the context of the much sought after objective of commercialization of smallholder agriculture. As reported earlier, some companies, including well known and respected multinationals, are somewhat averse to contract farming yet still strive to offer input procurement support and marketing services that are beneficial to smallholder farmers, without necessarily tying them down to a contractual relationship. These different approaches, as well as others, should be investigated and compared so that a rational and balanced strategy can be pursued for the purpose of commercializing smallholder agriculture.**

It is worth noting that the socioeconomic studies may well prove beneficial to the sourcing of finance from non-traditional donors and development agencies provided that such studies are well planned and can demonstrate wide-spread benefits to smallholder farmers, including positive spill-over effects on improved food security and livelihoods. Such information would also be very useful in the development of recommendations for contract farming.

6.2.3 Regional aspects of contract farming

Virtually all governments in the southern African region are eager to commercialize smallholder agriculture and diversify production to include high-value and non-traditional commodities. As such, there is considerable and widespread interest in contract farming. Of recent, and perhaps as a result of the move towards integration of the economies of SADC countries, "cross-border" contract farming is also receiving attention. In view of this development, it is recommended that:

- **The concept of "cross-border" contract farming should be better articulated so that it can be more carefully examined. It still appears to be a somewhat nebulous concept. There is clearly a need to better articulate this idea and assess its feasibility, merits and demerits.**

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APPENDIX 1. TERMS OF REFERENCE

POTENTIAL OF CONTRACT FARMING AS A MECHANISM FOR THE COMMERCIALISATION OF SMALLHOLDER AGRICULTURE THE ZIMBABWE CASE STUDY

Preamble

Contract farming has been shown to be a practical agricultural production arrangement for the enhancement of rural development by integrating smallholder farmers (SHF) into commercial-oriented agriculture. Contract farming can be used to facilitate introduction of SHF production to non-traditional cash crops. There is little doubt that it has considerable potential in countries where smallholder agriculture is widespread and where agricultural commercialization especially into processing and export market and other valued added production is essential for economic growth, as is the case in Zimbabwe and most countries in the southern African region.

The potential benefits of contract farming depend on the nature of the contractual arrangement. The most simplistic form of contract is where the producer and the buyer simply agree on the amount and quality to be delivered at a given price. The more complex contracts involve the buyer providing a vertically integrated package deal which might include provision of basic farm inputs, credit facilities, marketing services (collection, sorting, transport, storage, etc.), as well as technical advisory services. Thus for the SHF, benefits can include: better access to technical advice and production facilities such as equipment/mechanization, seeds, fertilizers and credit and a guaranteed market for their produce.

Contract farming can provide opportunities for the creation of new market opportunities including export markets of non-traditional export products which SHF would otherwise not be able to participate in, as well as introduction of value-added production activities. Contract farming is perceived as a important strategy to enhance intensification and diversification of farm enterprises, contributing to the commercialization process and enhancing productivity. The awareness creation of consumer preferences, health and safety standard requirements also contribute to better farm planning and management as well as improved farming methods and produce handling.

With respect to the contracting agri-business, the main potential advantage is the guaranteed and reliable supply of quality and quantity produce as opposed to the open-market spot purchases. Contract farming reduces the risks of planning for the agri-business firm’s own production activities and can also contribute to the creation of value-added activities by facilitating the emergence pf agro-processing opportunities which would otherwise not exist if certain levels of supply were not forthcoming in an organized and planned manner. It enables producers, buyers and processors to achieve economies of scale thereby lowering overhead costs and making the products more competitive,

Contract farming has been receiving increasing attention throughout the Eastern and Southern African region and indeed elsewhere in Africa as countries strive to improve the livelihoods of

SHFs to attain food security, diversification of the agricultural base, increase export earnings and create local employment.

In Zimbabwe, the Government has specifically targeted contract farming as well as farmer commodity association development under its recently promulgated National Economic Revival Programme. Accordingly, the GOZ has pledged to (i) facilitate agro-processors and seed houses to enter into seasonal contracts with farmers, (ii) establish a Unit within the Ministry of Lands, Agriculture and Rural Resettlement to promote fulfillment of such contracts, and (iii) spearhead the development of new farmer commodity associations which will provide leadership over contract farming, as well as provide technical and marketing support to smallholder farmers. Similar initiatives have been promoted in other southern African countries in different forms.

The translation of these national policy objectives into practical strategies and mechanisms leading to the development of commercially-driven and sustainable contract farming models still constitutes a major challenge to policy makers, agri-business enterprises, farmers' organizations and financial institutions. The widespread adoption and sustainability of contract farming continues to be hampered by several factors, the most important being the high transaction costs associated with contracting several SHFs as opposed to a limited number of large-scale commercial producers. Credit default and opportunistic side marketing by SHFs as well as lack of an enabling environment and appropriate legal framework for contracting have also been cited as important limitations.

Terms of Reference

The main purpose of the study is to identify potential contract farming arrangements that can be introduced in Zimbabwe and elsewhere in the SADC region to enhance the commercialization of smallholder agriculture. The history and advantages of contract farming has been extensively documented. Therefore, the purpose of this exercise is to produce a report that will provide the basis for a consultative meeting among stakeholders, for the expressed purpose of identifying practical mechanisms and strategies for promoting and implementing commercially oriented contract farming that will be sustainable and accessible to SHFs in Zimbabwe and elsewhere in the region.

The report will essentially be based on a desk study which should as far as possible be regional in scope though focusing on Zimbabwe. Consultation with relevant stakeholders in Zimbabwe will be included. More specifically, the Consultant will:

5. Provide a brief overview of contract farming in SADC countries with special reference to Zimbabwe.
6. Review contract farming in Zimbabwe (and elsewhere in the region) highlighting the nature of the various contract arrangements. The review could be in the form of case studies highlighting the main features of the contract and the undertakings by both the producer and the partner agri-business firm, identifying the characteristics which make the contract effective and sustainable.

7. Solicit views, opinions and ideas on contract farming from agribusiness firms, smallholder farmer associations, government management and financial institutions involved in agriculture/agribusiness with respect to the commercialization of smallholder agricultural sector.
8. Based on (2 and 3 above) identify the main issues in SHF contract farming and propose recommendations on potential contractual arrangements for different enterprises and farming conditions.
9. Present the findings in a 1-day stakeholders' meeting which will be co-hosted by Food and Agriculture Organisation (FAO), Ministry of Lands, Agriculture and Rural Development (MoLARR), Food, Agriculture and Natural Resources Policy Analysis Network (FANRPAN) and Horticultural Promotion Council (HPC).
10. Prepare a final report incorporating feedback from the stakeholders meeting.

Anticipated Output

In order to achieve the above objectives, the Consultant will be expected to conduct a desk review and hold discussions with all the relevant stakeholders including facilitating a 1-day workshop in Harare.

The consultant will be expected to submit a report to FAO and copies to the Ministry Ministry of Lands, Agriculture and Rural Development (MoLARR), and Food, Agriculture and Natural Resources Policy Analysis Network (FANRPAN). (Approximately 35 pages-including text, tables and bibliography, in Microsoft Word format)

Appendix 2. Questionnaire administered to companies

CONTRACT FARMING QUESTIONNAIRE: COMPANIES

Company: ……………………………….. Informant: ………………………………. Date: …………

Countries operating in: ………………………………………………………………………………………

When did the company start Contract Farming/Outgrower scheme with Small Scale Farmers (SSFs)? …………… Other farmers (e.g. small scale commercial/commercial)? ………………..

Commodities contracted to SSFs
………
………

Markets (national, regional, international incl. countries): ……………………………………………………….
Farming system of contracted farmers: Irrigated/rainfed/both
Farmers included (communal/resettled/small scale commercial/commercial, A2/A1, etc.)
Number of farmers: ………………………… Size of holdings: …………………………
Support provided (if any):

- Inputs (specify): ………………………………………………………………….
- technical advice: Yes/No
- credit:Yes/No.:Explain:
  …………………………………………………………………………………………………
  …………………………………………………………………………………………………
  …………………………………………………………………………………………………
- storage: Yes/No
- transport: Yes/No
- tillage: Yes/No
- training:Yes/No.;Explain:
  ………………………………………………………………………………………………….

Is the company receiving any incentives from Government (e.g. EPZ zone status, concessionary finance, etc.) to undertake contract farming with SSFs: Yes/No
Explain:
………
………
……….

Nature of the contract (explain):

- verbal/written/English/vernacular
- duration
- pricing mechanism

Other relevant details: ………………………………………………………………………………………
………
………
………
Do farmers keep copy? Yes/No
Copy available for perusal?: Yes/No

Selection process for farmers and criteria for inclusion in scheme (e.g. landholding, tenure, size, gender, collateral, etc.)
………
………
………
………
………

Is legal framework (in Zimbabwe and other countries of operation) an issue, and is it adequate (to protect against "competitors, enforce contracts, etc)?
………
………
………
………
………

What measures does the company take to ensure that SHFs comply with the contract?
………
………
………
How effective are these? ………………………………………………………………………………………..

In the case of disputes, would you prefer resolution through legislation or arbitration?……………………….
Reasons for your choice: ………………………………………………………………………………………

If by arbitration, who do you think should be the arbitrator? ………………………………………………….

Is government policy favourable to Contract Farming with SSFs? Explain:
………
………
………
………

Government has proposed to "facilitate" contract farming and establish a Unit which will oversee contract farming. What would you like Government and the Unit to do so as to allow for the improvement and expansion of your company's operations?

………
………
………
………
………

What are the main problems confronting your contract farming scheme?
………
………
………

Future plans, if any (e.g. to include SSFs if not already doing so) Expansion planned?
………
………
………

Is the economic environment favourable for your contract farming operations? Explain
……
……
…………………………………………………………………

What are the main strengths of your company's contracting/outgrower scheme?
……
……
……

What are the main weaknesses of your company's contracting/outgrower scheme?
……
……
……

Do you think there is a need for a specialist/dedicated unit/body/agency (outside the Government Unit) to be established to deal with all matters relating to contract farming in the country? Yes/No
If yes, what do you think its main responsibilities should be?
……
……
……

Additional comments on Contract Farming with SSFs:

……
……
……
……
……
……
……
……
……

Appendix 3. Persons Contacted/Interviewed

D. Bache
Interfoods Limited
Ruwa
Zimbabwe

R. Bvekerwa
Hortico
Zimbabwe

R. Chapetekwa
CNFA/Rumark
Lilongwe
Malawi

A. Chenyika
Southdown Holdings
Chipinge
Zimbabwe

P. Chingwaru
Zimbabwe Farmers' Union (ZFU)
Harare

B. Chipanera
Ag. Director-Farmer Support Services
Agricultural and Rural Development Authority (ARDA)
Harare

P. Cunningham
Hummingbird Enterprises
Harare

P. d'Hotman
CFU
Harare

D. Dlamini
IDEAA-KwaZulu-Natal
South Africa

Mrs. Eburn
Tanwood (Pvt) Ltd
Paprika Contractors & Processors
Norton
Zimbabwe

A. Gagiano
Mkwasine Sugare Estate
Chiredzi
Zimbabwe

I. Goggin
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Nhimbe Seeds
Harare

K. Hamilton-Woods
Duke Foods
Harare

A. Hart
Zimbabwe Tomato Drying Company (Zimtom)
Ruwa
Zimbabwe

C. Hay
Suncrest Chickens/Crest Breeders
Harare

G. Hutchison
CFU
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D. Irvine
Irvine's Day Old Chicks (Pvt) Ltd
Harare
Zimbabwe

R. Jarvis
Quton Cotton Seed Company
Harare
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Khula Sizwe Trust
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J. Mudare
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P. Mupunzwana
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G. Murdoch
Irvine's Day Old Chicks (Pvt) Ltd
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R. Murengwa
Chibuku Breweries
Harare

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Projects Development Executive
Industrial Development Corporation (IDC)
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S. Newton-Howes
Cargill
Harare

B. Nekati
Trust Export Agriculture
Trust Bank
Harare

K. Ndoro
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M. Ndoro
Paprika (Successors) Zimbabwe
Harare

E. Ngonyamo
Irvine's Day Old Chicks (Pvt) Ltd
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B. Nyabadza
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L. Osborn
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Appendix 4. Contract farming and outgrower schemes in Zimbabwe and other selected southern African countries

Country/Company	Contractors	Commodities	Details and Remarks
BOTSWANA			
Unknown	SHFs	Poultry (broilers)	Details unavailable
LESOTHO			
	Contractors	**Commodities**	**Details and Remarks**
Basotho Fruits and Vegetable Canners	SHFs	Asparagus	Designed and subsidised by UNDP/FAO starting in 1970s. Apparently very successful in the 1990s (Stringfellow, 1995). But, has since collapsed due to financial difficulties. Cannery is on sale and being used as offices and stores by Lesotho Electricity Corporation (N. Mokitimi, pers. comm.) Presently no other contract farming or outgrower schemes in the country
MALAWI			
	Contractors	**Commodities**	**Details and Remarks**
Malawi Smallholder Sugar Authority (now managed by a private company O&M Associates)	SHFs	Sugar cane	Established in 1967 with outgrower scheme being financed by government and donors (e/g/ Commonwealth Development Corporation-CDC) Most recent details unavailable.
Malawi Smallholder Tea Authority (now a Trust)	SHFs	Tea	Authority was established in 1967 using government and donor (mainly Commonwealth Development Corporation) funding. It had 5,000 SHFs in 1984. One of the tea processing factories (Mbodzi) has been leased to SHFs
Cheetah	SHFs	Paprika	Relatively new contract farming scheme. According to some recent reports, SHFs are dissatisfied because the company is using middlemen or traders, rather than buying directly from them.
Agricultural Market and Development Corporation (ADMARC)	SHFs	Seed (maize hybrids and OPVs) Maize grain	Surprisingly, ADMARC is contracting out maize grain production to SHFs. It is unusual for contract farming schemes with SHFs to involve a food crop and, at that, a staple food crop which is not only retained for household consumption, but for which there is usually a ready alternative market. Represents an interesting case that warrants further investigation.
Coffee Growers Trust	SHFs	Coffee	Outgrower scheme run by a coffee growers' Trust which undertakes packaging and marketing as well.
Limbe Leaf	SHFs	Tobacco	Company provides credit-in-kind in the form of inputs. Scheme has run into difficulties because, by law, and as in Zimbabwe, companies cannot buy tobacco from farmers. All tobacco must be sold through the auction floors.
Seedco Other seed companies (i.e. Monsanto and Pannar)	SHFs	Maize (hybrids and OPVs)	Details unavailable

MOZAMBIQUE

	Contractors	Commodities	Details and Remarks
Cottco/unnamed local company	SHFs	Cotton	The Cotton Company of Zimbabwe (Cottco), in a joint venture with an as yet unnamed Mozambican company, has been granted a concession to operate a smallholder outgrower cotton scheme in Mozambique. The concession is restricted to a specified zone in accordance with the Government of Mozambique's policy to zone cotton production so as reduce inter –company competition and side-marketing, and also to give other companies an opportunity to participate in the sector. The outgrower scheme will operate in a similar manner to the one in Zimbabwe.
Acucareira de Xinavane	SHFs	Sugarcane	Company purchases sugarcane from an association of SHFs. Contractual arrangements unknown.
Mozambique Leaf Tobacco Dimon Standard Commercial Joao Ferreira dos Santos	SHFs	Tobacco	Companies supply inputs and purchase tobacco from small, medium and large scale tobacco farmers. Contractual arrangements unknown.
SODAN, CANAM and SANAM	SHFs	Cotton	Companies have been granted zoned concessionary rights for cotton outgrower schemes with SHFs. Details unavailable.

SOUTH AFRICA

	Contractors	Commodities	Details and Remarks
Transvaal Sugar Company	LSCFs SHFs	Sugar cane	Outgrower scheme in which more than 1,000 SHFs are contracted through a cane delivery agreement or comprehensive long-term specification contract.
Sappi (Project Grow)	Medium-large scale farmers, each with >50 ha. SSFs; 0.6 ha each	Forestry Eucalyptus and wattle	Project launched in 1983 and management contracted out to an NGO (Lima) Growers enter into a timber purchasing agreement with the company.
Sapekoe Estates Northern Province	SHFs 330 SHFs in 1999 with 0.5 ha each of tea	Tea	330 farmers, mainly from workforce, and each growing 0.5 ha tea contracted in 1999. Contract translated into the vernacular (Venda) Project terminated in 2001 due to a change in legislation.
Unknown	Previously disadvantaged SHFs	Livestock, milk, wool, vegetables, citrus, maize, poultry, fruit (pineapples, citrus), natural plant products (Aloe ferox)	During 2000-2001, the USAID-funded Agrilink Project facilitated 204 market linkage deals between companies and small and medium-scale emerging, established and commercial black farmers in the Eastern Cape. However, it is not clear how many, or if any, of these linkages have developed into ongoing contractual commercial relationships.
Trust (similar to Kula Sizwe in	SHFs	Ostriches	Outgrower concept developed by Kula Sizwe Trust in Zimbabwe is being piloted around

Zimbabwe)			Grahamstown.
SWAZILAND			
	Contractors		**Details and Remarks**
Royal Swaziland Corporation Mhlume Irrigation Scheme	SHFs	Sugar cane	Details unavailable
Swaziland Fruit Canners	SHFs	Pineapples	Details unavailable
Illovo Sugar	SHFs	Sugarcane	Details unavailable
ZAMBIA			
	Contractors	**Commodities**	**Details and Remarks**
Lintco	SHFs	Cotton	Cotton outgrower scheme for SHFs. Company has changed hands quite often and current status unknown,
Agriflora	SHFs Also produces on its own farms in Zambia and Zimbabwe?	Vegetables (peas, spring onions, beans, carrots, etc.) for export to European market	Established with capital of US$15 million nine years ago, and owned by Trans-Zambezi Investments and now largest vegetable grower in the country. Exports mainly to British supermarkets. Expects to export 6,000 tons of vegetables in 2003 to earn US$37 million. Target is earnings of $45 million in 2004 and $50 million by 2005. Plans to expand into dairy farming and paprika production in the near future. About 250 small scale farmers are coffee outgrowers. Company plans to engage 1,000 SHFs in the next three years to grow vegetables and coffee. Farmers receive seeds, pesticides and small grants to grow vegetables and coffee. SHFs in turn have created employment for 700 workers.
Tobacco Development Company and Kestrel Tobacco Company	SHFs	Tobacco	Not available
Tobacco Association of Zambia	SHFs	Tobacco, castor	Not available. Current status unknown.
Penny Evans (commercial farmer)	SHFs	Sunflower, cotton and maize	Outgrower scheme had 2,941 SHFs in 1995. Current status unknown.
Bounty Investments	SHFs	Unknown	Restricts services to input provision and marketing, and not provision of credit. Inputs are made available at harvest on a barter basis.

ZIMBABWE			
	Contractors	**Commodities**	**Details and Remarks**
Cotton Company (Cottco)	SHFs and LSCFs	Cotton	A long established contract farming scheme. Described in detail in case study
Cargill	SHFs	Cotton	Operates an Input Voucher Scheme and does not generally believe in contract farming or outgrower schemes, preferring instead to concentrate on marketing. However, has been forced, of recent, to also provide inputs to its affiliated growers.
Quton	SHFs and LSCFs	Cotton seed	Like its parent company Cottco, Quton operates an outgrower scheme for cotton seed producers. The scheme is detailed in the Cottco case study.
Hortico	SHFs and its own leased farms	Mainly baby corn and mange tout produced by SHFs	Operates an outgrower scheme for SHFs through its subsidiary Agrisystems. The scheme is entirely commercially driven, has been in operation for several years now, and is detailed in the Hortico case study.
Selbys	Own production, LSCFs, SHFs	Mange tout, sugar snaps, baby corn, gooseberries, chillies, granadillas	Selbys operates a "registration" type scheme with selected farmers at Negomo Irrigation scheme. The scheme is group based and farmers have to sign a registration form to confirm that they fully understand the requirements for each crop and the nature of the relationship with the company. The relationship with the SHFs is not contractual and binding to both parties. The company is not compelled to purchase the produce nor are the SHFs obligated to sell to the company. Selbys provides seed, and limited technical advice and oversight, mainly in the form of printed materials and occasional extension visits. Produce is collected from the scheme.
Wholesale Fruiterers	SHFs	Butternut, gem squash, carrots, cucumbers, sweet peppers, hub squash, pumpkins	Operational since 2002 and based on a "soft contract" or Memorandum of Agreement between the company and currently 76 SHFs on irrigation schemes. Contract is written (English) but company is working on a vernacular (Shona) version. Scheme is group based and all produce marketed locally. SHFs receive seed, fertilizer and chemicals on credit as well as technical advice and transport on the understanding that there will be no side selling. Some of the farmers have also recently received business training in a joint initiative with LEAD and AGMARK
Mkwasine Sugar Estates	SHFs, SSCFs and LSCFs	Sugar cane	Long standing outgrower scheme established in early 1980s comprising about 250 SHFs. SHF holdings are about 10 hectares each. Contract operates through a "cane purchase agreement" which includes aspects such as adherence to good husbandry practices, pest and disease control, and water rights. Contract is individual based, written and continuous. Conditional clause in the land title specifies that the land should be used for cane production only. Farmers are selected by the MoLARR. Company provides agro-chemicals, general procurement assistance, technical advice, tillage and transport on credit which is repaid on delivery of the cane. Scheme is apparently plagued by a number of difficulties including lack of rail transport and excessive dependency. But, still hailed as a great success although only about one-third of farmers can be considered to be commercially successful. In retrospect, land holding size of only 10 ha is probably too small for the economic production of cane. Some farmers have therefore had to engage in off-farm activities that have impacted negatively on management of their plots.

			The 10-hectare plots were supposed to be purchased on freehold over a 20-year period. However, it is not clear if the growers have paid and received title to their land.
ARDA-Katiyo Estates	SHFs	Tea	State-owned outgrower scheme that has been operational for several years and includes about 1,500 SHFs. Contract is written and includes both individuals and groups. ARDA provides seedlings, fertilizer on credit as well as training and transport. Essentially based on an "input repayment contract" which does not obligate the SHFs to sell their tea to the estate (side-marketing to nearby Eastern Highlands Tea Estate has bee reported).
Chillipepper Company	SHFs LSCFs	Birds Eye Chillies Tabasco chillies	Recently established scheme for SHFs, who produce Birds Eye Chillies, and LSCFs who produce Tabasco chillies. Company provides seeds and technicaladvice. The initiative has received some support from LEAD but this was terminated prematurely due to escalating costs. More recently, the company has also sub-contracted Hortico to use its well-established SHF outgrower network to produce chillies as well.
FSI-Agricom (incorporating FSI-Tobacco, FS-Soyabeans and FSI-Seeds)		Tobacco, paprika, soyabeans, seeds (maize, soyabeans, cowpeas, groundnuts, sugar beans)	Relatively new "indigenous" agri-business company which is aggressively pursuing various agricultural enterprises. FSI-Tobacco contracts out tobacco production to SHFs; resettled (A1 and A2) farmers and LSCFs. Provides all inputs, including labour, if necessary, due to the labour-intensive nature of tobacco production. Contracts are individual-based FSI-Cotton declined to provide any details on its outgrower scheme.
Cairns Foods (Mutare)	SHFs	Tomatoes, peas, beans, gooseberries, onions, fruit	The company exports to regional and international markets and started contracting production to SHFs in the mid-1980s. Now contracts out production to about 6,000 farmers including SHFs, SSCFs, and LSCFs. SHFs current supply about 60% of the firm's requirements.The company provides seeds, fertilizer, technical advice and credit-in-kind which is recoverable on delivery of produce. Contracting is in the form of seasonal contracts (in English) which are either individual or group-based. The pricing mechanism is guided by a crop budget drawn up by the company in consultation with, and with the agreement of, government extension and the farmers concerned. The budget is updates as and when input prices change. This contracting farming scheme is long-standing and appears to be effective and interesting, and warrants further investigation.

Olivine Industries	SSCFs and LSCFs	Tomatoes and dry beans (navy beans)	Company produces processed products for local and regi dry bean production to about 600 SSCFs and LSCFs or communal farmers but has abandoned this option. C sometimes written and is concluded with a Committee c The company provides seed, and sometimes chemica provides technical advice and transport. Lack of tenure which can be used as collateral cited as a with SHFs.
Duke Foods	SHFs	Chillies, paprika	Company has, in the past, contracted out spice productio into training rather than production and processing.
Nhimbe Seeds	SHFs	Seeds (OPV maize, groundnuts, sorghum, cowpeas and possibly millet)	Relatively new company that is contracting out seed p farmers.
Irvine's Day-Old Chicks	SSCFs	Broilers Grain (maize, sorghum, soyabeans	Described in detail in case studies
Interfoods Marketing	Resettled and SHFs	Tomatoes, peas, sweet corn, gooseberries	Scheme is very new and includes only 5 farmers. C required. Company does not provide inputs and credit as for the farmers through a bank. Company holds the requi must be purchased, using the bank loan. Technical advi provided. Contract is individual-based and limited to 3-5 h Company is EPZ-zoned.
Reapers	SHFs	Groundnuts	Private shelling company started the contract farming 4,000-5,000 growers in groups of 100 or more, and cu Company provides seed and technical advice, as we designated points. Unavailability of seed is hampering progress of the schem
Southdown Estates (Ariston Holdings)	SHFs	Tea, coffee	SHF outgrower scheme started in 1966 and present Contract is individual-based, written and of 99 years du SHFs with seedlings, fertilizers and chemicals on a 90-d and transport (collection) are also provided. Company has been granted EPZ status for one of its fac before the Government's EPZ scheme was initiated. The company has recently entered into an $8 billion fina to expand the outgrower scheme. However, actual activiti Scheme is more fully described in tea case study.
Chibuku Breweries	SHFs, LSCFs and ARDA	Sorghum	Brewing company (opaque beer) that contracts out red so and the state (ARDA). Contracting scheme has bee in contracts are group-based and company provides only groups that have established good working relationship m Company deals with about 20 groups, each comprised of Contract has provision for arbitration, which is sometimes with LSCFs; seldom, if ever, a problem with SHFs. Side-marketing a problem mainly with LSCFs rather than
National Breweries	Resettled (A2) and LSCFs	Barley	Scheme essentially restricted to A2 and LSCFs due to na combine harvesting requirements.
Tanwood	SHFs	Paprika	Company used to provide inputs on credit but, due to eco providing inputs except seed.
Seedco National Tested Seeds Pannar Pioneer	SHFs, resettled farmers, LSCFs, ARDA	Seeds (maize, soyabeans, wheat, barley)	Established seed companies that contract out most of th farmers, but some of which are now engaging SHFs as se
Zimbabwe	?	Tomatoes (processing)	Company produces dehydrated tomatoes for export. Talk

Tomato Processors			
Suncrest Chickens/Crest Breeders	SHFs	Poultry (broilers)	Suncrest's outgrower "grow-out" scheme for SHFs st operational. At present 15 SHFs are outgrowers to the broiler growing capacity. The contractual agreement is ve kind in the form of inputs (i.e. day old chicks and feed); also provided. Although the company exports to Namibia status.
BonneZim (Joint IDC/Murray & Roberts)	Leased farms Exploring contracting with resettled A2 farmers	Fine beans for French market Bottled baby corn and dehydrated tomatoes being investigated.	Initially joint venture between IDC and Bonduelle (France) canned fine green beans for export. Now a wholly Zi essentially plays the role of facilitator and investor in all ultimately withdrawing when the ventures have establishe Company has tried SHFs as outgrowers but abandoned meet exacting requirements. Currently investigating prospects of contracting sel outgrowers. Intention is to allow successful outgrowers t company and thus enhance its output and sustainability.
Tanganda Tea Company	SHFs	Tea	Company started contract farming with SHFs in 1975. Discussed in case studies.
Interfoods Marketing	Resettled and small scale	Tomatoes, peas, sweet corn, gooseberries	Only 5 outgrowers at present. Arranges loans through behalf of outgrowers. Provides seeds and technical advic assistance available". Contract is written and individual based, as opposed to g with 3-5 hectares.
Paprika (Successors) Zimbabwe	SHFs and LSCFs	Paprika	Company produces oleoresins for export and occasiona Outgrower scheme with LSCFs started in 1993, and w about 80 LSCFs and well over 5,000 SHFs. Cont Memorandum of Agreement which is concluded individ representatives in the case of SHFs. Farmers receive se have sold their crop to the company previously, or wh "Market Linkage Programme (MLP)), technical advice-in purchased, and transport; only transport is charged to t pollinated variety) is distributed each year of which about
Katope	SHFs	Green pepper, gem squash, butternut, fresh groundnuts, cucumbers	Company has been sourcing produce from SHFs since "gentleman's agreement" rather than any form of contra programming arrangement whereby selected farmers a supply schedule, and priority is given to those farmers signed up to, the procurement programme. Relationship is not binding on either party and farmers are Company is working with NGOs to assist farmers to enter

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