

## STRENGTHENING SMALLHOLDER MARKET LINKAGES THROUGH CONTRACT FARMING

Zimbabwe's economy is starting to turn around after almost a decade of recession characterized by macroeconomic and political challenges. During this time, the near collapse of formal marketing channels, as well as shortages and high prices of key agricultural inputs (fertilizers, seeds, crops and chemicals), resulted in steep drops in agricultural production. Agriculture is important to the country's economy, with about 70 percent of the population relying on it for their livelihood. Most of the country's 1.5 million smallholder farmers are subsistence farmers. However, as the economy strengthens, the country has begun moving towards more commercialized agriculture. For example, it's promoting the use of contract farming as a way to link smallholder farmers to markets, helping them to improve their access to inputs and boost their incomes.

### What FAO Zimbabwe is doing

In the 2010/11 agricultural season, the Food and Agriculture Organization of the United Nations (FAO) in Zimbabwe implemented a contract farming project, benefiting 3 797 smallholder farmers. Under contract farming, eligible suppliers select farmers to grow crops through a contractual agreement. Agricultural inputs are then provided to farmers on a loan basis through FAO and the suppliers, in addition to training and extension

support. After the crops are harvested, the farmers sell a portion back to the suppliers, who recuperate the costs of the input loans that were advanced to the farmers. The farmers get to keep the difference between revenue from the crop sales and the loan repayment. Now in its second year, contract farming covers a larger area with a total of 14 902 smallholder farmers participating in the 2011/12 season.

### Impact on farmers' lives

Thanks to this project, farmers have better access to improved inputs and guaranteed markets for their produce, removing many of the risks and costs they often face. Farmers have also been trained on crop production, "farming as a business" and land management techniques, such as conservation agriculture. This has encouraged them to move from producing just enough food to meet their families' food needs to more market-based production.

With stronger linkages to the private sector, smallholder farmers are now playing a bigger role in the country's market economy. The sale of surplus produce has increased farmers' household incomes. With more money, farmers are able to buy other types of food to improve their diets.



*"Contract farming, if properly implemented, is one sure way of reviving agricultural production in the Zimbabwean smallholder sector. The arrangement results in a win-win situation."*

Obert Maminimini, FAO Emergency Unit in Zimbabwe

## Challenges

Fulfilling the terms of the contracts can be a challenge for both parties. Some farmers were not well informed on contract negotiation. To be better informed, farmers should engage in market research before entering into contractual agreements. Low literacy rates made it hard for farmers to participate in training and extension support, and at times, farmers had poor access to resources, like land, farming implements and financial services. Another constraint was that some suppliers were unable to provide specialized training and extension support to the project beneficiaries.

In principle, men and women had equal access to the project; however, women faced a number of constraints. Some women could not fully engage in project activities because they were responsible for other household tasks. Also, the proceeds were not always shared equally among the male and female farmers.

## Lessons

Specialized crops need specialized training. Additional training can strengthen the capacity of farmers on crop production and agronomy and business management. To encourage as many farmers as possible to participate, training should take place during the off-season. Farmers need to have realistic expectations of potential yields. There is the risk that dryland crops will fail.

Contracts should be a win-win agreement between farmers and suppliers, and measures need to be put in place for both parties to adhere to the contract. It is also important that farmers are able to participate in contract negotiations. Having a template that suppliers can customize based on their needs can help ensure that contracts are similar. Suppliers need to install transparent systems to show farmers' commitments throughout production and marketing. Suppliers need to conduct their business with farmers in a manner where all information is disclosed during contract negotiations, so that farmers can

enter into contract agreements from an informed position. Such an approach can build mutual trust between the two parties. Strengthening peer extension support can bring down the cost of extension support for suppliers, while also improving service delivery to contracted farmers.

## What next?

Scaling up contract farming means increasing geographical coverage (thereby increasing the number of farmers), hectares cultivated by farmers and number of suppliers. Greater efforts need to focus on strengthening suppliers that may have weak balance sheets or that fear the risk of drought, default on loans by farmers and crop disease outbreaks. It is also important to ensure that contract farming benefits both men and women.

Specific funding arrangements for companies involved in contract farming would enhance their capacity to advance inputs to farmers and buy produce at competitive prices. Strengthening the technical capacity of officers from the Government of Zimbabwe's Department of Agriculture Technology and Extension Services (AGRITEX) could provide farmers with much needed training and extension support on the agronomy of contract crops and "farming as a business". A "farming as a business" training manual will be developed and distributed to AGRITEX officers and other extension personnel. Risks associated with droughts will be addressed by growing contract crops under irrigation. This can ensure that farmers get good harvests and pay back their loans.

## Achievements to date:

- Most cowpea farmers contracted by Agriseeds made a profit.
- Banana farmers in the Honde Valley Fruit Producers' Association are now making significant deliveries.
- Farmers contracted to grow maize in Chiweshe had an average yield of 2 469 kg/ha, which exceeded the company's target of 2 000 kg/ha.
- Coffee harvest in the Honde Valley area are double what they were in 2009/10.

## Partnerships / stakeholders

Donors

Farmers

Ministry of Agriculture Mechanization and Irrigation Development

Non-governmental Organizations

Private sector companies