Demythifying Contract Farming

A comparative approach of a rural and peri-urban area in South Africa

Sandrine FREGUIN-GRESH, Ward ANSEEUW

September 22, 2010
AAAE Conference, Cape Town
Outline

• At what aims contract farming? What is the scale of its development in South Africa?

• Who are the farmers engaged in CF?

• Why some farmers are excluded from CF? A comparative approach Linking typology with trajectories of farmers

• Can CF be an efficient way to integrate small-scale farmers into a globalized economy in order to reduce poverty?
Contract Farming: Objectives

• According to its characteristics, CF is suppose to enable farmers to access credit, better equipments, inputs, technical assistance, on top of guaranteeing a negotiated price for the outputs

• As such, CF could contribute to the reduction of poverty by improving the integration of poorer farmers into “modern” value-chains and, consequently, by increasing and stabilizing their farm income
  • FAO, World Bank (WDR08)
Contract Farming: Importance

- Whatever the level, estimating the scale of CF is difficult
  - Lack of available information, lack of confidence of agribusiness

- A recent research tried to estimate the scale of CF in SA, with agribusiness as a focal point:
  - ~80% of F&V (volumes) supplying the processing industry are exchanged through contracts
  - 70 to 100% of fresh produce (volumes) sold in supermarkets are supplied by producers under contract
  - the meat and egg sectors favor complete vertical integration
  - only 5% of the products (volumes) sold under the identified contract result from the small-scale farming sector, implying a small number of producers
    - Vermeulen et al 2008
## Scale of Contract Farming in some Southern African Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Value-chain</th>
<th># of producers under contract</th>
<th>% of farms</th>
<th>Total # of farms</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>Sugar cane</td>
<td>15 000</td>
<td>0,5%</td>
<td>3 000 000</td>
</tr>
<tr>
<td></td>
<td>Timber</td>
<td>50 000</td>
<td>1,6%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cotton</td>
<td>3000</td>
<td>0,1%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>F&amp;V</td>
<td>500</td>
<td>ns</td>
<td></td>
</tr>
<tr>
<td>Mozambique</td>
<td>Cotton</td>
<td>270 000</td>
<td>4,2%</td>
<td>6 454 000</td>
</tr>
<tr>
<td></td>
<td>Tobacco</td>
<td>100 000</td>
<td>1,5%</td>
<td></td>
</tr>
<tr>
<td>Madagascar</td>
<td>Horticulture</td>
<td>10 000</td>
<td>0,4%</td>
<td>2 428 500</td>
</tr>
<tr>
<td></td>
<td>Tobacco</td>
<td>600</td>
<td>ns</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dairy products</td>
<td>2 000</td>
<td>ns</td>
<td></td>
</tr>
<tr>
<td>Zambia</td>
<td>Sugar cane</td>
<td>160 000</td>
<td>12%</td>
<td>1 305 800</td>
</tr>
<tr>
<td></td>
<td>Dairy products</td>
<td>40</td>
<td>ns</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pig</td>
<td>60</td>
<td>ns</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tobacco</td>
<td>570</td>
<td>ns</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cotton</td>
<td>150 000</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Coffee</td>
<td>250</td>
<td>ns</td>
<td></td>
</tr>
<tr>
<td></td>
<td>F&amp;V</td>
<td>13 500</td>
<td>1,0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Honey</td>
<td>10 000</td>
<td>0,8%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Spices</td>
<td>5 000</td>
<td>0,4%</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Diverse authors and FAO Expert Consultation on Contract farming in Africa, Johannesburg, South Africa (04 – 07 May 2009)
Methodology

• Empirical research with collection and analysis of primary data (March 2009 - July 2010)
  • Detailed questionnaires at farm HH level (145+40) + at agribusiness level + qualitative interviews with key actors
  • Regional agrarian diagnostic x Livelihood analysis

• Two study areas were selected:
  • The rural community of Mamitwa, (Limpopo)
  • Winterveld (Tshwane metro area)

• These 2 regions were selected according to the following criteria:
  • The agro-ecological conditions and the importance of farming
  • The land characteristics (communal vs free holdings)
  • The proximity of markets and the presence of contracts
Who are the farmers engaged in Contract Farming? (1/3)

- 7 types of farmers were identified in Mamiwta:
  - The **subsistence micro-farmers**, cultivating residential gardens for self consumption, depending on non-farm incomes, remittances and social grants (79%)
  - **Small-scale producers** of food and vegetables, selling a surplus to the local markets, combining farming, independent activities, and social transfers (4%)
  - **Small-scale producers** of food staples and vegetables locally commercialized (1%)
  - The **emerging farmers specialized** in the production of marketable vegetables under contract (2%)
  - The **emerging producers vertically integrated** into the industrial chickens value-chains (2%)
  - Pluri-active and extensive **large-scale commercial producers** of F&V for processing firms and domestic market (9%)
  - Intensive **commercial producers specialized** in tropical fruits for export and domestic markets (3%)
### Who are the farmers engaged in Contract Farming? (2/3)

<table>
<thead>
<tr>
<th></th>
<th>Micro farmers (79%)</th>
<th>Small-scale staple producers (4%)</th>
<th>Small-scale staple and vegetable producers (1%)</th>
<th>Emerging producers specialized in vegetables (2%)</th>
<th>Emerging producers of industrial chickens (2%)</th>
<th>Extensive Commercial mango producers (9%)</th>
<th>Intensive commercial producers of tropical fruits (3%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of head</td>
<td>58 (12)</td>
<td>59 (14)</td>
<td>53 (8)</td>
<td>50 (11)</td>
<td>45 (4)</td>
<td>57 (24)</td>
<td>59 (21)</td>
</tr>
<tr>
<td>Sex of head</td>
<td>Often F</td>
<td>½ F ; ½ M</td>
<td>Often M</td>
<td>M</td>
<td>M</td>
<td>M</td>
<td>M</td>
</tr>
<tr>
<td>Land tenure</td>
<td>Residential plot</td>
<td>Communal (PTOs)</td>
<td>Communal (PTOs)</td>
<td>Communal (PTOs)</td>
<td>Land reform redistrib.</td>
<td>Free holding</td>
<td>Free holding</td>
</tr>
<tr>
<td>Nb of household members</td>
<td>5 (3)</td>
<td>7 (4)</td>
<td>6 (2)</td>
<td>3 (1)</td>
<td>3 (2)</td>
<td>3 (2)</td>
<td>5 (4)</td>
</tr>
<tr>
<td>Family workforce in agric production</td>
<td>1.5 (0.8)</td>
<td>2 (1.4)</td>
<td>1.9 (0.3)</td>
<td>0.9 (0.3)</td>
<td>0.8 (0.3)</td>
<td>0.7 (0.2)</td>
<td>1</td>
</tr>
<tr>
<td>External labor</td>
<td>0</td>
<td>0</td>
<td>4 (1)</td>
<td>7 (4)</td>
<td>4 (1)</td>
<td>2 (2)</td>
<td>20 (14)</td>
</tr>
<tr>
<td>Available land (Ha)</td>
<td>0.18 (0.12)</td>
<td>6 (3.2)</td>
<td>2 (0.78)</td>
<td>77 (38.4)</td>
<td>4.8 (4.1)</td>
<td>41.2 (38.6)</td>
<td>350 (80)</td>
</tr>
<tr>
<td>Cultivated land (Ha)</td>
<td>0.18 (0.12)</td>
<td>6 (3.2)</td>
<td>2 (0.78)</td>
<td>32.7 (19.8)</td>
<td>3 (3.4)</td>
<td>25.6 (19.57)</td>
<td>73.5 (47.4)</td>
</tr>
<tr>
<td>Tractor</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Irrigation pump</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Contracts</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>YES</td>
<td>YES</td>
<td>Most of them</td>
<td>YES</td>
</tr>
<tr>
<td>% of Global income from agriculture</td>
<td>15%</td>
<td>50%</td>
<td>90%</td>
<td>97%</td>
<td>86%</td>
<td>68%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Most of them YEŞ

YES
Who are the farmers engaged in Contract Farming? (3/3)

<table>
<thead>
<tr>
<th>Type of contracts</th>
<th>Emerging producers specialized in veg production</th>
<th>Emerging battery chicken producers</th>
<th>Large extensive commercial farmers</th>
<th>Large intensive tropical fruits producers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal <em>market specification contracts</em> (Fruit’n Veg, small <em>atchar</em> processing firms, etc.)</td>
<td>Total vertical integration of the value chain (<em>resource providing contracts</em> with Bush Valley)</td>
<td><em>Market specification contracts</em> (<em>atchar</em> processing firms)</td>
<td><em>Market specification contracts</em> (avo and mango for exports, organic ripe mango and veg with Woolworth, etc.)</td>
<td></td>
</tr>
<tr>
<td>Formal <em>production management contracts</em> (Tiger Brand, Spar, etc.)</td>
<td><em>Informal “gentlemen agreements“</em> with intermediaries of Fresh Produce Markets, etc.)</td>
<td>“<em>Gentlemen agreements“</em> with interm of Fresh Produce Markets, etc.)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Why small-scale farmers are excluded from Contract Farming?

• Do the constraints of small-scale farmers and of the inner characteristics of the sector determine exclusion?

  • Comparative approach with Winterveld
    – Access to private free holdings, credit, collective action, public/private partnership IS NOT the main constraint

  • Role of agriculture in the livelihood
    – Agriculture is NOT the major income generating activity/source of income (past discriminatory policies)

  • Production and productivity gap in a competitive environment
    – The commercial sector dominate the market and are highly competitive
      » 95% of commercialized ag. production at national level
      » Benefited more than 50 years from public support
    – Only massive public investments in the long run can pull the small-scale farming sector

⇒ Not an option neither political (liberalization), nor economic
    – Financial crisis, limited public budget, etc.
Trajectories of Farm HH in Mamitwa

1950
- Malaria control program
- Subsistence Farming Systems
  (maize, pumpkins, beans, peanuts...)
  x cattle rearing x off-farm jobs
  (farm labor, mining)
- No public support
  Discriminatory policies

1970
- Homeland, Betterment Planning and Villagization
- Loss of access to arable land
- Limited access to arable land in communal areas
- High pressure on resources
- “Pioneer” Farming System
  (mango, citrus, avocado x veg.
  x extensive cattle raring)
- Technical innovation in tropical fruits prod
- Massive Public Support:
  Mechanization, marketing boards,
  Technical assistance, etc.

1994
- End of Apartheid, Land claims processes
- farms bought by black entrepreneurs
  related to the former Homeland government
  “Privileged” people of the community
  Redistributed Farms
- Public support programmes
  Social grants
- Liberalization, dismantling of public support measures favoring white agriculture
- Extensification combination with off-farm jobs
- Intensification in capital for the more competitive

2010
- Micro-farmers
- Small-scale staple producers
- Small-scale staple and veg growers
- Emerging producers of battery chickens
- Extensive large commercial mango producers
- Intensive large commercial tropical fruits growers
Is Contract Farming an effective tool or a “myth” for poverty reduction?

- The scale of CF is limited and will probably remain the same
  - The contract farmers are already the better-off thanks to better endowment in assets and/or because they already benefited from case-specific measures (land reform, public programmes) and/or individual networks
  - The determinants of the exclusion of small farmers from CF are multifaceted, not only related to constraints that could be addressed by contracts
  - The major livelihood is not and cannot be agriculture for the majority of small farmers, even if massive public support measures were implemented

- When extrapolating, CF will probably engage a large minority of better-off farmers at national level (among the 3 million poorer!)

- Consequently, our study shows that CF is difficulty conceivable as an effective tool for poverty reduction in the study regions and other support measures should be found to reach the many
  - Job creation in rural area, capacity building, etc.
Thank you for your attention

sandrine.freguin@up.ac.za
ward.anseeuw@up.ac.za
Contract Farming: Definitions and Importance (1/3)

• CF = system where a central processing, distribution or exporting firm procure from farmers according to modalities negotiated in advance
  » Bauman 2000; Eaton and Shepherd 2001; Swinnen & Maertens 2007

• Contracts can be differentiated in 3 types according to the degree of delegation of the decisions:
  • Market specification contracts: future purchase agreements which determine quantity, timing and price of commodities to be sold
  • Production management contracts: specify the sorts of crops to be cultivated, some practices and the quality and standardisation through the provision of technical packages and credits
  • Resources providing contracts: directly shape and regulate the production and labour processes of the grower
  » Bauman 2000