



Demythifying Contract Farming

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

Sandrine FREGUIN-GRESH, Ward ANSEEUW

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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

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

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 Mamtwa, (Limpopo)
 - Winterveld (Tswhane 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)

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

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

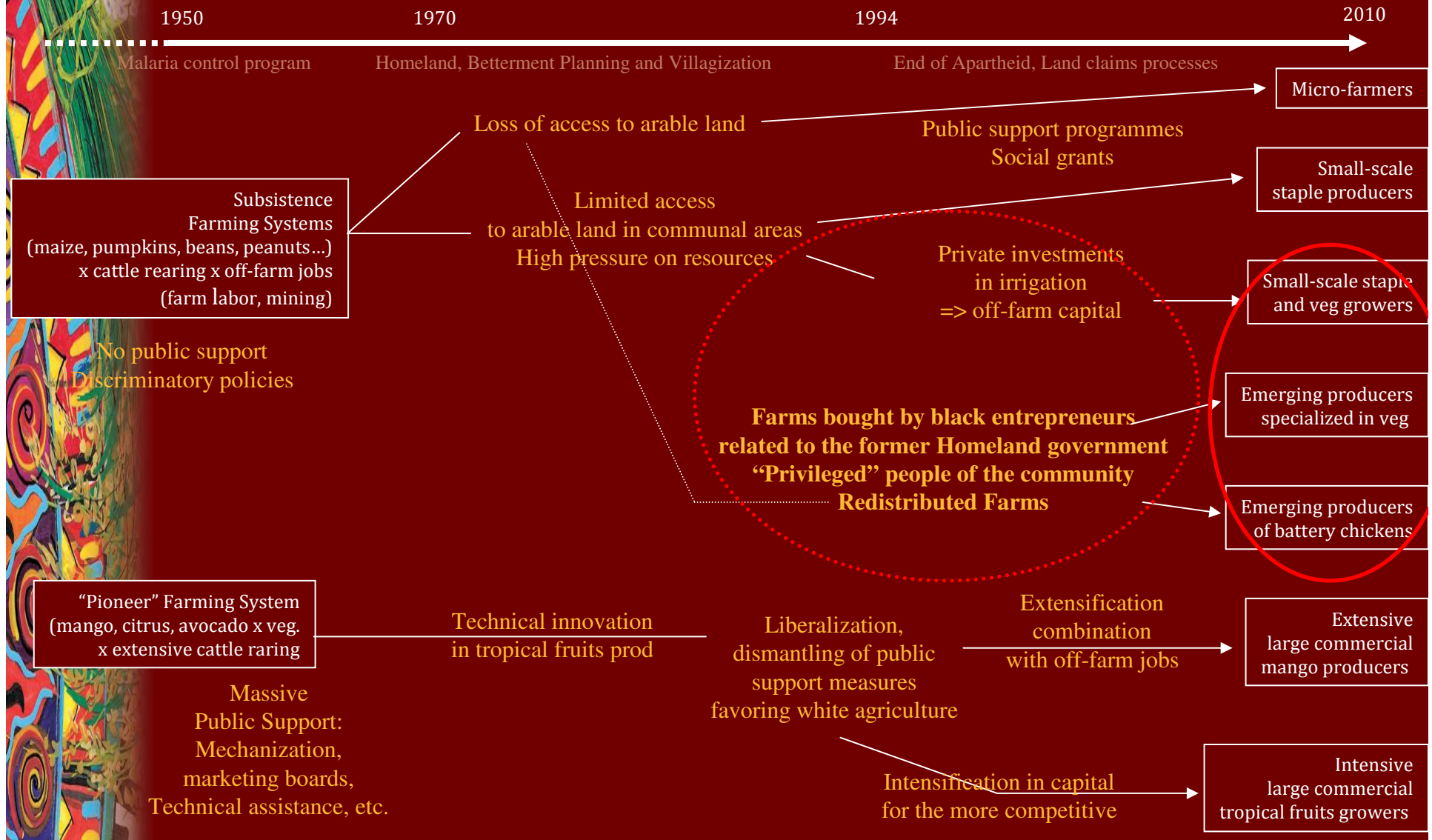
	Emerging producers specialized in veg production	Emerging battery chicken producers	Large extensive commercial farmers	Large intensive tropical fruits producers
Type of contracts	<p>Informal market specification contracts (Fruit'n Veg, small <i>atchar</i> processing firms, etc.)</p> <p>Formal production management contracts (Tiger Brand, Spar, etc.)</p>	<p>Total vertical integration of the value chain (<i>resource providing contracts</i> with Bush Valley)</p>	<p><i>Market specification contracts</i> (<i>atchar</i> processing firms)</p> <p><i>Informal "gentlemen agreements"</i> with intermediaries of Fresh Produce Markets, etc.)</p>	<p><i>Market specification contracts</i> (avo and mango for exports, organic ripe mango and veg with Woolworth, etc.</p> <p>"Gentlemen agreements" with interm of Fresh Produce Markets, etc.)</p>



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





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 difficultly 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