

# MARKET LINKAGES WORKING GROUP: BREAKING THE DEPENDENCY SYNDROME

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**Sector: Agriculture**

## CHALLENGE

Late 2007 and in 2008, SNV Zimbabwe organised three seminars on contract farming with farmer representatives, representatives from companies, donors, NGOs and government. One of the major observations was that Zimbabwean agribusiness were unaware of the large production potential of smallholder farmers. Another observation was that smallholder farmers lacked market information and had to sell their produce at farm gate against deflated prices or were not be able to sell their produce at all. Also the NGO community neglected market linkages and preferred to target farmer productivity by way of handing out free inputs and indirect agricultural extension support (usually one extension worker for over 1000 farmers).

## CLIENTS

In order to promote sustainable market linkages between smallholder farmers and the private sector, The Market Linkage Working Group (MLWG) was established in June 2008 and is acting as a Multi Stakeholder Platform (MSP). Main objective of the Group is to contribute to rural and urban food security and farmer income by bridging the mismatch between smallholder producers and markets through 'linking, learning and lobbying'. This mismatch not only resulted into smallholders lacking access to inputs and markets but also into urban food insecurity as a result from agribusiness losing access to domestic supply. This was caused by the recent fast track land reform in Zimbabwe and the subsequent collapse of the commercial farming sector. Sourcing for alternative supplies abroad was not an option to Zimbabwean companies as hyperinflation had depleted their cash reserves. Lack of capital in the country hold back liquidity replenishment after the introduction of the multi-currency system in February 2009. The result is lack of income to smallholder farmers and companies, unemployment and food shortages.

## METHOD / SNV INTERVENTION

### Organisation

SNV Zimbabwe took the initiative to found the MLWG in partnership with the FAO. In order to accomplish market linkages, The MLWG is governed by a Board with farmer representatives (Zimbabwe Farmers Union), private sector players (Standard Chartered Bank as well as seed and agribusiness companies), government (Ministry of Agriculture), donors (EC, AusAid), FAO and NGOs. SNV is facilitating the MLWG. The activities of the MLWG are financed by SCAPEMA (Enhanced Market Access and Knowledge Management in Eastern and Southern Africa), a joint programme of IFAD and SNV.

### Linking

First activity in facilitating market linkages was in knowledge development and brokering by way of developing a web-enabled interactive database allowing companies to indicate their need for agricultural supplies and farmer groups to share information on their produce. NGOs are encouraged to share market information provided by the MLWG with smallholder farmers as it is obvious that smallholder farmer groups do not have access to internet directly. The Agriculture Working Group (ACWG) - the FAO platform to coordinate activities of NGOs in agriculture in Zimbabwe - is used to promote the MLWG interactive database amongst NGOs. The intellectual property of the database ultimately will be transferred to a LCB to be determined which will be capacitated to maintain and expand. Both FAO and the Ministry of Agriculture have been involved intensely in the design of the database in order to allow exchange of information and/or integration with their systems at a later stage.

Just matching supply and demand is not enough to create sustainable market linkages as smallholders only can produce with the right inputs and intensive

agricultural extension support. However, most Zimbabwean companies lack the resources to pre-finance inputs required by smallholders as well as to build an agricultural extension support system.

The MLWG contributes to knowledge development on alternative smallholder input distribution systems and intensive agricultural extension support through contracting companies. Contrasting to the traditional approach currently applied by most NGOs in Zimbabwe which involves the distributing of free input to farmers and the provision of none or modest agronomic support, the MLWG advocates to provide inputs for food and cash crops at a loan base through a contracting company. The contracting company also has to purchase produce from the smallholders after harvest and is responsible for debt collection. As Zimbabwean companies lack the resources to finance these activities themselves, a one time grant component is essential to build or revitalize a company agricultural extension support system to improve farmer productivity. Furthermore, separate additional funds are required to capacitate participating farmers with elementary business skills training. However, contrasting to the traditional development models, the scheme could be self-sustaining in the long run. Concept notes were developed by dedicated sub-committees of the MLWG with support from SNV advisors and have been shared with the donor community. The dissemination of concept notes has resulted into the invitation of the MLWG by different donors to write proposals for project funding.

## OUTCOME

### **Pilot scheme aimed at harnessing the potential of AgriSeeds to improve smallholder food security**

The administrative, resource and grower base of Agricultural Seeds and Services (Pvt) Ltd (AgriSeed), a leading Zimbabwean seed company, will be utilized to assist ultimately 2,200 smallholder farmer households in two provinces become food secure by supporting them with maize production. At least 50 percent of the farmers to be contracted will be female. The total number of beneficiaries is estimated at 13,200 (6 persons per farmer family). Farmers will also be contracted to grow seed for food crops (sorghum, cowpeas and groundnuts) which are important food sources for rural Zimbabweans. Income security of contracted farmers will be secured through guaranteed minimum market prices for maize and crop seeds produced. Farmer beneficiaries will be expected to repay input loans to AgriSeeds which will credit a revolving fund. Benefits accruing to farmers include:

- Food and income security;
- Training in Good Agricultural Practices;
- Training in basic business management.

Benefits to the company include seed supply, improved productivity and reliability of contract grower base, good will from growers and local authorities and potential increase of grower base. In order to implement the scheme, AgriSeeds will employ 1 project manager, 4 agronomist and 22 resident extension workers and supporting to local employment. Sustainability of the programme is met in a number of ways. Firstly, the use of farming methods that conserve soil and water will introduce growers to a sustainable farming system. Secondly, farmers will continue to receive embedded agricultural services and guaranteed markets through the continuation of the contract farming system with AgriSeeds. Thirdly, project sustainability is guaranteed by the establishment of a revolving input fund which will circulate input loan repayments made by farmer beneficiaries to guarantee input supply for the coming years.

The Dutch Ministry of Development Cooperation (DGIS) will support the scheme with a grant of USD 778,447,69 in order to support 1,000 farmers. Over USD 45,000 will be spent on training LCBs and AgriSeeds extension workers by SNV. Another USD 56,800 is available for basic business skills training of farmers by LCBs. The Australian Agency for International Development (AusAid) is considering in committing another USD 982,813,11 to support an additional 1,200

farmers through the scheme. After AusAid approval, almost USD 300,000 will be available for SNV Zimbabwe for capacity development totally.

One of the objectives of the MLWG is to generate and share domestic and foreign best practices in sustainable market linkages and contract farming. After its inception in June 2008, four seminars on different topics related to market linkages have been organised by the MLWG:

- Input Vouchers (May 2009) with contributions from Care International, DfID, Government of Malawi, National Tested Seeds (Private Sector), Swiss Development Corporation, Mobile Transactions Zambia (Private Sector);
- Impact of the New Monetary Policy on the Agricultural Sector (March 2009) with contributions from the Ministry of Agriculture, Standard Chartered Bank, National Foods, Cotton Ginners Association and SNV;
- Farmers Unions (December 2008) with contributions from the Zimbabwean Farmers Union (ZFU), Commercial Farmers Union (CFU), Zimbabwean Commercial Farmers Union (ZCFU) and the Ministry of Agriculture (Departments of Agricultural and Extension Services and Economics and Marketing);
- Contract Farming, Conservation Agriculture and the Maize Market (September 2008) with contributions from Origin and AgriSeeds (private sector), Rivers of Life (NGO) and SNV.

### **Inventory of Smallholder Contract Farming Practices in Zimbabwe**

During the seminar on contract farming organised in September 2008, the results of SNV research on contract farming were presented and discussed. The research focussed at the experiences of 25 companies working with smallholder farmers in Zimbabwe to produce cotton, tobacco, paprika, sugar cane, vegetables, sorghum and various seed and legume crops. The only company contracting farmers to produce a non-crop product processes ostriches for their meat and leather. Results of the research included information on how companies organise their contracted farmers, how quotas are specified, the frequency of extension services, supply of logistical and input support, calculation of producer prices and requirements for input loan repayments.

From the research it was concluded that generally, companies utilizing the same product were found to use similar contract methodology. It was also concluded that various factors can contribute to mediocre results in contract farming. Low yields and poor quality were identified by companies as reasons for reduced viability of contract agreements. Low productivity was found to occur because of inadequate farmer resources, poor management, poor timeliness of operations and over reliance on input credit. Contract farming can also fail because of default from one or both of the partners. Ways in which farmers default include extra-contractual marketing, domestic consumption, input diversion, negligence and loan default. Side-marketing is singled out as the main cause of farmer default – the reasons for side-marketing are identified and suggestions are made of how this practice might be minimised. Companies default due to late- or non-supply of inputs, failure to collect produce and late payment. If corrective measures are not taken, default can sour relationships and have serious repercussions for future contracts.

Part of the research was the identification of 'best practices' that companies may want to consider before and after contracting smallholder farmers at a particular site. One of the main recommendations is that companies consider investing a directed farming approach. Most productivity and default related issues can be managed. The MLWG is committed to work on the adoption of the recommendations in order to improve the success of contract farming in Zimbabwe for the benefit of both farmers and companies.

Currently, the MLWG is carrying out a survey on agricultural extension systems. The results of the survey, best practices and lessons to be learned in agricultural extension will be presented during a dedicated seminar in September 2009.



*Interactive session during seminar on input vouchers – May 2009*

### **Lobbying**

The MLWG is advocating and lobbying for a better enabling environment for market linkages and contract farming. Issues currently tackled by the group are side marketing and contract enforcement.

The MLWG also is actively lobbying for a development model as an alternative to the current aid model being utilized widely in Zimbabwe and based on the provision of free inputs to smallholder farmers. The traditional model only mitigates farmer needs in the short run and contributes to the dependency syndrome as farmers will be less eager to pay for inputs but prefer to wait for free inputs and risk late planting. As indicated above, the MLWG successfully is promoting a more sustainable developing model supplying smallholder farmers with inputs at a loan base and a market guaranteed by a company contracting them. The company itself is incentivised to provide inputs at time as well as the required intensive extension to boost farmer productivity. The MLWG approach is supported by leading politicians from the different parties as well as the leading donors operating in Zimbabwe.

#### **Towards a new maize policy**

In the end of 2008, the MLWG lobbied discretionally for the relief of the grain market price controls. The combination of price controls and hyperinflation made grain production highly unprofitable for farmers resulting into increasing food insecurity. It has to be noted that maize is the main staple food in Zimbabwe. Also meat producers were affected due to loss access to stock feeds. The grain market was liberalized in February 2009.

### **The Way Forward**

A year ago the MLWG started as a MSP to develop and broker knowledge on market linkages between smallholders and companies. The outcomes so far are improved market linkages between smallholder farmers and companies, political and donor support for alternative developing systems based at making the farmer productive instead of sustaining by way of providing inputs at a loan base, a sustainable market linkage and intensive agronomic extension support.

After DGIS and AUSAID, also FAO and CORDAID have indicated to be prepared to finance projects resulting from MLWG activities. The MLWG however is not a legal entity. Therefore it is proposed that a separate Trust with clear objectives will manage and control financial activities resulting from the MLWG like the proposed revolving fund. The Trust will be governed by a Board with representatives from donors, farmers, companies and NGO's. The Trust also will ensure the utilization of the revolving fund according to the objectives of the MLWG. The company

contracting farmers will remain responsible for debt collection. Also an independent bank will be contracted to oversee the fund and to manage the relationship between the Trust and the company contracting the farmers.

***...SNV is the oil in the machinery of agricultural development...***

**FAO Representative**