Contract Farming as Business Model for Sustainable Rural - Urban Supply Chains: Sincere Efforts or Just Profit?

Lana Repar¹, Stephen Onakuse², Joe Bogue³

¹PhD student, ²Lecturer, ³Senior lecturer at University College Cork, Food Business and Development, Ireland

Malawi is developing low income country with agriculture as the main driver for any possible growth.

18,407 millions of people 79% of population living in rural areas
Out of 6,943 millions economically active 78% work in agriculture

Agriculture makes 30% of Malawi GDP

Hunger and poverty hinder small farmers’ attempts for better livelihoods.

Problem: small farmers are incapable to market their produce due to production, cost and access limitations.

Contract farming is an agreement between small farmer and agribusiness company.

FARMER
more income
less income, more debts
less volume, quality, income, more debts
more income, loans stay unpaid
lower income, more debts

COMPANY
less expenses
lower price
Climate disaster
more income, market volume less income, market volume low repayment rate
Price and grading manipulation
more income, no trust, less production base

Figure 1. Obligations from each side in contract farming

Research question: Does contract farming provide basis for sustainable long-term business relations which enable mutual multiple benefits?

People in Malawi are dying and contract farming may be the way to beat the cruel reality.

Can it?

Best results reported by using participatory value chain analysis.

Small farmer with 0.4 hectares and 100 kg of yield has:

Company having 15,000 contracts with small farmers must:

Provided inputs when the season starts with obligation of repayment from earned income.

Supply inputs 40% of which are misused by farmers.

Input costs reaching 10% of revenue

Figure 2. The truth about costs and investments ratio

Malawi’s agriculture needs contract farming.
Risks and responsibilities are roughly divided within the system which requires balance and trust.
Sincere efforts in working together will secure profitable activities.

Areas asking for improvement in order to contribute overall efficiency:

Contract design
Development policies and strategies
Producers’ initiatives
Risk and nature management
Transparent pricing system

References

Prowse, M., (2012), Contract Farming in Developing Countries - A review. AFD, France: Imprimerie de Montigny

Acknowledgements

I am deeply grateful to AGRINATURA for ensuring unselﬁsh ﬁnancial support and making our participation exceptional pleasure. Many thanks to colleagues and professionals who assisted in technical terms and during reviewing process.