

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

1

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

16,407 millions of people
50.7% bellow poverty line

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.

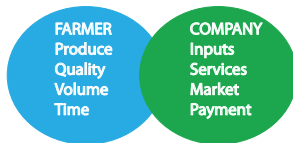


Figure 1. Obligations from each side in contract farming

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.



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.



Figure 2. The truth about costs and investments ratio

2

FARMER		COMPANY
more income	Higher price	more expenses
less income, more debts	Lower price	less expenses, low repayment rate
less volume, quality, income, more debts	Climate disaster	less income, market volume low repayment rate
more income, loans stay unpaid	Side-selling	wasted inputs, no product
lower income, more debts	Price and grading manipulation	more income, no trust, less production base

Figure 3. Profits and losses in different scenarios



Figure 4. Statistics on efforts

SMALL FARMER

- is extremely vulnerable to production risk
- sometimes does not fully understand market rules
- needs support and protection of interests



Government Associations
Third parties



COMPANY

- is guided by economic principles
- has high investment costs and demanding buyer
- often in attempt to exploit its power

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

The research is part of broader PhD project with main emphasis on price volatility impact in contracts.

References

- FAO, (2013), The Republic of Malawi. (Internet) available: <http://www.fao.org/countryprofiles/index/en/?iso3=MWI>, accessed: 3 August 2013
- Prowe, M., (2012), Contract Farming in Developing Countries - A review. AFD, France: Imprimerie de Montigeon
- Smalley, R., (2013), Plantations, Contract Farming and Commercial Farming Areas in Africa: A Comparative Review. LACA Working Paper, Cape Town: PLAAAS
- Vermuelen, S. and Cotula, L., (2010), Making the most of agricultural investment: A survey of business models that provide opportunities for smallholders. IED/FAO/IFAD/SDC, London/Rome/Bern. ISBN: 978-1-84369-774-9

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.

