

**THE STATUS OF CONTRACT FARMING AND  
CONTRACTUAL ARRANGEMENTS IN ZAMBIAN  
AGRICULTURE AND AGRIBUSINESS**

**BY**

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## **1. Introduction**

Contract farming in Zambia can be traced back to the late 60s and early 70s when the government set up Lint Company of Zambia (LINTCO) with the explicit objective of increasing the production of cotton through contractual arrangements with the small-scale farmers. This was followed by the setting up of Tobacco Board of Zambia (TBZ), also aimed at involving small-scale tobacco growers through out grower schemes. A significant non-government initiative was for sugar where Zambia Sugar Company Limited partnered with Commonwealth Development Cooperation (CDC) and Development Bank of Zambia (DBZ) by setting up Kaleya Smallholder Limited to contract smallholder producers to supply sugarcane to Zambia Sugar Company (ZSC) for processing. In the same vein the Coffee Board of Zambia (CBZ) was formed but it was soon realized that coffee did not take off quickly with small-scale farmers as a cash crop due to various reasons such as the long gestation period (3 years). Following the liberalization of the Zambian economy in the early 90s key players from the private sector came on board such as Lonhro (later succeeded by Dunavant), Clark Cotton, Agriflora (export vegetables), Cheetah and Bmzi (Paprika). Thus new commodities were introduced on contract farming arrangement but mainly through private sector driven initiatives.

The definition of contract farming is very well documented but may vary in coverage from country to country depending on prevailing circumstances (Eaton 2001, Williams 1996 and Watts 1994). In Zambia contract farming (or out-grower) may be defined as a range of initiatives taken by private and public firms to secure access to smallholder produce under forward agreements. Contract farming compels farmers to commit themselves to provide a specific commodity in quantities and at quality standards determined by the purchaser while the company commits itself to purchase the commodity at agreed prices and to support its production through provision of inputs (seed, fertilizers and pesticides) on credit and technical advice (extension services). Costs are recovered when the produce is sold, in effect making the contract non-transferable. The term out-grower scheme is often used interchangeably with contract farming (Hantuba, 2004).

This paper examines the status of contract farming in Zambia (in section 2), giving a synoptic overview of the main raw commodities produced under contract farming. It also examines the potential crops suitable for contract farming (in section 3) and gives an overview of contractual arrangements in place (in section 4). In section 5 the key issues that may affect the growth and expansion of contract farming are also examined and specifically the commercialization of small – scale farmers. Finally the paper attempts to draw conclusions on the analysis of issues raised in section 6.

## 2. Status of Contract Farming in Zambia.

The main commodities produced by small-scale farmers in Zambia under contract farming arrangements are cotton, tobacco, coffee, sugar, paprika and fresh vegetables. Of late honey, livestock (pigs and dairy cattle) and organic products are also coming up. Table 1 below gives a summary of the status of contract farming in Zambia.

**Table 1: Small- Scale Supply in Agribusiness Supply Chains**

Raw Commodity	Final Product	Industry Size	Location	Contact Authority
Cattle	Dairy	40 ss farmers*	Lusaka	Dairy Processors Association Land O' Lakes
Pigs	Pork	60 ss farmers*	Lusaka	Livestock Development Trust
Sugarcane	Sugar	5,280 ha 594,000 mt	Mazabuka, Southern	Zambia Sugar Company Kaleya Smallholder Co.
Tobacco leaf	Tobacco	2,000 ss farmers	Eastern Central	Tombwe Processing Ltd Zambia Leaf Tobacco Company Standard Commercial Ltd Daimon Ltd Tobacco Board of Zambia Tobacco Association of Zambia
Cotton	Cotton fibre	227,000 ss farmers 160,000 mt 254,180 ha	Eastern Central	Dunavant Zambia Ld Clark Cotton Ltd China-Mulungushi
Coffee bean	Coffee	250 ss farmers	Northern Mkushi Lusaka	Coffee Board of Zambia Coffee Growers Association
Fresh Vegies	Babycorn Mange tout Fine beans	200 ss farmers	Lusaka	York Farm Ltd Lusaka Agric Cooperative Union (LACU)
Paprika	Spice	>5,000 ss farmers	Lusaka	Bimzi Cheetah
Honey	Honey	10,000 ss farmers	Northwest ern	Support for Agriculture Project

Source: Various from field study interviews; Cotton Development Trust Annual Report, 2004

Note: \* Provisional and subject to revision

## 2.1. Contract Farming for Cotton, Tobacco, Sugarcane and Coffee

### 2.1.1 Cotton

The Zambian cotton production sub-sector has grown from a parastatal monopoly into a competitive private sector enterprise. After liberalization in 1994, five new ginning companies were established. Currently eleven ginning sites are operational with a total ginning capacity of about 226 000 mt per year, but the national production over the past five years has averaged only 101 000 mt. However, following liberalization, seed cotton production has risen from 37 000 mt in 1993 to 118 000 mt in 2003 and the 2004 estimate stands at about 160 000 mt. The number of farmers growing cotton has also increased steadily, mainly due to pre-financing of production inputs, a ready and accessible market. The number of cotton farmers has increased from 95,000 in 2000 to 160,000 in 2003 and the estimate for 2004 is 227,000 covering a total cultivated area of 254,180 hectares (Table 2). Cotton therefore takes up the lead in contract farming both in terms of the number of small-scale farmers involved, hecterage covered as well as production. The production areas are mainly located in the Eastern Province as well as Central Province. Dunavant Zambia Limited has the highest market share (60-65%), followed by Clark Cotton (30%). The balance is shared among the rest: China-Mulungushi Textiles, Continental Ginners, Chipata Cotton Ginnery (subsidiary of China-Mulungushi), Swarp Spinning Mills and Mukuba Textiles.

**Table 2: Seed Cotton Production Trends**

Crop Year	1999/200 Actual	2000/2001 Actual	2001/2002 Actual	2002/2003 Actual	2003/2004 Estimate
Production (mt)	45,000	75,000	116,000	118,000	160,000
No. of farmers	95,000	120,000	145,000	160,000	227,000
Price US\$/kg	-	-	0.20	0.25	0.30

Source: Cotton Development Trust Annual Report, 2004.

### 2.1.2 Tobacco

About 40% of the total tobacco production reaching the auction floors is contributed by small-scale farmers. In 2003/4 season it is estimated that about 2,000 small scale farmers participated in the growing of tobacco on contract basis averaging about .5 to 1 ha per farmer. The main areas of tobacco production are Mukonchi in Kabwe district of Central Province; Kalomo in Southern Province; Kaoma in Western Province and several areas in Eastern Province. Recently the total production of tobacco, (only virginia tobacco is grown in Zambia), has been on the increase, registering about 4,543,386 kilograms in the year 2000 to 7,521,961 kilograms in the year 2003. The key players are Tobacco Board of Zambia, Tobacco Association of Zambia, Tombwe Processing Limited, Zambia Leaf Tobacco Company Limited, Standard Commercial Tobacco Services and Daimon (Tobacco Development Company).

### **2.1.3 Coffee**

About 99% of exportable coffee comes from large estates and about 1% comes from small-scale farmers. There are about 70 large-scale coffee growers and 500 small-scale farmers cultivating about 5000 hectares. The average area for large-scale farmers is 30 hectares and 0.5 hectares for small-scale farmers. The small-scale farmers produce on contract for large-scale farmers who have processing facilities. The small-scale farmers are organized in groups. The production areas are Northern, Lusaka and Central Provinces and the major players in coffee are Coffee Board of Zambia and Coffee Growers Association. The Coffee Board of Zambia was established to regulate the promotion, growing and marketing of coffee in Zambia, while the Zambia coffee Grower's Association is the operative wing of the Coffee Board that provides coffee extension services, quality control and is responsible for all export marketing of coffee.

### **2.1.4 Sugar Cane**

There are three companies that produce sugar in Zambia. Zambia Sugar Company in Mazabuka District has a major share of the market. Currently the smallholder producers account for about a third of the sugar cane processed by Zambia Sugar Company. The smallholder producers numbering about 168 contracted as members of the scheme cultivate about 5,280 hectares producing 594,000mt of sugar cane, each smallholder cultivating minimum of 4 hectare. Most of the small-scale farmers come under Kaleya Smallholder Company in which Zambia Sugar owns some shares.

Kafue Sugar started producing sugar recently and has not yet started an out grower scheme. The third company is in Kasama district of Northern Province. Potential exists for expansion of contract farming in sugarcane production.

## **2.2. Contract Farming for Paprika, Export Vegetables and Honey**

### **2.2.1 Paprika**

Paprika is another crop that is grown on contract by small-scale farmers. There are more than 5 000 small-scale farmers producing paprika spread across the country especially along the railway line. Two companies; Bimzi and Cheetah are the major buyers of paprika by contracting small-scale farmers. Initially there was massive response by a number of farmers to grow paprika, but interest reduced due to large quantities required to be produced to make profit.

### **2.2.2 Fresh Export Vegetables**

For sometime, Agriflora was the major player in producing fresh vegetables for export through out grower arrangement. The company was liquidated in 2004 due to financial problems. The main crops produced through this arrangement are baby corn, mange tout, and fine bean. Currently York Farm Limited has 200 small-scale farmers supplying vegetables on contract arrangements. The export vegetables sub- sector had shown tremendous growth over the years reaching in 2003/2004 a peak of US\$40 million worth of exports contributing about 33% of the Non Traditional Exports (NTEs).

### 2.2.3 Honey

Honey is produced by more than 10 000 small-scale farmers located in North Western Province of Zambia, where beekeeping is a traditional agricultural activity. Honey is supplied to buyers at Kabompo who have made long-term contract to buy honey from small-scale honey producers in the province. At present a company in Solwezi buys honey from farmers for export on European markets.

### 2.3. Contract Farming For Fresh Vegetables for Domestic Market

Contract farming in fresh vegetables for domestic market can be traced back to the 1970's when government created Zambia Horticultural Products Company a parastatal. Since then, there has been an expansion in vegetable production both informally and formally to secure supply. The majority of small-scale farmers rely on some form of short-term production contract to supply vegetables to public institutions such as schools, hospitals, hotels and lodges etc. These contracts specify quantity, quality, price and date of delivery. Limited grading takes place, but the producer is expected to supply good quality produce. Another channel through which small-scale farmers supply vegetables is through super markets in major town centers such as Lusaka, Livingstone and the Copperbelt towns. The super markets require a constant supply of good quality vegetable for a specified period. Enforcement of the contract is achieved by simply not renewing the arrangement if the conditions and terms of supply are not complied with.

There is a wide range of vegetables supplied by formal and informal contract arrangements to the market. The most common ones are cabbage, tomatoes, lettuce, onions, leaks, celery, cucumbers, etc. For a comprehensive list see Table 3 below.

**Table 3: Fresh Vegetables for Domestic Market**

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Type of Vegetable	Type of Contract
Cabbage	Informal/Formal
Onion	Informal/Formal
Tomatoes	Informal/Formal
Celery	Informal/Formal
Cucumber	Informal/Formal
Peppers	Informal
Green beans	Informal
Lettuce	Informal

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Small-scale farmers sometimes fail to meet the contract arrangements due to inadequate water for irrigation. By October, many small-scale producer run out of water for irrigation from streams. This gap in supply is met by commercial farmers in peri-urban areas.

#### 2.4. Contract Farming for Livestock

In this sector the use of contracting to procure supply is not developed. However initiatives are underway, involving dairy cows and pigs. Land O’ Lakes in partnership with Zambia Dairy Processors Association are promoting the dairy industry through the supply of dairy cows to small-scale farmers. The Livestock Development Trust (LDT), recently set up as a private-public partnership, has established a programme called “Smallholder Livestock Intensification and Commercialization Initiative (SLIC), with a view to contribute to the generation of incomes and alleviation of poverty among small-scale farmers. Through this programme LDT is supplying pigs to selected small-scale farmers.

The main objective is to develop the production of the above livestock by linking producers to processors of pork and milk products.

In the poultry sector Hybrid Poultry Company tried to promote production of broilers through out grower scheme. Unfortunately this has not taken off the ground due to disease.

### 3. Potential Crops for Contract Farming

The potential for expanding the scope of raw commodities under contract farming arrangements could include a number of crops such as sunflower, groundnuts, soybean, and sorghum. Others may include watermelon, pineapples, cashew nuts, cucumbers and herbs (Table 3).

**Table 4: Crops with Potential for Contract Farming**

RAW COMMODITY	RATING	
	HIGH	LOW
Sunflower	✓	
Groundnuts	✓	
Soybean	✓	
Sorghum		✓
Water melon		✓
Pineapples		✓
Cashew nuts		✓
Cucumbers		✓
Herbs		✓

Most of these crops are currently being produced, but the marketing arrangement is not formalized mainly because of the absence of large-scale processing in vegetables in Zambia. Evidence exists which suggests that the volume of raw commodities can be procured from small-scale producers in future, subject to the expansion of Agribusiness firms.

#### **4. An overview of Contract Arrangements**

Agreements in the form of a written contract or verbal understanding, usually cover responsibilities and obligations of each party, the manner in which the agreement can be enforced and the remedies to be taken if the contract breaks down (Eaton, 2001). The contractual arrangements in Zambia vary from commodity to commodity, but common to all of them is the weakness of enforceability when the contract is breached. This is mainly because the litigation process in Zambia takes too long and therefore enforceability through litigation process is costly and therefore not resorted to. Instead, other options on contractual arrangements have been tried, in certain cases with great success. For instance, the default rate for cotton small-scale farmers became quite high with recoveries rate reaching a low of about 60%. As an innovative way of addressing the problem, Dunavant, a leading cotton agribusiness firm introduced the “Distributor System” which improved the recoveries rate to above 95%. Under the “Distributor System”, a group leader who is also a farmer is identified and becomes a link between Dunavant and the small-scale farmers. The leader, who should be literate, is then trained in basic agronomic aspects on crop production and basic bookkeeping. A contract is signed between Dunavant and the Distributor who represents 30 – 100 farmers. In addition the group leader (Distributor) is given a free bicycle and also seed and fertilizer on loan to be recovered at the end of the season through a crop equivalent to the cost of the inputs. Dunavant therefore does not interface with the farmers, the distributor is the only link with the farmers and he gets a commission for the collections he makes from the small-scale farmers under his group. Currently Dunavant has about 2 400 group leaders (Distributors) covering about 185,000 small-scale farmers mainly in the eastern and central provinces of Zambia.

The situation is slightly different for Tobacco. The major tobacco companies in Zambia are Tombwe Processing, Zambia Leaf Tobacco Company, Standard Commercial Tobacco Services and Tobacco Development Company (Dimon). All these companies contract small-scale farmers directly offering them inputs on credit as well as extension services. Contracts are signed between the small-scale farmers and the tobacco company. The selling of the leaf tobacco is done through the Tobacco Association of Zambia (TAZ) who owns and manages the auction floors.

For export vegetables (baby corn, mange tout, fine bean) including cut flowers until recently (2004), Agriflora was the most significant exporter. It signed contracts with cooperatives representing members who are producers. In turn Agriflora would supply

the commodities to UK and European markets through shipping arrangements with Zambia Export Growers Association (ZEGA). However, following the liquidation of Agriflora, York Farm has taken over some of the cooperatives previously under contract with Agriflora.

## **5. The Key Issues**

### **5.1 Government's Role**

The role of the government is to provide an “enabling environment” by creating a legal system and legislation in support of small-scale farmers engaged in contract farming as well as other areas such as council measures. Moreover the government must ensure an enabling environment for investment, trade and operations of small-scale farmers (regulations, taxation other policies etc), the institutional means to combat multinational companies monopoly in terms of contract farming which works to the disadvantage of the farmer, it must further support research on regional arrangement basis, provide agricultural advisory services, market research and negotiation for international trade and market information and extension service to the farmer. It is the government's duty to remove obstacles for private sector development and act out its general planning role (Huvio, 2005). However consistent and transparent government policies are a necessary but not sufficient condition for private sector investment.

In Zambia, laws of contract exist that protect both the suppliers and the buyers. However, experience has shown that seeking court protection against small-scale farmers who break the contracts may be costly to the agribusiness firm and takes long for such cases to be administered by the courts. There is therefore need to create a body whose function would be to arbitrate or resolve disputes – such as a “small claims court”.

NGOs also play an important role in enabling contract farming to expand by linking small-scale farmers to Agribusiness firms. They provide training in technological and managerial skills where Agribusiness firms have no capacity. The work of NGOs is made easier by the use of government extension services.

### **5.2 Regulatory Framework**

Contract farming depends on either legal or informal agreements between the contracting parties. Such contracts have to be backed up by an appropriate legal framework. The laws have enabling, economic regulatory and constraining functions. The important laws in this respect are those that provide an enabling environment.

For trading to be fair to both parties in a contractual arrangement a clear understanding of the terms and conditions of the contract is important. In Zambia, there is evidence that the agribusiness firms have an upper hand when it comes to bargaining over prices. The

agribusiness firms have sometimes paid farmer a lower price than that agreed at the time of making the contract as the price is tied to the dollar. A reduction in world price of the commodity is immediately passed on to the small-scale producers. This situation has been a source of conflict between cotton buyers and small-scale farmers.

Small-scale farmers need to develop the skills in negotiating for higher prices for their commodities. These skills could be improved through training. There is need to improve the flow of market information and market trends. This could be done through formation of farmers' associations. This has been done for tobacco, coffee and more recently cotton. Such groupings will ensure that the members are not exploited.

### **5.3 The Enforcement Issues/Breach of Contracts**

The enforcement mechanisms either in the case of monitoring the compliance of contracts or breach of the same involving both the promoter/agent and the small-scale farmers are weak if not non-existent. Farming contracts, whether written or oral, should comply with the minimal legal requirements that apply in a particular country. It is important to take into account prevailing practices and societal attitudes towards contract obligations, because in almost all societies these factors can produce an outcome that differs from the formal letter of law (Eaton 2001).

In Zambia this may be a case in point. There are strong perceptions about the "poor credit culture in Zambia being justified by the experiences of high default rates by farmers of financial institutions set up after independence consistently the financial/credit institutions in the agricultural sector also in industry of the high default rate by the borrowers thus though the laws of contract exist the enforceability element is problematic. As mentioned in section 3, the legal or litigation process in Zambia is slow and expensive and therefore acts as a disincentive to enforcement action both on the part of the agribusiness firms and the small-scale farmers. The areas of breach of contract for the small-scale farmer mainly involves the act of cross or side selling resulting in default on input loans. The factor of high default rate gives rise to the reluctance of agribusiness firms to enter into contract farming arrangements. As regards the agribusiness firms the area of breach of contract is mainly the changing of prices mid-stream of existing contract. Considering these areas of possible breach of contract it is necessary to put in place a more quicker and equitable way of conflict resolution such as mediation or "small claims courts" system.

### **5.4 Organizational Framework for Small Scale Farmers**

It has been argued that for any national and regional agricultural development initiatives to succeed, especially under the current globalization and trade liberalization challenges and constraints, and also given government reduction in agricultural support among many SADC states, there is need for organized and focused farmer organizations to play a more central role in fostering agricultural development and protecting the farmers interests

(Ndambo 2004). In Zambia though there is a national organization for small-scale farmers, Zambia Association for Small Scale Farmers which coexist with the national organization for large scale farmers, Zambia National Farmers Union (ZNFU). However there is still need for more commodity focused farmer organizations.

## **6. Conclusion**

The status of contract farming in Zambia clearly point to the great potential for expansion and commercialization of contract farming. However for this to be realized, the issues of government's role, the regulatory framework, the enforcement issues, the land tenure systems and the strengthening of the small-scale farmer organizations. Further the general constraints/problems being raised by both the agribusiness firms and the small-scale farmers must be addressed.

## **7. Recommendations**

On the basis of the current status of contract farming in Zambia, a number of issues have emerged which need to be addressed in order to contribute to the expansion of contract farming in Zambia:

- There is need to address issue of reluctance by the agribusiness firms to enter into contract farming arrangements because of high default rate by improving the speed and accessibility of the litigation process.
- There is need for the government to put in place a more conducive enabling environment by creating legislation and legal institutions such as "small claims courts" which both the small scale farmer and the agribusiness firm can resort to in case of breach of contract.
- There is need for agribusiness firms to use appropriate prices (spot or forward) which are equitable to both parties.
- There is need for further training of small-scale farmers so that they can develop skills in negotiating for good prices for their commodities.
- There is need to strengthen and expand the formation of small-scale farmers organizations.

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## Appendix

List of people contacted and interviewed

	<b>Name</b>	<b>Organization</b>
1.	Mr. B. Zimba	Coffee Board of Zambia
2.	Mr. J. Taguma	Zambia Coffee Growers Association Limited
3.	Mr. D. Craft	Tombwe Processing Limited
4.	Mr. K. N. Chellah	Tobacco Board of Zambia
5.	Mr. P. Nyumbu	Dunavant Zambia Limited
6.	Mr. B. J. Phiri	Small-Scale Farmer
7.	Mr. D. C. Moyo	Small-Scale Farmer
8.	Mr. Ngwira	Small-Scale Farmer
9.	Mr. Sichelwe	Small-Scale Farmer
10.	Mr. Makwakwa	Small-Scale Farmer
11.	Mr. Rusitu	Small-Scale Farmer
12.	Mr. Kalinda	Small-Scale Farmer
13.	Ms. Jane Chirwa	Small-Scale Farmer
14.	Ms Mary Tonga	Small-Scale Farmer
15.	Ms Mercy Banda	Small-Scale Farmer
16.	Mr. Simon Zulu	Small-Scale Farmer
17.	Mr. Moses Mbulo	Small-Scale Farmer
18.	Ms. Lydia Mwanza	Small-Scale Farmer
19.	Mr. Boyd Banda	Small-Scale Farmer
20.	Mr. Edward Tembo	Small-Scale Farmer
21.	Mr. Aron Nkhoma	Small-Scale Farmer
22.	Mr. Olax Miti	Small-Scale Farmer
23.	Ms Mary Nkhunda	Small-Scale Farmer
24.	Ms. Elizabeth Banda	Small-Scale Farmer
25.	Ms. Febby Malonda	Small-Scale Farmer