

Report Back - Regional Policy Dialogue on Agricultural Recovery, Food Security and Trade Policies in Southern Africa

Overview of the Policy Dialogue

FANRPAN hosted a policy dialogue in Gaborone, Botswana from 26-27 March, 2003 to discuss agricultural recovery, food security and trade policies in Southern Africa. The policy dialogue brought together more than 110 participants including leading policy economists, senior policy advisors, researchers, private sector leaders and non-governmental organizations in the region, to identify and articulate the key policy constraints affecting agricultural recovery, trade and food security within the context of the 2002 food emergency. Keynote presentations gave an international perspective on agricultural recovery and long-term food policy and highlighted findings from studies commissioned by FANRPAN namely, 'A Short Term Food Study' and 'Trade Policy Study'. The invited professionals identified and examined key and immediate policy strategies that need to be addressed to ensure the permanent recovery of the agricultural sector and promotion of regional trade in the SADC Region.

The Nature and Dimensions of the 2002 Drought Induced Food Security and Humanitarian Crisis facing the SADC Region

The food security situation in the region is not the same as it was ten years ago. Vulnerability has been aggravated by poverty. There was no significant decline in regional levels of maize production relative to other years but the region entered 2001/2002 with low strategic grain reserves. The level of preparedness was low in the countries hardest hit (Malawi, Zambia, and Zimbabwe). There were very constrained contingency plans in place coupled with low levels of strategic



A good maize harvest by smallholder farmers in Malawi

reserves and low levels of financial resources with which to import food. The absence of emergency response and management plans at the regional level limited the quality of response in managing the 2002 regional food crisis. Prospects for peace in some parts of the region have renewed the hope that previously inaccessible areas may be opened up to humanitarian aid. The food crisis in other countries was exacerbated by severe economic downturn and government policies that inhibit production, importation and distribution of basic commodities.

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Key Policy Constraints to Agricultural Recovery, Improved Trade and Food Security

- ▲ Adoption of policies restricting regional trade,
- ▲ Inadequate input supplies,
- ▲ Pricing policy and consumer subsidies,
- ▲ Lack of progressive policies towards the private sector,
- ▲ Adoption of policies restricting donor responses,
- ▲ Size of strategic grain reserves and alternatives,
- ▲ State participation in domestic food markets,
- ▲ Absence of market incentives for farmers,
- ▲ Stakeholders have poor institutional capacities,
- ▲ Set of communication barriers between and among stakeholder groups,
- ▲ Problems of how to reach policy decision makers.

Key Issues and Policy Recommendations Arising from the Policy Dialogue

The dialogue came up with specific policy areas that needed to be addressed by various key actors:

- ▲ *Promote financially viable and sustainable irrigation.* Responsibility: NGOs, National Governments, Public-Private Partnerships, Regional Organisations and other stakeholders
- ▲ *Promote Crop Diversification.* Responsibility: National Governments, Private Sector, NGOs and researchers
- ▲ *Make available at the farm level adequate quantities of inputs, including fertilizers and seeds.*

Responsibility: National Governments, NGOs, Private Sector and Donors

- ▲ *Re-establish a regional and integrated approach to agricultural research including modern and gender-sensitive technologies.*

Responsibility: FANRPAN, Private/Public Partnerships, Donors, Ministries of Agriculture and Trade and SADC/FANR with NARs, IARCs and Universities

- ▲ *Improve and widen the types of information needed for food security analysis.*

Responsibility: National Governments with technical support from NARs, CGIAR centres, FAO and regional support from SADC

- ▲ *Allow markets and trade to solve most food security problems in Southern Africa.*

Responsibility: SSSN, FANRPAN, CGIAR centres, FAO, Trade Hub, SADC working Group

- ▲ *Improving Market Access (local, regional and international).*

Responsibility: National Governments and the SADC

- ▲ *Investment in improving production base (infrastructure, human resources, inputs).*

Responsibility: The SADC, National Governments, Ministries of Agriculture, Farmers, NGOs

- ▲ *Harmonisation of Seed Policies.*

Responsibility: SSSN, FANRPAN, CGIAR centres, FAO, Trade Hub, SADC working Group

- ▲ *Good Governance*

Responsibility: The SADC, Governments and NGOs

- ▲ *Political Commitment for Regional Integration.*

Responsibility: The SADC, National Governments and the Private Sector

To obtain more information on the deliberations of the Policy Dialogue visit the FANRPAN Website - www.fanrpan.org

Policy Studies on the Role of Contract Farming and Status of Farmer-Based Organizations in the Southern African Region

During the first half of this year, FANRPAN plans to launch and complete two policy studies, one on the role of contract farming as a means of enhancing access of smallholder farmers to markets, farm inputs, finance and technical know-how, and the other which will be done in conjunction with a regional national farming organization, on the status of farming organizations as key stakeholders in agricultural development in the region. The rationale behind the contract farming study is that market linkages for small-scale farmers have become a central recurrent issue in the region and at the same time there is a growing trend in the contribution of agro-industries, traders and processors in contract farming in this region. It is therefore necessary to examine how to enhance the capacity of farmers to take advantage of this option to market their products where relevant. Basically there are two types of contract farming strategies: one where buyers or processors simply identify a group of farmers and guarantee to buy their produce at a pre-determined fixed delivery price; and another where processors of the product provide finance, inputs and technical advice, then recover their costs from the purchase price of the commodity. In this instance the buyer is assured of a constant supply of product, while the producer is not constrained by lack of inputs. It is this range of experiences across the region that need to be researched into and lessons drawn from them for further application, demonstrating the costs and benefits of the contract farming.

Other related issues that need to be studied in this area are: what role is contract farming playing in enhancing farmers' access to improved technologies and extension; what legal frameworks exist or need to be put in place to protect both buyers and producers and induce the development of viable contracts; what are the prospects and necessary protocols for **cross-boarder** contract farming by agro-based companies and seed companies; and what are the prospects for replicating contract farming to a wider range of commodities grown by smallholder farmers in the region?

The objective and output of this study will therefore be the provision of information to advise stakeholders in particular farmers, private sector agri-businesses, exporters and public sector policy decision makers of demonstrated benefits



Horticultural contract farmers in Mozambique

and constraints, and institutional and regulatory frameworks for dealing with contract farming. The other output will be facilitation of regular exchange of experiences and information among the same stakeholders on contract farming issues including recommendations on concrete actions on cross-boarder contract farming initiatives and those issues requiring further support.

In regard to the study on farmer-based organizations, it is also becoming evident that in the context of recent trends in trade liberalization, privatisation of agricultural services and urban development, producer organizations are increasingly being called upon to play a key role to link up small-scale farmers with market and service providers if they are to effectively represent the interest of their members. At the same time, farmer organizations face enormous difficulties in meeting their increasing role of contributing to policy formulation and dialogue at country and international levels. FANRPAN has held consultations with farmer representatives, researchers and other policy institutions who all agree that the issue of capacity building for policy analysis for producer organizations is a priority for agricultural development. Negotiations are at an advanced stage with a potential donor who will assist FANRPAN in funding and executing these two studies.

Linking small-scale farmers to agribusiness: The economics of contracting

By Kurt Sartorius and Johann Kirsten

The globalisation of markets and the industrialisation of the farm sector have profoundly influenced the structure and performance of agricultural supply chains. Whilst, the opportunities of an expanded range of market niches for farmers is evident, the requirements for size and continuity, in many instances, may preclude smaller farmers in developing countries. The principal research question addressed by this study is, whether or not, small-scale farmers in developing countries can be linked to agribusiness partners in order to take advantage of some of the opportunities presented by the new paradigm. This study proposes that a "fresh approach" to the design of smallholder contracting arrangements can be considered. This approach incorporates combining the lessons of history and an economic rationale for contracting, with the use of transaction cost theory and a case study methodology, to form the basis for the design of a proposed contracting model.

Two case studies were employed to test the research questions. The first case study involves two smallholder contracting arrangements in the Swaziland and South African sugar industries. The second case study is an example of contracted micro-growers in the South African timber industry. The results of the study are as follows. Firstly, the transaction and contract characteristics of the grower-processor supply operations appear to have influenced the required governance structure of the agribusiness partner. Secondly, the results demonstrated that the transaction cost of agricultural supply chains is also a function of historical, social and physical variables that have influenced the economics of the prevailing institutional environment. Thirdly, the results showed that smallholders generate incremental transaction cost for

the agribusiness partner. The reasons include the differential levels of start-up cost, as well as, the need for incremental levels of agribusiness inputs with respect to the growing, harvesting and delivery activities and the administration of smallholder affairs. Fourthly, the results suggest that smallholders can compete with larger growers with respect to the cost efficiency of production. The principal reason for the competitive performance of the smallholders was a result of contracting out for facilities costs as opposed to the internalised nature of this cost in the case of the agribusiness partner.

Finally, the case studies confirm that the institution of contracting had allowed large numbers of small-scale farmers to overcome the barriers of entry to two industrial crop sectors. On the basis of these results, it is proposed that transaction cost theory, combined with the international experience of contracting, can be employed for the design of a smallholder agribusiness contracting model. The proposed design also assumes that the smallholder contracting arrangement can be treated as a strategic investment decision. The cost structure of the model is developed in such a way that its costs and cash flows can be subjected to sensitivity analysis in order to reflect the differential cost of smallholder contracting. The identification of differential transaction cost, in turn can be employed to lobby the state for assistance with respect to smallholder start-up cost or, alternatively, as a basis to charge back incremental cost to the contracted growers. This study concludes that smallholders can be linked with agribusiness on an economic basis but only if measures are taken to reduce incremental transaction cost. Finally, this study makes some recommendations with respect to the direction of related future research.

Professor Johann Kirsten is the Coordinator of the FANRPAN South Africa Policy Node. He is the Head of the Department of Agriculture Economics, Extension and Rural Development at the University of Pretoria, South Africa. He co-authored this article with Kurt Sartorius.

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