



Government Of Malawi



Ministry of Agriculture and Food Security

FINAL DRAFT

## **The National Contract Farming Strategy For Malawi:**

*Promoting organised viable farming*

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## EXECUTIVE SUMMARY

The Ministry of Agriculture and Food Security (MOAFS) has developed a 5-year National CFS for 2007 – 2012. As a first step in the formulation of this strategy the MoAFS conducted a background study. This study was based on review of literature, policy and strategy documents. It took into consideration new policy directions such as New Partnership for African Development (NEPAD), Millennium Development Goal (MDG) and Malawi Growth and Development Strategy (MGDS). The study assisted the Task Force in identifying critical issues, the emerging social economic and development trends, and developing an agenda for action on priority areas for contract farming strategy (CFS) in Malawi.

This report has consolidated the various materials collected from the literature review and reports from members of the Task Force for this strategy. It takes into account the issues raised by the Task Force and consolidates them in formulating a Contract Farming Strategic Framework from which observation regarding factors affecting strategy formation and resultant objectives are discussed.

The document has six chapters. Chapter 1 provides the background in form of a country profile of the Role of Agriculture in Malawi. It introduces contract farming in its historic and international context as the challenge. This is in recognition that contract farming is a necessary agenda that should be pursued. The justification highlights the reasons for its operationalizing for raising and sustaining growth linked to the regional and national growth strategies that include the MDG, the NEPAD, the Comprehensive African Agricultural Development Programme (CAADP) and the MGDS.

Chapter 2 analyses contract farming and the factors influencing the adoption of this farming strategy by discussing how different formulations work with their advantages and disadvantages. The challenge is for a country strategy to specify its needs responding to the local implications. In this section a social, economic and cost benefit analysis of contract farming is discussed to demonstrate the value addition that this would have on the economy in general and the agriculture sector in particular.

It further analyses and evaluates current policies and strategies in the various areas of contract farming in Malawi. The thrust of contract farming has been seen to be broadly consistent to MGDS.

In an effort to assess the extent that contract farming has evolved in Malawi, strength, weaknesses, opportunities and threats (SWOT) analysis in Chapter 3, is developed to give the implications of operationalizing contract farming. It gives a detailed assessment of the various policy needs, the operational structure and the resource requirements while highlighting the contract-farming framework for Malawi. The framework includes

contract-farming commodities, recommended contract formats, contract farming legislations and regulations, contract farming policy and its implementation.

Chapter 4 looks at the strategic actions identifying the thematic priority areas that will enable the implementation of this Strategy through five major actors namely, the public sector, the private sector, the financial sector, the civil society organizations (CSOs) and the farmers. Six programme areas that create a focused platform for the public sector's involvement and give the possibility of a holistic approach. These include the regulatory framework, the extension and capacity building, technology generation, land resource management, sanitary and phyto-sanitary management and public private partnership management. These priority areas provide a basis for formulating specific programmes and activities in each of the components. The document is dynamic but provides the scope to evolve in the course of implementation whilst maintaining the general policy focus.

Chapter 6 looks at the monitoring and evaluation mechanism that will be adopted to ensure efficiency and effectiveness in the operations of contract farming in Malawi.

## ACRONYMS

ADMARC	Agricultural Development and Marketing Corporation
AGOA	Africa Growth and Opportunity Act
ALDSAP	Agriculture and Livestock Development Strategy Action Plan
ARMS	Agricultural Resource and Management Survey
CAADP	Comprehensive African Agricultural Development Programmes
CFA	Core Functional Analysis
CFS	Contract Farming Strategy
COMESA	Common Market for Eastern and Southern Africa
CSO	Civil Society Organisation
ESCOM	Electricity Supply Corporation of Malawi
FBO	Farmer Based Organisation
FIDP	Farm Income Diversification Programme
FMB	Farmers Marketing Board
FO	Farmer Organisation
FOD	Farming Organisation Development
GAP	Good Agricultural Practices
GDP	Gross Domestic Product
IDAF	Institutional Development Across the Food Sector
IMF	International Monetary Fund
IRLADP	Irrigation, Rural Livelihoods and Agricultural Development Project
KPO	Key Performance Indicator
LLDP	Lilongwe Land Development Programme
M&E	Monitoring and Evaluation
MARDEF	Malawi Rural Agricultural Development Fund
MBS	Malawi Bureau of Standards
MDG	Millennium Development Goal
MEPD	Ministry of Economic Planning and Development
MGDS	Malawi Growth and Development Strategy
MK	Malawi Kwacha
MoAFS	Ministry of Agriculture and Food Security
MOF	Ministry of Finance
MOJCA	Ministry of Justice and Constitutional Affairs
MoLHPS	Ministry of Local Government, Housing and Physical Surveys
MOTPSD	Ministry of Trade and Private Sector Development
MOU	Memorandum of Understanding
MPRSP	Malawi Poverty Reduction Strategy Paper
MRA	Malawi Revenue Authority
MRFC	Malawi Rural Finance Contractor
MUSCCO	Malawi Union of Savings Credit Corporative

NAPF	National Agriculture Policy Framework
NASFAM	National Smallholder Farmers Association of Malawi
NEPAD	New Economic Partnership for African Development
PRA	Participatory Rural Appraisal
SACA	Smallholder Agricultural Credit Administration
SC	Seed Contractor
SSA	Sub-Saharan Africa
SWAP	Sector Wide Approach
SWOT	Strength, Weakness, Opportunity, Threat
USA	United States of America
USDA	United States Development Agency



## **PART I: SITUATION ANALYSIS**

## **1. INTRODUCTION**

### **1.1 Background**

#### **1.1.1 The Role of Agriculture**

1.1.1.1 In the Southern African Development Community (SADC) regional economy, agriculture is a major player contributing about 35% to its gross domestic product (GDP)<sup>1</sup>. About 70% of its people depend on it for food, income and employment. In addition agriculture is a dominant source of exports in most of these countries, on average contributing about 13% to total export earnings and about 66% to value of intra-regional trade. For these reasons agriculture has a strong influence on the rate of economic growth, the level of employment, demand for other goods, economic stability and on food security and overall poverty eradication.

Notwithstanding such opportunities several factors influence the performance of agriculture in the African countries, which in turn affect their growth. For example, droughts, floods, shortage of land, inadequate credit facilities, market failure, high levels of poverty and poor government policies among others have remarkably influenced the performance of agriculture sector on the continent.

1.1.1.2 Agriculture is the backbone of Malawi's economy. The sector accounted for nearly 36% of GDP and 80% to export revenues in 2005. The performance of the tobacco sector is key to short-term growth as tobacco accounts for over 60% of exports.

1.1.1.3 The Government of Malawi's development goal in the agriculture sector is an improvement in productivity and profitability of agriculture, especially among farmer farmers. It is for this reason that by the year 2020, Malawi envisions a high level of agricultural productivity that ensures equity in household food security, income and employment and sustainable utilization of natural resources. This is in line with the mission of the MoAFS of promoting the country's agricultural productivity and sustainable management of land resources to achieve food security, increased incomes and ensures sustainable socio-economic growth and development.

### **1.2 New Policy Directions**

#### **1.2.1 Revitalising the African Agriculture Sector Growth**

1.2.1.1 NEPAD has recognized that performance of the agriculture sector in the African region is below its expectation. As a way of revitalizing the agriculture sector in

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<sup>1</sup> SADC Regional Indicative Strategic Development Plan 2004 -2018

the region, NEPAD embarked on the agriculture recovery programme called under CAADP. CAADP has a vision of promoting agricultural growth and hence economic growth of the agriculture based African economies.

The NEPAD's vision of raising and sustaining economic growth on the African region through agricultural growth is linked to the MGD number one of halving poverty and hunger by 2015. Its high levels of poverty mar the substantial economic growth in Africa. It is for this reason that NEPAD set an annual growth rate target of 6% by accelerating agriculture sector development. Through CAADP consultative process, NEPAD has identified contract farming as one of the critical features for increasing agricultural sector growth, farmer's incomes. It is hence an important tool for attaining the targeted 6% growth of the African region economies.

### **1.2.2 Malawi Growth and Development Strategy**

1.2.2.1 In May 2005, the Malawi Government adopted the MGDS as an overarching development framework. The MGDS provides a policy framework for addressing both economic growth and social policy constraints.

1.2.2.2 The overall goal of the MGDS is to create wealth through sustainable economic growth and infrastructure developments as a means of poverty reduction. The strategy aims at empowering Malawians to produce goods and services for domestic, regional and international markets. In this regard market based strategies such as contract farming are seen as major management and implementation frameworks within which sustainable economic growth and development can be achieved.

1.2.2.3 The MoAFS has undertaken several capacity enhancement activities within the agriculture sector country wide to formulate several strategic intervention mechanisms that will stimulate sustainable growth in the sector. There are major sector-specific policy initiatives such as the Core Function Analysis (CFA), the National Agriculture Policy Framework (NAPF), National Fertiliser Strategy the departmental strategic plans and Ministry strategic plan.

### **1.2.4 Contract Farming**

1.2.4.1 Contract Farming is defined as an agreement between farmers and processing and/or marketing firms for the supply and production of agricultural products under forward agreements, frequently under predetermined prices (Eaton and Shepherd, 2001).

1.2.4.2 The arrangement involves the purchaser providing a degree of production support through, for example, the supply of inputs and the provision of technical advice. The basis for such arrangements is a commitment on the part of the farmer to provide a specific commodity in quantities and at quality standards

determined by the purchaser and a commitment on the part of the contractor to support the farmer's production and to purchase the commodity at an agreed price.

1.2.4.3 There are a number of arrangements that are followed in a contract agreement:

- 1) Market Provision: The producer and buyer agree to terms and conditions for the future sale and purchase of a crop or livestock commodity.
- 2) Resource Provision: Based on the marketing arrangements the buyer agrees to supply selected inputs, including on occasions land preparation and technical advice.
- 3) Management specifications: The producer agrees to follow recommended production methods, inputs regimes, and cultivation and harvesting specifications.

1.2.4.4 Contract farming can be a means to develop markets and to bring about the transfer of technical skills in a way that is profitable for both sponsors and farmers. This should be seen as a partnership between agribusiness and farmers.

### **1.2.3 Policy Evolution in Contract Farming**

1.2.3.1 From independence (1964) to mid 1980s, the concept of contract farming was largely non-existent among the farmer farming community. However, elements of contract farming in the Malawian Agriculture sector were observed in the pre-market liberalization era especially around the 1970s. At that time parastatal crop authorities and estates provided extension services, training, credit inputs and marketing services to the farmer farmers. The crop authorities and estates bought farmer's produce at predetermined prices. Farmer's in turn provided land and labour services for growing crops or raising animals.

1.2.3.2 Medium and large-scale commercial farmers were engaged in contracts with state-and non-state buyers of agriculture produce. During this period, FMB remained the recognized sole buyer of virtually all forms of farmer produce. FMB later transformed into ADMARC in the late 1960s.

From mid 1980s, with the advent of trade liberalization, contract farming was introduced to farmer farming community through cash crops like burley tobacco. These contracts mainly involved specification of production quotas without necessarily attaching the prices of the produce. Arguably, such contracts favoured buyers since they could buy produce depending on the prevailing market situation. Other crops that were produced on contract farming were cotton, tea, coffee and sugar.

- 1.2.3.3 From mid 1990s, formal and informal contract farming appears to have spread widely with a significant proportion of farmer farmers engaging themselves with a wide range of produce buyers. This has however not spared the farmers from the ordeals of produce theft through dubious contractors. This problem is largely attributed to the absence of a clear policy framework and legislation regarding contract farming in the country.
- 1.2.3.4 Although in the post market liberalization era contract farming concept is being strengthened informal contract farming practices appear to continue. The Agriculture and Livestock Development Strategy Action Plan (ALDSAP) developed in 1995 did not explicitly mention contract farming as a strategy to address the problem of marketing in Malawi. However, the review of the strategy in 1998 proposed the promotion of contract farming or out-grower scheme as one way in which production could be improved and produces marketing facilitated. Strategies to improve agricultural sector performance outlined in the Malawi Poverty Reduction Strategy Paper (MPRSP) were silent on contract farming. This overrode the proposals in ALDSAP. Following the low crop productivity of the 2003/04 season, MoAFS planned to carry out contract farming. However, this proposal was not implemented due to logistical problems
- 1.2.3.5 The common form of contract farming on estates was tenancy. The tenancy farming in tobacco production falls under the informal model of contract farming. This model involves an estate owner providing all the necessary farm inputs including land to a tenant. The tenant in turn produces tobacco and gets his proceeds after the owner has deducted the costs of production and his margin from the sales of the crop. The tenancy type of contract farming was commonly practiced in estates and not crop authorities. In some cases, crop authorities provided inputs at a subsidized price. Several problems such as high government budget deficits, reduction in funding for the crop authorities and weak management resulted in the failure of the system in the late 1980s and early 1990s.

## **2. RATIONALE**

### **2.1 Economic Growth**

Contract farming as a strategy seeks to achieve economic growth and development in the agriculture sector. Firstly, the strategy seeks to cushion farmers' weaknesses in the production, processing and marketing of various agricultural commodities. Secondly, this strategy shall enhance forward and backward market linkages as advocated in the country's referral policy framework the MGDS. Lastly the strategy provides the need for the interested parties to transfer new technologies to the farmer farmers and hence enable them access lucrative markets with minimal risks.

### **2.2 Increased Agricultural Productivity**

Despite the numerous constraints faced by both promoters and farmers in contract farming in Malawi, the arrangement will continue to play a number of beneficial roles to farmers, promoters and the economy as a whole. It has the potential of promoting and increasing productivity through the active participation of small-scale farmers in the agribusiness demand and supply chains.

### **2.3 Access To Modern Farming Technology**

The participating farmers in Malawi will have increased access to technical support in terms of extension services, farm inputs, managerial support, improved average prices, value adding, guaranteed market and good bargaining power.

### **2.4 Market Diversification**

#### **2.4.1 Crop Development**

Currently contract farming is confined to Malawi's traditional exports of sugar, tea and tobacco and others such as maize seed and paprika. However, there are some potential commodities that can benefit from market availability and other services provided by contract farming such as cereals, Soya-beans, cassava and birds eye chilies.

#### **2.4.2 Livestock Development**

Contract farming is also an important arrangement for increasing livestock production and marketing. It will be used in multiplication of livestock and production of beef (stall feeding exercises) or milk.

### **2.5 Protection of Farmers from Exploitation**

Contract farming has demonstrated that it can protect farmers against all forms of exploitation. A comprehensive legal framework associated with farming contracts will not only minimize chances of exploitation but also check high levels of default.

## **2.6 Cost Minimisation**

Contract farming acts as a cost minimisation tool in the production function of agribusiness firms since their cost and financing of production is shared with the farmer the contracted. The quality of large volumes of the produce is better controlled and the producers properly adopt the contractor technology. This creates opportunities for enhancing the competitiveness of the produce on the final market. This results into optimal wealth creation by the agribusiness firms as well as the producers, who benefit from free access to technical support and guaranteed market prices.

## **2.7 Enforcing an Appropriate Legal Framework**

Farmers in Malawi, such as those growing tobacco, tea and cotton have had experience in loose forms of contract farming. Sponsors have provided credit inputs and extension services to the contracted farmer farmers. Prior to liberalization, farmer farmers in registered clubs were able to get subsidized credit inputs from the Farmer Agricultural Credit Administration (SACA) managed by the Ministry of Agriculture and Food Security through ADMARC.

Politicians during this period had vigorously campaigned that the credit that the farmer farmers had taken from these institutions were free; hence there was no need for the farmers to pay back. SACA failed to successfully channel and recover medium term loans amounting to MK 50 million (US \$ 9.7 million) to farmer farmers partly due to administrative hiccups and political interferences. Although the Malawi Rural Finance Company (MRFC) was established to replace SACA on commercial basis using group lending as a form of social collateral, and continues to offer informal contracts to the farmers producing tobacco and maize, its coverage is not adequate with regard to the number of beneficiaries and enterprises involved at the same time. In addition, the services are provided without clear legal framework. The formalization of contract farming with the incorporation of a comprehensive legal framework will not only formalize but will attract many operators.

### 3. SWOT ANALYSIS

Successful implementation of contract farming, calls for a thorough understanding of the environment in which it will be applied. This chapter tries to analyze, the strengths and weaknesses opportunities and threats (SWOT) that are associated with contract farming. The analysis is from the perspective of the farmer as well as contractor.

#### 3.1 Strengths

##### 3.1.1 From the Perspective of the Farmer

- 3.1.1.1 **Easy access to production inputs:** One of the most important advantages of contract farming is that it provides the farmer with an opportunity to access agricultural inputs (acaricides, feed and vaccines, seed, fertilizer, herbicides, pesticides) usually on credit arrangements from sponsor. Such an arrangement ensures minimized capital investment on the part of the farmer. This is very important for most farmer farmers who do not have adequate financial resources to buy such inputs. Companies such as Limbe Leaf Tobacco, NASFAM, MONSANTO, and SEEDCO do increase farmers' access to inputs.
- 3.1.1.2 **Farmer exposure to new technologies:** Contract farming exposes farmers to new technologies and skills of production. It also provides services that minimize on farm risk such as insurance. In Malawi's agricultural sector where the extension service delivery systems are weak, contract farming would bridge the gap by ensuring regular access to extension services such as marketing extension and technology transfer/adoption. For example, currently farmers access technical advisory services under contract with companies such as Limbe Leaf Tobacco, NASFAM, MONSANTO and SEEDCO enjoy.
- 3.1.1.3 **Advance specification of commodity prices:** There are pre-priced specifications in the seed maize, sugar, paprika and cotton contracts. This minimizes the risk associated with price fluctuations on the farm. Reduced price risk due to pre-specified prices may also guarantee the income for the farmer if the crop does not fail. In Malawi where a lot of farmers have been demoralized in growing some crops, farmers would be encouraged by engaging in contract farming.
- 3.1.1.4 **Creation of agricultural commodity markets:** Contract farming opens up new markets which otherwise might not be available to the farmer. For example, in the production of paprika, this has been particularly beneficial to farmer farmers in the rural areas where most farmers would otherwise face a lot of hurdles to access markets for their produce. Improved transportation and other logistics by the contractors, ensures increased outreach to the beneficiary farmer farmer.



- 3.1.1.5 **Increasing labour productivity:** In most cases farm family labour especially for farmers is sold off-farm because on farm incomes are not adequate to meet their family demands. Under normal circumstances the transactions associated with the selling of the labour off-farm are very high. With contract farming, farmer farmers use their own family labour, on their farm.
- 3.1.1.6 **Development of commercial culture:** Intensive contract farming leads to a paradigm shift from farmer subsistence farming to cash exchange culture. Usually all transactions in contract farming are handled using business approach with minimal social considerations.

### **3.1.2 From the Perspective of the Contractor / Sponsors**

- 3.1.2.1 **Land and labour availability:** Acquisition and management of land and labour could be costly. With contract farming labour and land ownership issues are handled by the contracted farmers this reduces the cost to the contractor.
- 3.1.2.2 **Quality and supply assurance:** In contract farming quality is more consistent throughout production chain than if purchases were made from the open market. To that end the sponsors and facilitates quality management.

## **3.2 Weaknesses**

### **3.2.1 From the Perspective of the Farmer**

- 3.2.1.1 **Risks associated with non-business culture of farmer farmers:** Contracting firms may have limited experience of working with farmer farmers and they may not fully appreciate their socio-economic and cultural circumstances which affect their capacity to produce on contract
- 3.2.1.2 **Un-honoured contracts:** Some farmers may not be conversant with the processes required to produce a commodity with the required standards because of inadequate experience and technical support..
- 3.2.1.3 **Exploitation:** Contract farming, may also be used by agro-industrial firms to exploit an unequal power relationship with producers. When farmers invest in specific assets or alter their production patterns and become over dependent on their contract commodities crops, they may lose the bargaining power vis-à-vis the firm forcing them to accept less favorable or exploitative contract terms or not being transparent when setting prices. There is an imbalance in negotiating skills and market knowledge.
- 3.2.1.4 **The possibility of corrupt practices:** The staff of sponsoring organization may be corrupt, particularly in the allocation of quotas or they can manipulate the contract to suit their situation.

3.2.1.5 **Exclusion of farmer farmers:** Some contractors do not go into contracts with farmer farmers but favour large farmers to be assured of large supply of contracted commodities.

### **3.2.2 From the Perspective of the Contractors**

3.2.2.1 **Diversion of contract inputs:** Farmers may divert inputs to other enterprise thereby reducing contracted commodity.

3.2.2.2 **High transaction costs:** The transaction costs in drafting, negotiating, and enforcing contracts are usually high. e.g. Costs of management team to support personal contact with the farmer farmers, cost of management in payment logistics and monitoring exacerbate transaction costs.

## **3.3 Opportunities**

### **3.3.1 Commitment by the Government**

3.3.1.1 The Government of Malawi is committed to promoting the agricultural sector as demonstrated by a number of initiatives that are aimed at boosting the sector. For instance, for the past few years funding to the agricultural sector has been increased to more than 10% of the national budget.

3.3.1.2 Further commitment from Government to boosting the agriculture sector is demonstrated through programmes that aim at providing resource poor farmers with production resources such as land. One of such programmes is the Community Based Land Redistribution Programme (CBLRP) (locally known as Kuzigulira Malo) that is assisting landless farmers from districts like Mangochi, Machinga, Mulanje and Thyolo to acquire their own land. This initiative would to a large extent motivate the farmers to engage in contract farming since they would be guaranteed of adequate farm inputs and reliable markets for their produce, thereby optimizing benefits from their land.

Other programmes include Irrigation Development Program and the One Village One Product Project. There is also a good network of agriculture extension institutionalized within the MoAFS. The promotion and facilitation of formation of business-oriented farmer based organizations like cooperatives, agribusiness training programmes for farmers under IDAF, FIDP, IRLAD and others.

Government is increasing recognition of the role of the private sector and civil society in agricultural development is evidenced by development of MGDS and implementation of CFA.

### **3.3.2 Existence of Idle Estates**

There are idle estates existing in the country. For example many vacant estates exist which could foster contract farming in Salima, Mchinji and Kasungu,

### **3.3.3 Availability of Markets**

3.3.3.1 At national level there is a growing interest by the private sector to engage in agro-processing and exportation of processed agricultural commodities. Companies such as Rab Processors, Universal Industries and Bakressa Grain and Milling offer a big market to the farmer farmers.

3.3.3.2 There is an increasing domestic market for bread flour, meat, dairy products, and horticultural products.

3.3.3.3 Other markets opportunities exist at regional as well as international levels. These include the Common Market for East and Southern Africa (COMESA) Free Trade Area and the Africa Growth Opportunity Act (AGOA).

### **3.3.4 Abundant Labour Supply**

3.3.4.1 The rural communities in Malawi are more than willing to participate in profitable enterprises through contract farming to increase their land and labour productivity.

### **3.3.5 Regional Initiatives**

3.3.5.1 There are several regional policy initiatives that provide greater scope for contract farming as enshrined in the COMESA and SADC agriculture growth strategies. For example, CAADP, Regional Market Information Systems, Regional SPS Laboratories

3.3.5.2 **Political will:** Contract farming is more politically acceptable especially when sponsors are dealing with farmer farmers than for example production on estates.

3.3.5.3 **Irrigation development:** Productivity of contract farming is likely to increase due to abundant water supply for example winter production of sugar beans, rice, and wheat.

## **3.4 Threats**

### **3.4.1 Disasters**

3.4.1.1 Rain fed Agricultural production heavily relies on other factors beyond the control of the farmer such as good and reliable rainfall among others. Although

contract-farming farmers may get inputs such as seed and fertilizers on loan utilization of these inputs may be affected by occurrence of natural calamities such as dry spell, hailstorm floods, pests and diseases. This may negatively affect the productivity of the contract and render the farmer insolvent.

### **3.4.2 Default Risk**

3.4.2.1 Some farmers may divert inputs to non-contractual crops. This may put the whole contract in limbo as contractors may lose out. Farmers may sell outside the contract thereby reducing produce for factory processing.

### **3.4.3 Unreliability of Support Industries**

3.4.3.1 Production of some crops under contractual arrangements may require effective and reliable support industries such as water and electricity providers. In Malawi such institutions are not very reliable. In such cases, crops relying on irrigation such as small-scale horticultural production may suffer affecting the contract in the process.

Supply of power by Electricity Supply Corporation (ESCOM) on the other hand has been very erratic often times. This may affect operations meant to pump water for irrigation purposes.

### **3.4.4 Unfavorable external policies**

3.4.4.1 Some policies being executed globally may affect the demand for agricultural commodity stipulated in a contract. For instance the anti-smoking lobby and subsidy policies in other countries distort commodity markets and reduce the supply proportion destined for international markets. Such policies also lead to un-competitiveness of local produce.

### **3.4.5 Biased Crop Production**

3.4.5.1 Under contract farming, contracted farmers are tempted to heavily rely on cash crops. This over-reliance on cash crops can make households to be more vulnerable to food shortages and price fluctuations.

### **3.4.6 Unstable macro-economic Environment**

3.4.6.1 Long-term contracts might be vulnerable to various exogenous factors for example if a dollar based crop is quoted pre-season in Kwacha the value of the contract in dollar terms could be eroded by the time the crop is delivered.

### **3.4.7 Land policies**

3.4.7.1 Land tenure systems existing in Malawi particularly customary land tenure may limit the adoption of contract farming. Due to lack of security of land tenure, which is usually customary land, farmers may face constraints there by jeopardizing sustainable long-term operations.

**3.4.8 Social-cultural factors in the farming communities:**

3.4.8.1 Social cultural constraints may affect farmers' ability to produce to contractor' specification. The contractor might be interested to involve women only, which could affect cultural structures in family decision-making. The fact that most agriculture activities are done by women in Malawi may affect family relationships.

# PART II: STRATEGY

## **4. CONCEPTUAL FRAMEWORK**

### **4.1 Vision**

An increased volume of marketed agriculture commodity through contract farming

### **4.2 Mission Statement**

Achieved food security and economic growth through equitable distribution of benefits arising from efficient and sustainable producer and agribusiness linkages in the agriculture sector.

### **4.3 Core Values**

Contract farming is a public private partnership driven initiative that draws together all sectors of society to exert their energies for the good of the national aspirations of creating wealth. In a bid to achieve efficiency and effectiveness the stakeholders will be guided by the following operating principles or core values:

- ◆ Transparency and accountability
- ◆ Creativity and Innovation
- ◆ Effective Partnerships
- ◆ Gender Balance and Equity
- ◆ Sustainability

### **4.4 Objectives**

The objectives of the CFS will be: -

1. To coordinate supply and demand of agricultural produce/commodities
2. To facilitate better informed decisions in production and marketing
3. To facilitate provision of value chain services
4. To strengthen public-public, private-private and public-private partnerships.

### **4.5 Potential Crops**

The practical opportunity to extend contract farming to all rural communities rests on the specification of commodities that will be eligible. There is no restriction on the crops that are eligible to contract farming. There are however a number of characteristics that will guide the various stakeholders in ensuring that the crops they are venturing into will provide the intended benefits. As pointed out in section 4.1.4 and particularly point 2 above, the key is production of a crop that has the potential for market.

The experience in Malawi gives some crops advantages as potential crops for contract farming due to their known market opportunities, support from reputable contractors and

familiarity with the farming communities. Without necessarily foreclosing the other crops the following crops have been or are under contract arrangements:

- 1) Tobacco: currently with Limbe Leaf Tobacco Contractor in Kasungu
- 2) Sugar Cane: Illovo sugar Contractor in Nchalo, Chikwawa and Farmer Sugar Authority at Dwangwa.
- 3) Spices: Cheetah is already doing some contract farming for paprika and bird's eye chilies across the country
- 4) Cotton: Has been identified to have potential in the lakeshore and Lower shire valley (Mataya and Tsonga).
- 5) Tea: In Mulanje and Thyolo with farmer farmers.
- 6) Coffee: In the Northern and Southern highlands areas
- 7) Maize: is the major staple crop in Malawi and is increasingly used as a commercial crop both locally and within the SADC region. The demand for maize is on the increase providing scope for contract farming. There are also several companies undertaking contract farming in maize seed, these include MONSANTO, NASFAM, SEEDCO and PANNAR providing abundant potential for this crop.
- 8) Other crops: Crops like groundnuts, beans have significant market demand further indicating that potential seeds are not confined to those mentioned above but will be dependent on the agribusiness decisions of the sponsor.

#### **4.6 Potential Livestock Commodities**

The livestock commodities have the potential for contract farming arrangements. The livestock market and demand for livestock products is huge both locally and internationally. The Middle East countries have particularly shown interest in the small stock, which encompass goats and chickens. The potential livestock products with viable schemes and marketing channels include:

- 1) Dairy products

The Government of Malawi through the Ministry of Agriculture and Food Security farms previously managed by the Department of Animal Health and Livestock Production used to issue dairy animals to organized farmer groups in these areas. Most of the animals were issued on loan payable to the government. Some farmers continue managing these animals and the milk produced is sold to various dairy plants. In dairy production, the scheme operates in the prescribed milk shed areas namely Mzuzu, Lilongwe and Blantyre.



## 2) Beef Production:

Under the Lilongwe Land Development Scheme (LLDS) they produced steers and distributed to farmers who stall-feed them before sales to beef processing companies. Stall-feeding scheme provides for an opportunity for both contractor and producer to benefit from the arrangement of disbursing unfinished products (stall animals) and the producer is to capitalize on the locally available materials to finish the animal and generate income.

## 3) Pork and Bacon production:

The arrangement centers on initial provision of seed animals to producers to multiply and supplied or being collected by contractor implying the contractor does not require heavy investment on infrastructure for example abattoir and producer.

## 4) Poultry and Goats:

Contract arrangements could work on similar principles where the contractor issues initial seed animals to be raised by the producer and sold to the supplier basing on that agreement.

## **5. Operational Arrangements**

### **5.1 Institutional Framework**

The CFS will provide an enabling environment through a public private partnership (PPP) institutional framework described in section 5.1.3 below. The objective is to enable the partnership arrangements promote coordination, collaboration and effective functional linkages among stakeholders at all levels. The major stakeholders are the farming community, contractors (private sector), financial institutions, CSOs and the MoAFS.

Market based strategies such as contract farming are not a new phenomena in Malawi's sources of innovative agribusiness development. The challenge is however to organise the farming communities link up with contractors in a sustainable manner that will enable a vibrant contract farming system beneficial to all parties. In order to achieve these there are important preconditions that will guide the strategy.

#### **5.1.1 Working Assumptions**

5.1.1.1 The responsibility of the MoAFS is to provide a supportive, conducive and viable operational framework for contract farming with appropriate capacities and structures. The major assumption for this level of effort is that:

- ◆ The farming communities are familiar and willing to invest their time, energy and resources in contract farming
- ◆ The farming communities are aware and familiar with the resultant benefits of a well organised contract farming system
- ◆ The farming communities have access to relevant policies and regulations
- ◆ The policies and by-laws are clear and unambiguous
- ◆ The farming communities possess the basic skills from informal contract farming
- ◆ There are existing contractors/companies that are willing to work with farming communities in a formal contract farming system
- ◆ The contractors have the knowledge on the merit of using their capital in promoting contract farming and are willing to take some risk in the formative years in order to assist in development of contract farming
- ◆ Contractors have the ability to add value through processing or better marketing
- ◆ Farming communities will have access to credit and finance from the contractor
- ◆ Contractors will have access to credit and finance from the financial institutions
- ◆ A link exists between the contract farming and an incentive for improved management of resources
- ◆ The private sector, the civil society organizations are willing to give support to the growth of viable non-exploitative contract farming in Malawi.

## **5.1.2 Public Private Partnership**

5.1.2.1 The parties need to know what their working relationship will be like in a (PPP). PPP is a service delivery mechanism that government may use to fund, operate, and maintain, enhance/improve public infrastructure and services. A PPP is a partnership between government and an appropriately qualified private sector entity, for the purpose of financing, designing, constructing and/or operating infrastructure or service projects that would normally have been provided through traditional government (procurement) mechanisms. Government does not necessarily have to be a party to the contract; it is more beneficial if government is excluded in the operations entirely.

5.1.2.2 PPPs are widely used throughout the world, and increasingly used in Africa, because they provide a means for accessing private sector financing and expertise that government does not currently possess, and therefore provide needed and enhanced services to end users that otherwise might not be available.

Thus PPPs can be employed for the provision of services only, where no infrastructure is required and a service delivery option for government comprises three essential elements: i.) A contractual agreement: ii.) Substantial risk transfer, and iii.) Outcome-based financial rewards. The contractual arrangement whereby the private party performs a government service must entail the assumption, by the private sector, of the risks associated with that service provision. The contract must also be affordable, and must represent value for money to the enterprise.

5.1.2.3 There are several rationales for PPPs. Perhaps the most important is that while the public sector is accountable for service delivery, it is not, in many cases, the most appropriate service provider in terms of cost, quality, ability to absorb commercial risk and, quite often, effect the financing necessary for a particular undertaking. This consideration is aggravated, especially in developing countries such as most of sub-Saharan Africa, by the increased demand by constituents for increased access to services, large and growing backlogs in terms of service provision, and the lack, on the part of government, of access to the capital, technologies and skills necessary to meet all these demands.

5.1.2.4 The benefits of PPPs are many. They include: i.) Acceleration of service provision through mobilization of private sector capital; ii.) Faster implementation because government doesn't have to wait until it can afford to address the matter; iii.) Reduced whole life costs, because of private sector efficiencies; iv.) Better allocation of risk, because the private sector has experience in handling commercial risks, v.) Improved quality of service, again because quality of service is a key performance indicator (KPI) upon which payment is based.

5.1.2.5 In this context, the role of the public sector is change from that of being the actual provider of the services, to that of being the manager of the provision of such

services. The analogy often used is that government's role is changing from that of "rowing" to that of "steering".

5.1.2.6 The CFS identifies five cross-sectoral intervention areas as major actors, the public sector, the private sector, the financial sector, the farmers and the CSOs.

5.1.2.7 The success of contract farming in Malawi will be dependent on such public private partnership arrangement and these are suggested roles for each of the major actors.

- i.) The GoM through MoAFS will provide support mechanisms and the legislative support that will strengthen partnerships and capacities of participating farmers, the CSO and the private sector to be responsible and relevant actors in contract farming
- ii.) Farmers will provide skilled labour, land and agricultural commodities in production systems
- iii.) CSOs will provide checks and balances. NGOs have a bigger role in training in agribusiness, farming organisation development (F.O.D.), teaching private sector how to work with rural communities, contract brokerage and extension in particular commodities.
- iv.) Private sector will provide the farmers with a support structure and markets that make farming viable.
- v.) Financial sector will provide the farmer with credit and supporting services.

### **5.1.3 Implementation Arrangements**

The following table provides an elaborate delineation of roles that points out the sector and the ensuing partnership arrangements:

**Table 1: Responsibility Matrix**

<b>Sector</b>	<b>Major Actor</b>	<b>Role</b>	<b>Partners</b>
Public	MoAFS and Malawi Bureau of Standards (MBS)	Regulation, Grades standards, weights and measures	MoTPSD <sup>2</sup> , MoJCA <sup>3</sup> , MoF <sup>4</sup> , MEPD <sup>5</sup> , MRA <sup>6</sup>
		Extension and capacity Building	NGOs, Private Sector, Tertiary Institutions
		Technology Generation	International Agriculture Research Centers, Private Sector, Tertiary Institutions, Parastatals
		Land Resource Management	NGOs, Private Sector, MoMENR <sup>7</sup> , Farmer Organisations, MoLHPS
		Sanitary and Phyto-sanitary Management	MBS
		Public Private Partnership Management	NGOs, Private Sector, Farmers, Financial Institutions, MEPD
Private	Companies/Contractors	Farm Inputs Management	Farmers & Public sector,
		Finance and Credit Management	Farmers, Financial Institutions
		Extension and Capacity Building	Farmers, Financial Institutions
		Marketing	Farmers, Financial Institutions, MoAFS
Financial	Banks & Cooperatives	Finance and Credit Management	Private Sector, Farmers,
		Capacity Building	Private Sector, Farmers,
		Default Management	Private Sector, Farmers,
Agriculture	Farmers	Production and Marketing	Private Sector, Farmers, Financial Institutions, MoAFS
		Natural Resource Management	MoLHPS <sup>8</sup> , Private Sector, Farmers, Financial Institutions
		Other Cross Cutting issues	MoAFS, Private Sector, Farmers, Financial Institutions
Public/Private	CSOs	Public Private Partnership Management	Private Sector, Farmers, Financial Institutions
		Dispute Management	Private Sector, Farmers, Financial Institutions
		Awareness Creation	MoAFS, Private Sector, Farmers, Financial Institutions
		Lobbying and Extension	MoAFS, Private Sector, Farmers, Financial Institutions

<sup>2</sup> MOTPSD – Ministry of Trade and Private Sector Development

<sup>3</sup> MOJCA – Ministry of Justice and Constitutional Affairs

<sup>4</sup> MOF – Ministry of Finance

<sup>5</sup> MEPD – Ministry of Economic Planning and Development

<sup>6</sup> MRA – Malawi Revenue Authority

<sup>7</sup> MoMENR – Ministry of Mining, Energy and Natural Resources

<sup>8</sup> MoLHPS – Ministry of Local Government, Housing and Physical Surveys

## **5.1.4 The Legislative Environment**

### **5.1.4.1 Regulatory Framework**

Farming contracts will be in written and signed forms by parties involved. Complying with the legal requirements guiding their implementation, farming contracts will be based on the prevailing societal attitudes and recommended agricultural practices. Adherence to it will not be affected by any other factors that produce an outcome differing from the formal letter of the law. If climatic or civil unrest causes some changes to the expectations, commodity insurance will come into play. The CFS will therefore promote incorporation of agricultural commodity insurance in the contracts. It will further encourage farmer farmers to accept contracts as clubs or cooperatives or associations to enable them cheaply procure insurance policies for their commodities.

### **5.1.4.2 Local Practice**

The CFS will intensify the use of formal legal contracts that cover every eventuality and not those based on informal registrations. This is expected to promote the development of business culture among the farmer farmers. The CFS through the Ministry of Justice and Constitutional Affairs/ Attorney General will empower the farmer clubs/associations/cooperatives<sup>9</sup> intending to go into farming contracts on the management of formal legal contracts and implications for their ignorance.

The CFS will allow a contractor to take legal action against FBOs for a breach of contract. Likewise, it will allow farmers to take action against a sponsor for violation of the contract terms. These legal actions will not necessarily be done in courts. The CFS through the Ministry of Justice and Attorney General will put in place legal mechanisms to settle such cases outside the courts.

In order to minimize costs associated with legal processes, the CFS will rely on NGOs such as National Initiative for Civic Education (NICE) to clearly spell out rules of the relationship between the parties to keep out willful absconding in the contracts. Such support efforts from the NGOs and Government will not only build confidence and ability in farmers' organizations to challenge unfair treatment but also strengthen the relationship between the contractor and farmer organizations.

### **5.1.4.3 Legal Remedy**

The CFS will put in place through a Contract Farming Regulatory Body (CFRB), to be established, ways of resolving disputes arising from the agreement between the producer organizations and contractors. Some NGOs such as NICE will be allowed to take part in the deliberations. It is preferable that the contract farming industry regulates itself in order to offer a measure of protection for all participants. Agreements between

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<sup>9</sup> Club/associations/cooperatives are referred to as Farmer Based Organisations (FBOs) in this document

companies and contracted farmers are essentially voluntary undertakings and ought to be protected. The regulatory body will ensure that both parties respect the terms of the contract, which would have clear contract formulas and specifications between the contracting parties. The management of the contractor engaging FBOs into contracts will adequately sensitize farmers on the contract formulas and specifications to avoid unnecessary breaches of the contracts. For example, the contracts will have to specify clearly the rights and obligations of both farmer and purchasers, and indicate the penalties that will be imposed on either party in case of non-fulfillment of agreed obligations. The CFS will affiliate the body regulating contracts to the MCCCCI.

#### 5.1.4.4 Components of a farmer contract

The CFS will ensure that contracts engaging the farmers have the following components:

##### 1) Form of Contract

A farmer contracted to produce a particular commodity and sell it to a contractor will generally be free to enter into a scheme and leave if it does not prove to be to his or her advantage. This will give either the farmer or contractor an automatic protection against the other party who may have interests in the scheme.

##### 2) Area of Land

The contract will be expected to specify the area of land on which the enterprise should be established, it in terms of land type, slope, accessibility, distance from the purchasing or processing center, and other relevant specifications. The CFS will demand that the contracts appropriately specify the maximum area that may be planted in terms of a crop enterprise or stocking rates in terms of livestock with regard to the labour available to the household and its management ability.

##### 3) Duration of Contract

For annual crops, the farming contract strategy recommends that a contract be issued for a single season renewable at the start of each season dependent on satisfactory performance of either party. For perennial crops and livestock enterprises, it recommends the signing of longer-term contracts. The actual duration of the agreement will be specified in the contract, along with the procedures for its renewal or renegotiation.

##### 4) Charges

The contract will specify the charges the farmer farmers are expected to pay. The payments will either be for inputs supplied on credit, contractor collects produce, or a service charge related directly to the cost of services rendered by the contractor.

If the charges are variable or subject to periodic increase, and if they include a proportion of the overhead costs of the contractor, it will be particularly important that the contract explains clearly the basis for the charges.

#### 5) Sale of Produce

The CFS will ensure that the contract specifies the following points relating to the sale and purchase of farmers' produce:

- i. Any restrictions on farmers selling produce through alternative channels except those specified by the contracting contractor;
- ii. Quality requirements of farmers' produce which the contractor guarantees to purchase;
- iii. Purchasing and payment procedures;
- iv. Any charges deductible at source
- v. Clearly explained method of calculating the price for the farmers' commodity

#### 6) Obligations of Parties to the Contract

The CFS demands that obligations of the commodity purchaser are specified in the contract and will normally include the following:

- i. Supply of seeds or planting material, other production inputs and services;
- ii. Provision of technical advice, managerial support and training;
- iii. Agreement to purchase all produce that meets agreed quality standards;
- iv. Maintenance of relevant infrastructure;
- v. Maintenance of farmer accounts in a form that is comprehensible to the farmers.

The CFS also demands that obligations of the farmers are specified in the contract and will normally include the following:

- i. Agreement to use the designated land area and inputs supplied for the purposes specified in the contract;
- ii. Agreement to follow any production regulations attached to the contract;
- iii. Agreement to sell the commodity through the specified channels;
- iv. Agreement to repay the loans received from the purchaser;
- v. Agreement to contribute to maintenance of common services where appropriate



The CFS will ensure that a fair and mutually acceptable balance is achieved between the rights and obligations of both parties to the agreement. This will be achieved by intensifying monitoring of its operations.

#### 7) Sanctions For Failure To Fulfill Obligations

The CFS will allow the contractor to impose sanctions on the producer for failure to fulfill obligations covered in the contract. Such sanctions will normally take the form of warnings, graded fines or similar penalties, and ultimate cancellation of the contract. Likewise, the contract will equally include provisions for imposition of penalties on the contractor in the event of its failure to fulfill the obligations under the contract. These penalties will normally take the form of compensation payable to the growers for losses incurred as a result of the purchaser's shortcomings and will be imposed upon approval of the CFRB. The CFRB will provide procedures for arbitration in the event of disagreements or disputes between contractor and farmer.

#### 8) Compensation and Succession

- i. In the event that a contract is willingly terminated by the contractor, compensation will be made to the farmer for buildings erected, unexhausted improvements made and standing enterprises on the holding.
- ii. The strategy will also ensure that provisions for an heir to inherit the remaining period of the contract in the event of the farmer's death or is incapacitated are provided in the contracts for the farmers.
- iii. If disposal of contracts is to be restricted this should be clearly stated, and the terms under which a transfer can take place should be made clear

#### 9) Arbitration

An Arbitration Committee to settle disputes between the contractor and farmers will be established within the CFRB. The committee will have representatives of the farmers, government agency, NGO and contractor with an independent chairman. The Arbitration Committee would resolve disputes and impose sanctions by:

- i. Holding sessions when necessary for the affected parties, in order to get their views.
- ii. Soliciting evidence from either party to enable it proceed with appropriate arbitration.
- iii. Conducting an independent investigation by visiting the premises of the affected parties.

All disputes relating to the contract, other than those involving activities of an alleged criminal nature will be referred to the Arbitration Committee. Recourse to legal action outside the contract will be restricted until internal arbitration has been attempted

## 10) Style and Presentation of the Contract

The contract document will be prepared in English and in terms, which are comprehensible to the farmers. A summary will be prepared and translated into Chichewa or any other local language wherever necessary. The contents of the contract document will be carefully explained to the farmers before they are asked to sign.

## 11) Operational aspects of Legal Environment

A professional lawyer will review the contract to ensure that the precedents contained in the contract are suitable for enforcement under Malawi Law and that none of the precedents in the contract are “objectionable” or “unconscionable” in law. The contract will ideally name an arbitrator or arbitration committee to be called upon in the event of the contract being dishonoured.

Other measures for protection of the farmer would be the provision of a bank guarantee by the supplier, prepayment of a proportion of the contract value by the buyer. A Memorandum of Understanding (MoU) built into the contract would increase confidence among firms buying the same commodity not to buy produce contracted to another firm. Agencies such as MCCCCI could be mandated to facilitate such tasks.

In the event of the contract being dishonoured by either party, the first step would be a meeting between parties to try and resolve the issue without recourse to the legal system. A compromise could be agreed and an addendum to the contract drawn up and signed accordingly.

If the above fails, the next step is to enter into an arbitration process, governed by the Arbitration Act, Cap. 6.03. Laws of Malawi.

If the arbitration procedure fails, then the case is taken to the Industrial Relations Court, or Commercial Division of the High Court depending on the nature of the case, who call upon the following Acts to administer the case:

- Malawi Constitution.
- Contract Farming Law<sup>10</sup>
- Sale of Goods Act
- Competition and Fair Trade Act (Act, No 43 of 1998)
- High Court Commercial Division Rules 2007
- High Court Mandatory Mediation Rules

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<sup>10</sup> After the CFS is adopted a recommendation for an enabling Law will be initiated to provide for this Law

With these concerns of the commercial world in mind, the GoM through the Judiciary has recently established the Commercial Division of the High Court, which has specialized rules of procedure. The overriding objective of the court is to resolve commercial matters with the speed and prudence required of Commercial transactions. Matters are resolved in a business like manner, which sees parties before the court going through mandatory mediation, where most cases are resolved. It is only after a failure of such mediation that a case goes to trial. To reiterate the prudence of resolving commercial matters, the court has to pass judgment within 60 days after last day of hearing.

- The following Acts to administer the case:
- High Court (Commercial Division) Rules 2007
- High Court (Commercial Division) (Mandatory Mediation) Rules 2007

#### 5.1.4.5 Recommended Contract Farming Models for Malawi

Contract farming has the ability to add value through processing or better commodity marketing. It provides some links between the producers and the contractors thereby improving management of the product in the process. Various contract farming models could be used to achieve this. Based on their relevance and applicability, the following have been recommended for Malawi:

- 1) **The Centralized Model:** This involves a centralized processor and/or packer buying from a large number of farmer farmers. The model is applicable for the Malawi's tree and plantation crops such as coffee, macadamia, bananas, rubber, fruits, vegetables, and chilies among others. Further, the model is also applicable for enhancing the development of the livestock industry particularly the poultry, dairy, beef and skin/hide sub sectors.

Malawi has some processing plants in the sub sectors of rubber, poultry, beef and dairy. The CFS will strengthen the existing agreements in the dairy sub sector through the producers organized in milk sheds. It will introduce similar agreements in macadamia, bananas, coffee, rubber and poultry. The dairy and poultry processing industries will be linked to farmer cooperatives and associations dealing in these sub sectors.

The CFS will also mobilize investors into beef, fruit, and vegetable and skin/hide processing. Simultaneously, farmers organized into cooperatives or associations will be linked to these industries to benefit from contract farming arrangements and supply raw materials to the industries.

The CFS will increase the capacity of the cooperatives or associations involved in contract farming. For example, through soft loans, cooperatives or associations or individual producers will be provided with appropriate infrastructure such as transport, refrigeration and warehousing facilities among others. The contractors will be expected to manage commodity quota and quality control through the provision of production inputs and technical services.

The government in such contracts will monitor prices, issued quotas and flow of technical services.

Limbe Leaf Tobacco Contractor in a farming contract with Kasungu Tobacco Farmers Trust is a classic example of the centralized model in tobacco. The partnership on experimental basis makes a departure from the tenant tobacco farming. It provides farmers with a comprehensive input package, covering maize and tobacco; capital to employ adult labour and maize ration to support farmer's food requirements; technical expertise to supervise and manage the enterprise and an administration team to manage the financial investment and oversee loan repayment. The strategy will make a deliberate effort to evaluate its performance.

- 2) **The Nucleus Estate Model:** This is a derivative of the centralized model. The sponsor manages a central estate or plantation usually used to guarantee throughput for the processing plant. It involves a significant provision of material and management inputs.

Since the farmer tea growers in Thyolo and Mulanje Districts and the farmer out grower schemes in at Dwangwa in Nkhotakota District and at Nchalo in Chikwawa District are involved in the nucleus estate model, it is recommended for tea and sugarcane production. In Thyolo and Mulanje, the farmer farmers are grouped into blocks selling their tea to the factories. Tea research is undertaken through the sponsor organization.

The Illovo Sugar Contractor runs a farmer out grower scheme at its mill in Nchalo, Chikwawa and another one owned by government through the Farmer Sugar Authority at the Dwangwa factory besides central estates/ sugarcane plantations. The contractor supplies seed, fertilizer, chemicals, irrigation equipment and land development costs on credit to contracted farmers in addition to extension services. The CFS will strengthen the existing relationship and identify mechanisms for increasing the farmer's capacities and their participation.

- 3) **The Multipartite Model:** Developed from the centralized or nucleus estate models, the multipartite model, involves a variety of organizations, including statutory bodies working together to develop a particular commodity. For example, farmer cooperatives or associations, a financial institution and statutory contractor such as ADMARC may work together to develop certain crops. It is very popular for credit provision, production management, processing and marketing.

In Malawi, this model is recommended for the development of groundnuts, cassava, sorghum, millet, rice, soya beans, beans, paprika, cotton, pigeon peas and chilies among others. The CFS will link various FBOs to financial institutions such as Malawi Rural Agriculture Development Fund (MARDEF) and SACCOs for production and marketing loans and ADMARC, where to sell their

commodities. Other market opportunities will be unveiled to these producer groups by linking them to active domestic and foreign market information systems.

Since NASFAM has a similar contract farming arrangement with the farmers through village based clubs the CFS will take advantage of this relationship to strengthen the role of NASFAM in the development of these commodities. Apart from NASFAM and ADMARC, the CFS will identify potential traders for linkage to the farmer farmers to promote the marketing of their crop commodities.

### 5.1.5 Contracting Companies

5.1.5.1 The past experience on unregulated contract farming in Malawi gives the Ministry better foresight on how to regulate the contract farming system by taking into account opportunities and weaknesses and seek ways to provide an enabling environment for the better. The following table gives a list of some contracting companies and their capacities and relevance. This list is not exhaustive but will provide the criteria for other interested parties.

**Table 2: Contract Companies**

Name of Service Provider	Geographical Spread	Type of Contract	Type of Commodity
SUCOMA	Lower Shire and Dwangwa	Farm Inputs	Sugar cane
Kasinthula		Farm Inputs	Sugar
Limbe Leaf Tobacco		Farm Inputs, Marketing	Tobacco
NASFAM	Country wide	Farm Inputs, Marketing	Rice, tobacco, coffee, groundnuts, cotton, chilies
Great Lakes Contractor		Farm Inputs	Cotton
PANNAR Seed Contractor	Southern Region	Farm Inputs	Hybrid Seed
SEEDCO	Central Region	Farm Inputs	Hybrid Seed
MONSANTO	Central Region	Farm Inputs	Hybrid Seed Hybrid Seed

### 5.1.6 Roles and Action Areas of the Major stakeholders

The following tables provide the roles, strategic actions and expected outcomes/results for the five major partners:

**Table 3: Farmers Objective Matrix**

<b>Role</b>	<b>Strategic Action</b>	<b>Expected Outcomes/Results</b>
Production and Marketing	<ul style="list-style-type: none"> <li>◆ To provide labour and produce</li> <li>◆ Acquire production and marketing skills</li> <li>◆ Formation of groups/cooperatives</li> <li>◆ Understanding the contract agreement</li> <li>◆ Actively involved in searching for markets and negotiating for deals for their agricultural produce</li> </ul>	<ul style="list-style-type: none"> <li>◆ An efficient contract farming production system</li> <li>◆ Possess the necessary skills</li> <li>◆ To produce high quality agricultural produce to the satisfaction of the buyer and consumers</li> <li>◆ Bargaining power for negotiations</li> <li>◆ Timely loan repayment by farmers</li> </ul>
Natural Resource Management	<ul style="list-style-type: none"> <li>◆ Constantly consult extension providers</li> <li>◆ New technologies adoption.</li> <li>◆ Farmers participate in training in environmental management issues</li> </ul>	<ul style="list-style-type: none"> <li>◆ Enhances the quality and guarantee specifications of the produce provided by the buyer in the contract</li> <li>◆ Trained in proper crop and livestock agronomic and husbandry practices and other technologies, GAP in relation to particular value chain</li> <li>◆ Sustainable management principles are well understood</li> </ul>
Extension	<ul style="list-style-type: none"> <li>◆ Engage in PPPs in government, contractors, input suppliers for provision of relevant extension services</li> <li>◆ Value chain analysis and piloting</li> </ul>	<ul style="list-style-type: none"> <li>◆ Farmers adopt/access relevant technologies and input in the production of commodities on contract</li> <li>◆ Value chain analyzed and key constraints identified</li> </ul>

**Table 4: Public Sector(including Donors) Objectives Matrix**

<b>Role</b>	<b>Strategic Action</b>	<b>Expected Outcomes/Results</b>
Regulation	<ul style="list-style-type: none"> <li>◆ Establish a Contract Farming Regulatory Framework</li> <li>◆ Set standards for each and every commodity under the contract farming</li> <li>◆ Recommend technical specification to MBS for grades and standards</li> </ul>	<ul style="list-style-type: none"> <li>◆ Enabling legal environment for growth of contract farming</li> <li>◆ Adherence to the standards set for each one of the commodities to protect the partnership arrangements</li> </ul>
Extension and Capacity Building	<ul style="list-style-type: none"> <li>◆ Undertake Extension and Capacity Building Programmes</li> <li>◆ Raise farmer awareness and understanding of the general concept of contract farming development of agribusiness management skills in farmer organisations (FOs)</li> <li>◆ Train farmers in specific contract farming formulas, formats and their respective specifications –Value chain analysis</li> <li>◆ Provide extension services to those farmers under resource and market specification contracts where inputs may not be provided</li> </ul>	<ul style="list-style-type: none"> <li>◆ Empowerment of farmers in rural areas</li> <li>◆ Farmers produce the best quality possible and reap the highest prices offered under the contract</li> <li>◆ Awareness of including implications for each one of the contracts</li> <li>◆ Quality standards are set</li> </ul>
Technology Generation	<ul style="list-style-type: none"> <li>◆ Continue responsibility of generating agricultural technologies including market led research partnership with contractors</li> <li>◆ Sub-contract the role of technology generation for commercial crops to research Trusts</li> </ul>	<ul style="list-style-type: none"> <li>◆ Production standards set for each one of the commodities development of good agricultural practices (GAP) guideline for each commodity</li> <li>◆ Contracting parties do not deviate from the requisite production standards</li> </ul>
Land Resource Management	<ul style="list-style-type: none"> <li>◆ Processing land tenure leases for all the contracts that will require such status mobilize/facilitate land resettlement schemes for use in contract farming or facilitate effective use of vacant estate land for some. Guide contracting parties in use of environmentally sustainable practices</li> </ul>	<ul style="list-style-type: none"> <li>◆ Land tenure standards set</li> <li>◆ Environmental sustainability standards set</li> </ul>
Sanitary and Phyto-Sanitary Management	<ul style="list-style-type: none"> <li>◆ Discharge regulatory role with respect to sanitary and phyto-sanitary issues</li> </ul>	<ul style="list-style-type: none"> <li>◆ Enhance the incomes for farmers by improving marketability of the commodities</li> </ul>
Public Private Partnership Management	<ul style="list-style-type: none"> <li>◆ Engage several other players from the public and private sectors and the civil society organization</li> <li>◆ Facilitate piloting of PPPs, especially where donor funds are available to do so. Promote role of contract farming at policy development level through PPP e.g. ADP 05-011</li> </ul>	<ul style="list-style-type: none"> <li>◆ Championing partnerships and provide guidance on the roles and responsibilities to be taken by all parties</li> </ul>
Funding	<ul style="list-style-type: none"> <li>◆ Develop and pilot credit guarantee, insurance transaction technology e.g. (Makwacha) similar mechanisms to facilitate more efficient functioning in contract farming systems</li> </ul>	<ul style="list-style-type: none"> <li>◆</li> </ul>

**Table 5: CSO Objective Matrix**

<b>Role</b>	<b>Strategic Action</b>	<b>Expected Outcomes/Results</b>
Public Private Partnership Management	<ul style="list-style-type: none"> <li>◆ Facilitating public - private partnerships in contract farming</li> <li>◆ Facilitate cooperatives development with MOTPSD</li> </ul>	<ul style="list-style-type: none"> <li>◆ Bringing in agribusiness and agro-processing firms to participate in contract farming</li> <li>◆ Promote pro-poor agricultural development</li> <li>◆ Make sure that farmers are able to get gains and fair deals</li> </ul>
Dispute Management	<ul style="list-style-type: none"> <li>◆ Act as arbitrators between the parties involved before any legal action is taken in the short term.</li> <li>◆ Build capacity of farmers through mentoring and coaching</li> </ul>	<ul style="list-style-type: none"> <li>◆ Farmers equipped with negotiation skills</li> </ul>
Awareness Creation	<ul style="list-style-type: none"> <li>◆ Make sure that, the voice of a producer is heard by the concerned parties</li> <li>◆ Actively conduct awareness campaigns</li> </ul>	<ul style="list-style-type: none"> <li>◆ Promote pro-poor agricultural development</li> <li>◆ Stakeholders understand better the principles governing contract farming</li> </ul>
Lobbying	<ul style="list-style-type: none"> <li>◆ Linking farmers to potential markets</li> <li>◆ Provision of necessary market intelligence information</li> <li>◆ Assist in scrutinizing the deals that farmers sign</li> </ul>	<ul style="list-style-type: none"> <li>◆ Make sure that farmers are able to get gains and fair deals</li> </ul>

**Table 6: Private Sector Objective Matrix**

<b>Role</b>	<b>Strategic Action</b>	<b>Expected Outcomes/Results</b>
Finance and Credit Management	<ul style="list-style-type: none"> <li>◆ To strengthen agricultural investment</li> <li>◆ Provide financial services to the farmers who are not based on fragmented land in agriculture</li> <li>◆ Cooperatives play intermediary role between banks and farmers</li> <li>◆ Providing Insurance Policy</li> <li>◆ Creating a strong relationship between banks and cooperatives</li> <li>◆ Organize farmers</li> <li>◆ Use land which belongs to small scale farmers</li> </ul>	<ul style="list-style-type: none"> <li>◆ Accelerated economic growth</li> <li>◆ Provides sufficient loan services to the farmers</li> <li>◆ Accumulation of capital to make general development of the country rapid and sustainable</li> <li>◆ Reduced administrative overheads</li> <li>◆ Cooperatives deposit savings in the banks</li> <li>◆ Produce of farmers can be regarded as collateral</li> <li>◆ Clarify system and principles of trade relations</li> <li>◆ Provide loans to cooperative</li> <li>◆ To provide loan to individual farmers</li> <li>◆ Security against drought or other reasons</li> <li>◆ Strengthen the loan repayment culture</li> </ul>
Farm Input and Credit Management	<ul style="list-style-type: none"> <li>◆ Farmers access to some form of credit to finance production inputs</li> </ul>	<ul style="list-style-type: none"> <li>◆ Crop liens that are guaranteed by the sponsors, i.e. the contract serves as collateral</li> <li>◆ Substantial investments of farmers, packing or grading sheds, tobacco barns or heavy machinery,</li> </ul>



**Table 7: Financial Sector Objective Matrix**

<b>Role</b>	<b>Strategic Action</b>	<b>Expected Outcomes/Results</b>
Capacity Building	<ul style="list-style-type: none"> <li>◆ Develop a rural financial system</li> <li>◆ Provide training in access to management of finance</li> </ul>	<ul style="list-style-type: none"> <li>◆ Business orientation</li> <li>◆ Reduced donor and external dependency</li> </ul>
Default Management	<ul style="list-style-type: none"> <li>◆ Put in place dispute resolution of dispute guidelines</li> </ul>	<ul style="list-style-type: none"> <li>◆ Legal framework for agricultural contracts</li> </ul>
Reducing farmer default	<ul style="list-style-type: none"> <li>◆ Legal framework for agricultural contracts</li> <li>◆ The range and quality of services offered</li> <li>◆ Good communication and close monitoring of farmers</li> <li>◆ Incentives for repayment, and strict treatment of defaulters</li> <li>◆ Cooperation between buyers</li> </ul>	<ul style="list-style-type: none"> <li>◆ Peer pressure within the group screens out potential defaulters</li> <li>◆ Economies of scale can be realized in the delivery of services</li> <li>◆ Stronger hand in negotiations with companies</li> <li>◆ Good communication and close monitoring of farmers</li> <li>◆ Incentives for farmers to honor contracts</li> <li>◆ Quality and trace-ability of produce</li> <li>◆ Foster good contractor-farmer relations and a sense of trust</li> <li>◆ Sharing information on defaulters</li> </ul>
Extension and Capacity Building	<ul style="list-style-type: none"> <li>◆</li> </ul>	<ul style="list-style-type: none"> <li>◆ Farmers produce labour – intensive products more cost effectively than waged workers</li> <li>◆ Provide farmers with access to new technologies open new markets and stabilize income</li> </ul>
Institutional Support to Marketing and Trade	<ul style="list-style-type: none"> <li>◆ Provides institutional support to production, processing and marketing of agricultural products</li> <li>◆ Strengthen managerial skills and former cooperatives</li> <li>◆ Develop linkages between producers and the market</li> <li>◆ MEPC promote contract farming of crops and livestock by initiating meetings of bankers, agri-business executives and government extension officers</li> <li>◆ Organizing farmers groups and associations in production areas</li> </ul>	<ul style="list-style-type: none"> <li>◆ Identify agro-based industries operating in Malawi</li> <li>◆ Evaluate and assess their supply requirements</li> <li>◆ Grouping the agro-based industries according to commodities</li> <li>◆ Identify areas of production</li> <li>◆ Training farmers</li> <li>◆ Long lasting marketing linkages for agricultural products</li> </ul>

## **6. MONITORING AND EVALUATION**

### **6.1 Overview**

The purpose of Monitoring and Evaluation (M&E) in the CFS is to aid management and communication by allowing the strategy managers to regularly verify/monitor progress towards achieving its objectives, outputs and results; modify working methods and interventions accordingly; and improve the effectiveness and efficiency of its operations. It also helps to update plans in response to changes in circumstances affecting CFS. Systematic monitoring and also evaluation in CFS is the basis for efficient and sound reporting and, is an important way of improving internal communication and awareness raising and promotions of the CFS.

The M & E is also important in accounting for the use of public resources in the CFS. This applies both to external and internal funds. Further, CFS M&E feedbacks enhance the development of improved contract farming policy. By reviewing CFS programme actions with respect to their relevance, efficiency, effectiveness, sustainability and impact, and compare their impact with their baseline, ways for improving the contract farming policies could be determined.

CFS M&E results could be used to obtain greater support from influential stakeholders, consequently ensuring sustainability of strategy activities, better planning, targeting, feed back to relevant stakeholders and timely decision making for improving service delivery.

### **6.2 Objectives**

The specific objectives of the CFS M&E System are as follows:

- Improve management of the strategy components and sub-components;
- Optimize the use of funds and other resources intended for the strategy;
- Provide lessons for improving the relevance, effectiveness, efficiency and sustainability of the strategy;
- Improve service delivery in the strategy;
- Promote active participation of various stakeholders at individual and community levels.
- Strengthen the capacity of co-operating agencies, and local communities to monitor and evaluate the strategy activities and
- Improve information sharing amongst various stakeholders
- Assess the impact of the strategy activities on the lives of the beneficiaries

### **6.3 Performance Indicators**

Some of the performance indicators that will be used to measure achievement of the CFS objectives are as follows: income levels of stakeholders involved in contact farming, percentage of food secure contract farming households and employment levels in contract

farming households (impact indicators); volume of agricultural commodities traded through contract farming, value of agricultural commodities traded through contract farming and productivity of contracted commodities (outcome indicators) and production levels, number of contracts processed, number of contracts issued, number of disputes settled in contract farming, number of agribusinesses indulging in contract farming, number of appropriate technologies adopted in contract farming, number of farmers adopting technologies through contract farming, area under conservation through contract farming, proportion of gender categories party to farming contracts, number of farmers linked to markets through contract farming, number of regulatory certificates issued through contract farming and volumes of agriculture commodities inspected through contract farming outlets (output indicators)

#### **6.4 Monitoring and Evaluation Systems**

The CFS will conduct a baseline in the base year of the CFS implementation period. The household and participatory surveys will be used in baselining the CFS. The baseline report will be distributed to all the CFS stakeholders-public, private and civil society organizations- to facilitate its implementation. The data and analyzed statistics for the baseline will be a precursor for the intended CFS productivity and marketing information system to be set up in the Ministry of Agriculture and Food Security.

In the implementation phase of the strategy, contract farming production statistics, contract farming input imports, input price data, and quantities marketed, and contract farming commodity prices and production volumes and quantities marketed among others will be summarized from administrative reports of CFS stakeholders.

Multi-stakeholder review meetings will be conducted on quarterly basis. Field verification visits will also be used to see physical progress attained by different stakeholders participating in CFS and challenges they will be facing. Progress and field verification reports will be distributed to all stakeholders for their use. An electronic management information system (MIS) will be put up in the MoAFFS for servicing all the stakeholders of CFS.

The existing structures in various stakeholders will be used in collecting monitoring data and undertaking of evaluation studies. A part from a baseline evaluation/appraisal evaluation/ex-ante, during implementation (periodic and mid-term) and after implementation (final and ex-post) evaluations will be undertaken.

The data sharing system and reports (MIS) coordinated by the MoAFFS will also be put up in the key stakeholders of CFS. Ad hoc monitoring surveys will be conducted to assess any the levels of critical achievements.

## **7. CONCLUDING REMARKS AND RECOMMENDATIONS**

Successful operationalization of the CFS requires the participation of all the stakeholders. For example:

1. It is highly important that the CFS engages the legal experts right from its on set to help put in a place a regulatory mechanism for providing a vibrant and viable contact farming system in Malawi. The legal experts will help design a comprehensive legislative framework to support management and implementation of the CFS. This should not restrict itself to statements from relevant Acts, but move on to develop suitable contract dispute settlement procedures, including arbitration.
2. It is recommendable that a closer review of each model is undertaken to ensure that its operational framework will be acceptable to all parties.
3. It is recommended that clear step by step guidelines for participating in contract farming and partnership arrangements be formulated and documented separately.
4. It is further recommended that a Contract Farming Regulatory Body be established that would help the operationalisation of the CFS. Although initially, the management of this body could be housed in MoAFFS, it should be designed to evolve into a private entity. A deliberate effort will be made to sell its shares to the public.
5. Since the CFS will heavily rely on associations and cooperatives for discharging its responsibilities, it is recommended that deliberate efforts are made to intensify the formation and registration of associations and cooperatives in various sub sectors of agriculture. The current registered associations and cooperatives should be deliberately targeted by the CFS.
6. Capacity building initiatives should arranged in CFS the current and potential associations and cooperatives.
7. The CFS should embark on sensitization campaigns to coerce many producers, traders and manufactures into it.

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