



CONTRACT FARMING

IN TANZANIA'S CENTRAL CORRIDOR

Lessons from the Rural Livelihood Development Programme Tanzania

BACKGROUND

The Rural Livelihood Development Programme (RLDP) in Tanzania was financed by the Swiss Agency for Development and Cooperation (SDC) and implemented by a consortium of HELVETAS Swiss Intercooperation and Swisscontact between 2005 and 2015. It aimed to improve livelihoods of smallholder producers and related enterprises in the Central Corridor of Tanzania through increased income and employment opportunities. From 2008 onwards, RLDP shifted to the Making Markets Work for the Poor (M4P) approach – also called the Market Systems Development (MSD) approach.¹ In its final phase (Phase V, 2012-2015) RLDP worked in four agricultural sub-sectors (cotton, rice, sunflower, and poultry) aiming at two outcomes (1) Increased market access, production, productivity of and value addition by farmers through availability of improved inputs, skills and knowledge and services, and bargaining power, as well as awareness on gender equality; and (2) Systemic change in the business environment and services markets for agricultural sub-sectors and related growth of micro and small enterprises.

Contract farming (CF) was an intervention pursued in all three crop sectors with the purpose to establish mutually beneficial relationships between processors and producers by ultimately addressing market constraints and under-performing supporting functions that resulted in poor quality and quantity of produce.

In 2015, RLDP engaged in a Capitalization of Experience (CapEx) process to understand what lessons could be learned from its work focussing on three topics: Programme Management applying the MSD approach, Contract Farming, and Gender Mainstreaming. The CapEx of all three topics are available in long and short document versions. This short version contains key experiences and lessons learned from RLDP in contract farming. For more background, experiences, examples and lessons, the reader is invited to consult the full version which is available on HELVETAS Swiss Intercooperation website under "Publications on Market Systems": https://www.helvetas.org/news_blog/publication/value_chains.cfm

CAPEX OBJECTIVE, TARGET AUDIENCE

AND PROCESS

This learning document explores RLDP's experiences with Contract Farming throughout its final phase, but takes into account experiences from previous phases where relevant. Based on these experiences, lessons are drawn that may guide future programmes to effectively implement contract farming interventions within a MSD approach.

The target audience for this document are the two implementing organisations, the donor involved in RLDP, as well as other implementing organisations and donors engaged in projects applying a markets systems development approach.

Data collection for this learning piece involved key informant interviews with various internal and external stakeholders, such as RLDP staff, SDC, local government, and project partners.

This CapEx draws attention to the Systemic Change Framework AAER (see box), part of the second edition of the M4P Operational Guide², to articulate what systemic change means in the context of Tanzania's Central Corridor and what, if any, indications existed that it was occurring in relation to contract farming.

The Systemic Change Framework proposes four elements of systemic change:

- **Adopt** – when a programme partner takes up a pro-poor change that is viable (with support of the program) and makes plans to continue with the pro-poor change in the next term.
- **Adapt** – when an initial partner continues to invest in independent activity around the pro-poor change (without project support).
- **Expand** – occurs when similar or competing players (of the initial partner) copy pro-poor change or add value or diversity by offering variants of the same product or service (with or without project support).
- **Respond** – occurs when non-competing players adjust practices in reaction to pro-poor change (with or without project support).

The CapEx takes cognisance of the fact that RLDP's phase V did not use the Systemic Change Framework as a planning tool. Therefore, in developing this CapEx, the tool is used more as an observation guide rather than for evaluating RLDP's strategies. The CapEx seeks to answer three key questions:

- From RLDP's experience in contract farming, what has worked? What has not worked?
- What, if any, elements of systemic change are present in the cotton, rice and sunflower sectors/markets systems at farmer and market levels?
- How can future programmes better facilitate trusting relationships between processors and producers?

Given RLDP's experience and the aim of this CapEx to inform future programmes working on contract farming with an M4P approach, both in Tanzania as well as in other countries, lessons, conclusions and recommendations are drawn in six key areas. These point M4P practitioners to the following insights on what RLDP would do differently if they were to begin a new phase to ensure a strong inclusive market system: market actor's vision, managing partner relationships, scaling strategies, investing in organisations, relevant financial products and services and building trusting relationships.

SUMMARY OF FINDINGS

The purpose of the contract farming model was to establish mutually beneficial relationships between processors and producers by ultimately addressing market constraints and underperforming supporting functions that resulted in poor quality and quantity of produce. Given the weak relationships between producers and the market in the selected crops sectors, the subcontracting arrangement was used to stimulate a win-win situation. Producers were in part able to access services and inputs on credit, while buyers were able to consolidate with more ease needed volumes and quality of raw material to feed their operations and reach new markets.



The CF model pitched to processors by RLDP, included provision of inputs (e.g. improved seed, equipment, pesticides, and fertilizer), and services (e.g. training on good agronomic practices, transport of harvest, and value addition) to producers. These varied depending on crop and investment from processors. For 'multiple-year' partners, RLDP recommended adjustments to the model, such as offering additional training services or increasing the number of producers included in contracts. RLDP often made financial contributions to support processors in adopting untested business models. RLDP engaged with farmer organizations (FOs) to strengthen the ability of producers to advocate for themselves, but this was side-lined as phase V progressed. It is uncertain if RLDP saw the strategy as ineffective or if management priorities led to a focus on processors. In either case, the

major focus of RLDP became supporting processors in piloting or expanding contract farming models.

Across all sub-sectors, the CapEx team found mixed results in the CF experience in the context of the Central Corridor of Tanzania. Sometimes systemic change happened, but it was not always linear and called for contextual judgment and application of multiple perspectives. This required the skills, knowledge and understanding of the RLDP teams of the M4P process, to ensure change happened without distorting the market. Some examples of AAER in the three sectors include:

Adopt in the rice sector: RLDP introduced contract farming to one miller in 2012 and a second in 2013. Both partnerships lasted for two years, with each partner expected to increase their outreach in the second. RLDP recognized that the prevalence of rain-fed agriculture in Central Corridor left producers and processors vulnerable to drought and poor harvest. To address this issue, RLDP began a rice intensification intervention and promoted the distribution of improved seeds more resistant to drought among processors.

Adapt in the sunflower sector: Before one of the growing seasons began, one processor coordinated a meeting with all relevant government officials in each district they worked in. At this meeting, the processor shared their business vision, how the contract farming model would operate, and what support local government authorities (LGAs) could provide. From this, the processor identified key contacts in each district and built buy-in with agriculture extension officers.

Expand in the cotton sector: Competition in the cotton sector had increased by phase V of the programme, with companies from the Lake Zone moving south into Shinyanga and Tabora regions and increasing the density of ginners present. This competition included both those offering contract farming services and others only interested in buying cotton. While producers of one ginner expressed great loyalty, a common practice in cotton is for producers to sell a portion of their harvest to competing buyers to cover basic needs. This is done while waiting to sell the bulk of their cotton to the contracting ginner.

Respond in all the three sectors: Local government (district, ward, village levels) began offering significant support to processors that were piloting and expanding contract farming models. Their work can be considered as a response to the introduction to the contract farming model, particularly in the areas of training and extension services as well as trust building. Further, apex producer associations (the sunflower and cotton sectors) took up advocacy for favourable business conditions, for example in waiver of taxes on import of processing equipment (sunflower); and introducing a nation-wide mandatory contract farming system in cotton spearheaded by a different development partner (e.g. Tanzania Gatsby Trust).

KEY LEARNINGS AND

RECOMMENDATIONS

Market actor's vision

RLDP's experience in CF shows that **projects should engage with market actors** to develop unique models or solutions to the specific constraints affecting their business operations based on a wider market systems change vision. Market actors have their own particular challenges and needs hence one business model may not work for all. RLDP designed and hinged interventions in phase V on contract farming and applied it uniformly across the three sectors. Projects through a facilitative role should encourage adaptation of models and solutions based on viability analysis of the different market actors (especially buyers) and further understanding of their interests; and needs all actors to be involved. To force a partner to align with the programme's agenda is to engage in unsustainable development. M4P facilitators need to understand the **willingness, capabilities and needs** of potential partners in fostering the wider market vision for systemic change.

Use of a uniform business model create vulnerabilities in the market and decreases resilience to shocks for the actors. If a shock were to occur, all processors engaged in the same business model would be impacted at the same time and in the same way.

While designing or selecting a business model for intervention to foster inclusive economic growth, it helps for the facilitator to bear in mind and respond backed by analysis to the question if **'why is the market system not working for the poor?' And further 'what is the best market arrangement to stimulate the market system to work for the poor without leading to distortions in the market?'**

Managing partner relationships and scaling

Partly due to poor expectation setting on the part of RLDP, some actors saw partnership as an opportunity for personal financial gain and business subsidy. Clear communication with partner processors prior to engagement is vital to enable partners gain a clear understanding of the risk any funds from the programme would offset. It is important for practitioners to foster the understanding among partners that they are not just working for the project to realize a development agenda, but rather that the project is supporting the business to take up a mutually beneficial pro-poor strategy. Perceptions that the project wishes to force its agenda on the business lead to skewed results ultimately jeopardizing the sustainability of the intervention.

Sometimes managing partner relations is challenged by the very process that is used to select the partners in the first place. Practitioners should consider and have clear criteria for partner selection including open market sourcing through tenders and even purposive sourcing based on the partner's existing focus for inclusive development e.g. the Corporate Social Responsibility (CSR) approach of the partner. Clear terms of engagement should be spelt out at the start of the process and partners made to understand the offer before engaging.

RLDP's focus on scale pushed partners to increase their outreach each year. Though possible for some businesses, not all partners had the internal management systems or access to capital to take on more contracted producers. Some partners, though unprepared, saw an incentive to agree to a MoU because of the funding associated. This resulted in them offering poor quality services to producers (see also the CapEx on Project Cycle Management regarding how the RLDP team managed the scaling up process).

Programmes should consider accepting slower progress in outreach, while investing in solutions with higher potential of sustainable systemic change, keeping in mind that the latter tends to take more time. M4P practitioners should appreciate and balance both **sustainability** and **outreach** in their partnership and 'scale-up' strategies. This relates directly to the Systemic Change Framework elements of 'expand' and 'respond'. Programmes should innovatively explore how to shift the way competing and non-competing actors behave due to the pro-poor through an explicit crowding in strategy. Projects are advised to explore further the underlying causes of under-performance in the interconnected systems of **support functions** (agricultural and financial service providers, and advocacy bodies) and **the enabling environment** (regulations, standards, and policy). For example, if projects work on improving financial services for processors in a systemic way, more competing businesses may enter leading to expansion. In addition, facilitating changes in the business environment has the potential to bring about change that affects many businesses within a sub-sector. For this, practitioners need to have the capacity to understand the political economy behind business environment constraints.



Investing in organisations

This CapEx has shown the need for facilitators to work with organisations for two purposes. **(i) To leverage advocacy for their demands through a strong organisation for both producers and processors.** In the sunflower and cotton sectors for instance, investment in the two processors' and one producers' associations contributed to their advocacy efforts, that proved relevant in the context of a dispersed sub-sector in complex political environment. **(ii) To strengthen CF relations and attain reward from economy of scales by engaging with farmers organisations instead of individual producers.** In the cotton sector, RLDP has worked with three local producer organisations, but with mixed results. Given the focus of the project especially in phase V to working with processors and brokering agreements, analysis of farmer organizations may have been missed. M4P practitioners should consider both processor and producer apex organizations as part of interventions aimed at improving relationships between them. How these parties function in the current system and how they can be leveraged to bring about change should be investigated as part of the intervention strategy, especially for scale and crowding-in.

Relevant financial products and services

Financial service markets are an integral part of all the market systems RLDP engaged with. Despite the importance of financial service markets, in phase V there was little effort to influence the way financial providers develop or deliver products and services for small and medium enterprises in the agricultural sector.

Part of the learning and gap to be addressed by practitioners in financial markets is the **real** and **actual** ability of producer units (individual farmers) to carry debt. Working with financial service providers to engage patiently with small holder producers through financial literacy as part of credit, is key to fostering pro poor growth. This should go hand in hand with strategies to increase productivity to ensure economies of scale for the producers.

In weak markets, practitioners should consider innovations that would ensure meaningful engagement of producers with financial markets. In many instances, where contract farming has been successful (especially in high value crops like tea), contract farming has included an element of the check-off system that enables farmers access to services upfront that are then paid off by deducting a portion of income due to them on supply of the product.

On building trusting relationships

Trusting relationships between market actors are key to making the market system work. To encourage processors to invest in trusting relationships with smallholders, development programmes can take on some risks while the buyer/supply chain managers establish a strong and rooted set of rules and relationships. Buying down risk means that the programme would use a cost-share agreement to prove value to the market actor. For example, a partner may have the capital to invest in a pro-poor strategy but does not see the business value of investing.

M4P practitioners should consider fundamental business practices of effective supply chain management needed to build strong, trusting relationships for instance:

- Clear, transparent, and consistent rules, grades and standards in each sector.
- Incentives to enforce rules, grades and standards fairly and vigorously.
- Merit-based benefit flows based on adhering to agreements and meeting/exceeding grades and standards.
- Capacity to define and enforce rules, grades, and standards inherent in the system meaning the business is able to adapt as needed.

A programme may offer to cost-share the expense of taking up this new strategy for an explicitly stated, temporary period. Once that period is over, the partner can continue with the strategy on their own.

A major contributing factor to lack of trust in the market system between producers and buyers/processors is skewed power relations. This especially plays where there are no clear, transparent, and consistent rules, grades and standards³ about the products. Sometimes even where there is clarity on these issues, producers have no incentives to adhere to them. Sometimes buyers enforce such rules, grades and standards unfairly and vigorously without consideration for the farmers. The situation is made worse because the agreements between buyers and producers are verbal. Part of the practitioner's facilitative interventions based on foundational supply chain management practice should be to ensure capacity is built among key players to jointly define, apply and enforce rules, grades, and standards. The ensuing benefits should also be spelt out through joint action that could be documented (even as meeting minutes) especially in cases where the actors are averse to written agreements as part of trust building.

CONCLUSIONS

Contract farming is and can be a good arrangement for supporting inclusive market development especially in thin markets. It should however not be promoted as a single business model and prescribed to all partners to follow. It should be adapted to each context and individual partner. When engaging in these partnerships, facilitators need to understand the will and skill of the partner, have clear communication on mutual responsibilities, and negotiate temporary cost-sharing arrangements to buy down risk without financing core business activities. Beyond these individual partnerships, changes in



the wider market system are necessary to make contract farming arrangements resilient and reach scale in a sustainable way ("expand" and "respond" in the AAER framework). The M4P practitioner needs awareness of this and also knowledge in supporting multiple but complementary markets systems. Emphasis should be placed on access to financial services but also attention paid to ensure that actors do not take on more debt that their operations can profitably bear. It also helps to bring in partners who would have the patience to invest in system change. Organisational development and advocacy capacities to address business environment issues are also key for successful M4P interventions.

¹ The terms M4P and MSD are used interchangeably in this document. More information about the approach can be found on <https://beamexchange.org/>

² The Springfield Centre (2014), The Operational Guide for the Making Markets Work for the Poor (M4P) approach, 2nd ed. funded by SDC and DFID, <https://beamexchange.org/guidance/m4p-operational-guide/>

³ These are not necessarily the rigorous phytosanitary standards (SPS), but can be as simple as time of harvest, handling of the produce, packaging, and when to deliver produce to the buyer. In some cases, pack houses are used and products pre inspected and graded on site before delivery to the buyer. In some cases, a farmer representative accompanies the produce to the buyer premises to witness grading etc. all these expectations need to be pre-defined and enforced by the market actors themselves

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