

Do outgrower schemes improve rural livelihoods? Evidence from Zambia

National Vision 2030 pro-poor growth requires a focus on agriculture and rural development (GRZ, 2005).

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Position of Zambia



Outgrower- Livelihoods nexus (1/4)

- Contract farming delegates risks:
 - Production to out-growers,
 - Marketing to the firm
 - Maybe shared through the terms of contract.
- Outgrower schemes have advantages for smallholders
 - Inputs
 - markets for crop,
 - new technologies and extension services and,
- May realize high incomes through the cultivation of high-value crops.

Outgrower- Livelihoods Nexus (2/4)

- Agricultural constraints can be resolved
- Addressing agroecological constraints is expensive for the smallholder farmer e.g., irrigation

Livelihoods approach

- the activities, the assets, and the access that jointly determine the living gained by an individual or household (Carney et al 1998, Scoones 1998)
- Allows for the integration of all aspects of the smallholder's operations and context

Outgrower-Livelihoods Nexus (3/4)

- Supported by livelihoods diversification
 - the process by which households construct a diverse portfolio of activities and social support capabilities for survival (Ellis, 1998)
 - more sustainable over time
 - transition from diversity to specialization
 - an integrated analysis of complex, highly dynamic rural contexts

Outgrower-Livelihoods Nexus (4/4)

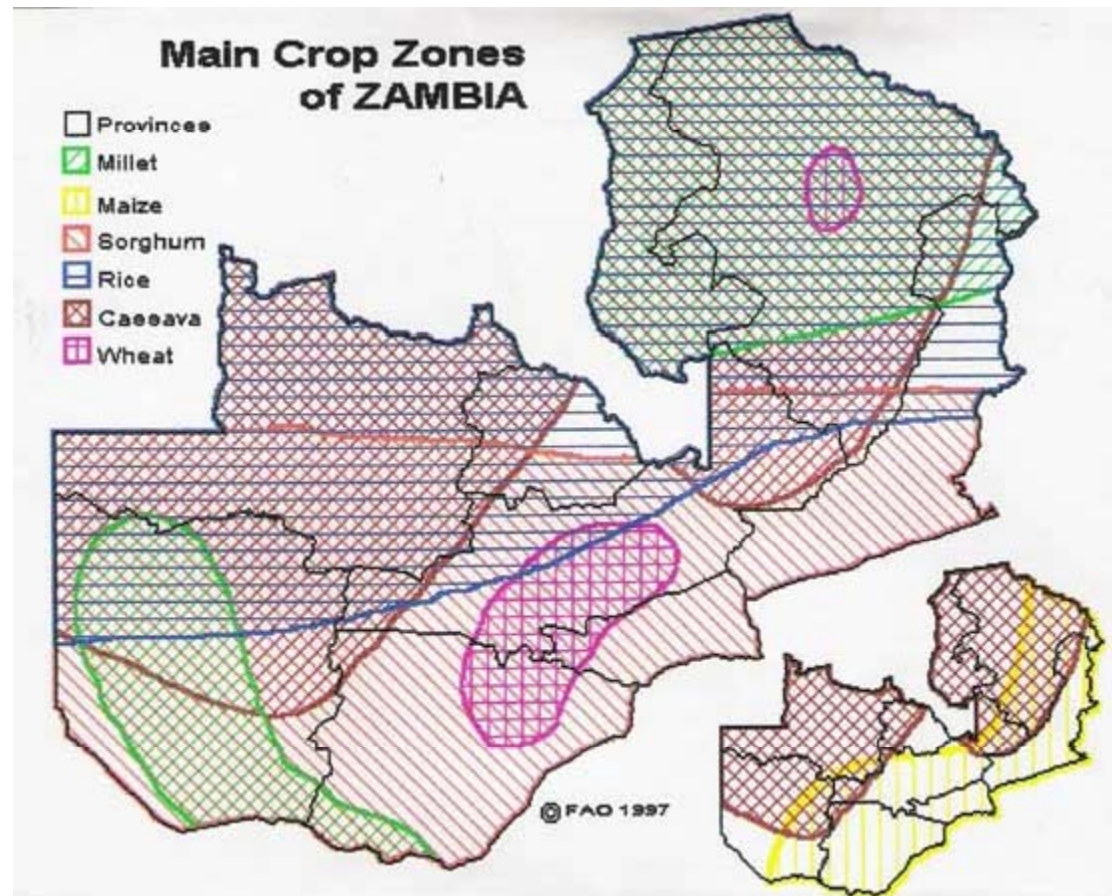
Sustainable Livelihoods

- Coping with immediate shocks and stresses
- Local capacities and knowledge are promoted
- Existing institutions strengthened and agenda of work extended

Therefore: Useful framework to use to investigate whether outgrowers build rural livelihoods

Zambia in Brief

- Well endowed with land and water
- 58% of the land area is suitable for agriculture, but only 14% cultivated
- Agriculture contributes between 10 to 25% to GDP
- 85% of all farms under smallholder producers - sector constrained
- Increased participation of smallholders in high crops through outgrower schemes



Zambia in Brief (cont')

- Smallholder agriculture in Zambia
 - Low levels of commercialization
 - Poor market development - Lack of access to markets and crop spoilage in transport (remoteness) (Thurlow and Wobst, 2004)
 - Poor soils
- Government
 - Improving rural infrastructure,
 - Strengthening linkages between smallholders and larger farmers, commercial producers and agribusiness,
 - Expansion of non-farm opportunities,
 - Assistance to the poorest households through improved food production techniques,
 - Strengthened social service provision (MACO, 2004)
 - Support to outgrowers through MOUs with private sector

Outgrower models in use in Zambia

Four models but only two will be investigated here

Centralized

- Farmer quotas are normally distributed at the beginning of each growing season and quality is tightly controlled (Eaton and Shepherd, 2001).

Nucleus

- Sponsor of the project also owns and manages an estate plantation, with contracted farmers (Glover and Kusterer, 1990).

New models

- Remodeling of the above based on Zambian reality and opportunities

Outgrowers - Smallholder Farmers (1/2)

Commodity	Product	Industry (S/H)	Provinces	Contract	Model
Cotton	Cotton lint	227,000	Eastern	Dunavant	Centralized
Sugar cane	Sugar	268 8 large-scale	Southern	Zambia Sugar	Nucleus
Tobacco leaf	Tobacco	2,000	Eastern and Central	Stan Com, Tobacco Board of Zm	Centralized
Coffee bean	coffee	250	Northeastern	Coffee board of Zambia	Centralized
Paprika	Spice	12,000	Lusaka and southern	Cheetah, Biopest, ZAHVAC	Centralized
Jatropha carcus	Oil/biodies el	140 40,000 ha	Central and eastern	Marli D1 Oils	Nucleus

Source: Various and CCJP (2006)

Outgrowers - Smallholder Farmers (2/2)

- Centralized model dominant and widely used since 1970's – early influence of group based extension
- The Nucleus model is being changed to include “labour tenancy” as in Zambia Sugar and Kaleya Smallholders
- Is the favored model by government being used in the Farming bloc initiative
- Developing another variant - Resettlement land to be dedicated to sugar production – applications for individual and block title encouraged (e.g., Manyonyo, Mazabuka District)

Outgrower Companies – Provisioning the Outgrower

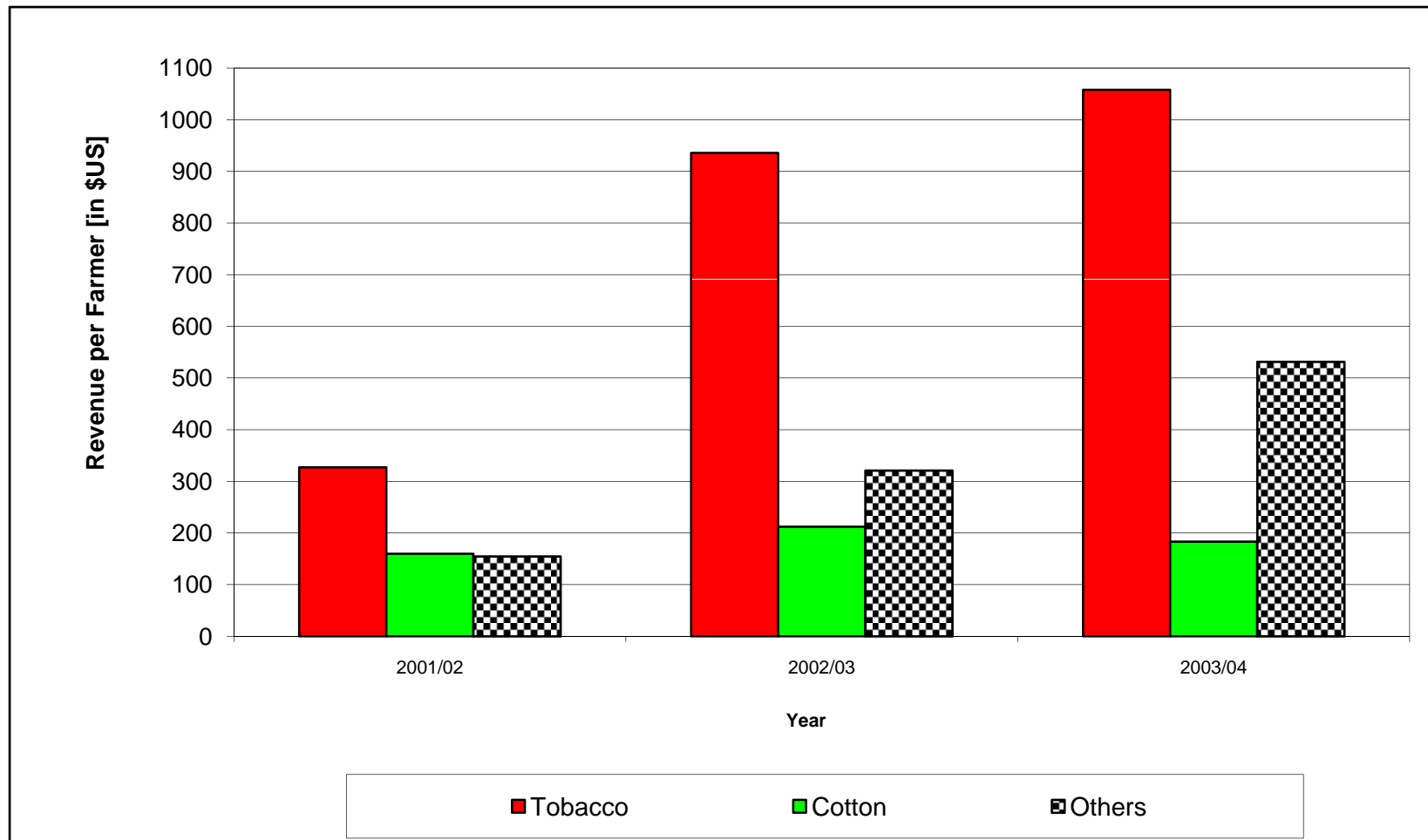
Commodity	Inputs	Loans	Marketing	Contract	Extension	s/holder org
Cotton	√	√	√	√ - side buyers	√	Yes – support form ZNFU
Cane	√	√	√	√ - no side buyers	√	Yes – growers
Tobacco	√	√	√	√ - side buyers	√	√
Coffee	√	√	√	√ – side buyers	√	√
Paprika	√	√	√	√ - yes	√	√
Jatropha carcus	√	?	√	√ - yes	√	No

Source: Various

Outgrower Companies – Provisioning the Outgrower (2/2)

- Almost all the companies provide all the inputs and backstopping required by outgrowers (Abwino and Reiks 2006)
- Contracts are often broken and there is often no recourse (Langmead 2003; CCJP2006)
- Prices are generally static with little change from year to year encouraging side selling
- Most of the farmers are not organized and the “associations” established have company leanings thereby reducing their bargaining power

Incomes from high value crops



Sample Household Earnings

Kaleya Smallholdings: Earnings for Farm No. 4.21

Aspect	Value (USD)	
Total sales		9,255.50
Fertilizer and chemicals	2,002.9	
Labour	3,572.7	
Tax	553.1	
Cane Levy	40.4	
Loan repayment	176.5	
Rental of food plot	141.2	
KSFA (membership)	817.3	
Medicals	62.5	
Net Income		1,888.9

Source: Emma Chinyama Payslip for 2008 Cane Crop

Sample Household Earnings

- Returns vary from crop to crop
 - Returns of up to \$1,000 for tobacco and \$200 to \$300 for cotton
- Paprika has a net value of \$236 per ha (Langmead 2003)
- Cane farmers can make as much as \$314 per ha
- Subject to Management approach

Environmental and social costs not discounted

- Localized pollution
- Forest loss
- Intra-family conflicts over land

Outgrowers – Provisions by outgrower

Commodity	Environmental Impacts		
	Negative impact on envi	EIA required	EIA at O/Grower
Cotton	Agrochemicals, tree loss	Yes	No
Cane	Pollution (air, water and soils) loss of wetlands	Yes	No
Tobacco	Pollution (air, water and soils) firewood	Yes	No
Coffee	Agrochemical use	Yes	No
Paprika	Pollution – agrochemicals and waste	?	No
Jatropha carcus	Waste disposal, agrochemicals	Yes	no
Source: Various			

Rural livelihoods and outgrowers in Zambia (1/4)

- General consensus that cotton, tobacco, sugar and paprika give good returns to outgrowers

Social

- Loan advances have potential to allow very poor households to participate
 - Marginalized HHs unwilling and unable
- Loans snapped up by already well resourced smallholder farmer
- Schemes build up new institutions e.g., sugar growers association
- Conflicts with existing ones e.g., Zambia National Farmers' Union

Rural livelihoods and outgrowers in Zambia (2/4)

- **Natural assets**

- Land rights within the communal tenure system secured – Limited search for title
- Individual and block titles to land being sought e.g., sugar in Magobho and Manyonyo Resttlement areas Mazabuka District
- Sufficient land for food crops (divided ownership of crops?) – no land use policy
- Sugar outgrowers no water rights

Rural livelihoods and outgrowers in Zambia (3/4)

Human

- On site skills transfer through farmer to farmer as well as the outgrower partner exchange
- Labour deficient households to hire contracted labour – been doing this already
- Provision of seasonal employment as livelihood strategy
- Contractors receive “hands on” training skills training

Rural livelihoods and outgrowers in Zambia (4/4)

Physical

- Infrastructure – access roads, input depots, home based processing plants

Financial

- Provision of significant percentage of rural credit in the areas
- Secure markets provided
- Income seen as a form of household savings

What does this all mean (1/2)

- Outgrowers realize relatively higher incomes in comparison to non-out-grower households
- Out-grower companies maintain a monopolistic grasp over the product pricing structure,
- Schemes do contribute to household income but are not able to take households out of poverty
- Can aggravate community conflict and tensions in gender relations around the schemes

What does all this mean (2/2)

- The distribution of income between small-scale farmers and outgrower companies favors the latter (Peter and Watts, 1994).
- High-value crops allow the participating farmers to diversify but cannot specialize because they do not have direct access to the market
- Government is fulfilling its side of the bargain in terms of continued support for
 - Outgrower support BUT policy is unclear
 - Infrastructure development BUT only for farming blocs
- Low budgetary allocation to agriculture is (4% per annum) less than the 10% committed under CAADP

The Way Forward

- Develop a clearer policies for outgrowers
- Need to develop a more comprehensive national development framework
- Invest in the marginalized smallholder farmers
- Property Rights pertaining to outgrowers are unclear and should be explored further