

**AN EVALUATION OF THE SOUTHERN TOMBWE GROWERS ASSOCIATION OUT
GROWER CREDIT SCHEME FOR SMALLHOLDER FARMERS IN CHOMA DISTRICT**

**A research Report Presented to the Department of Agricultural Economics and
Extension Education of The University of Zambia**

BY

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ABBREVIATIONS

| | |
|--------|--|
| NRI | Natural Resource Institute |
| KASCOI | Kaleye Smallholders Company Limited |
| STOGA | Southern Tobacco Out Growers Association. |
| FDG | Focus Group Discussion |
| FAO | Food and Agricultural Organization |
| LDC | Less Developed Countries |
| BAT | British American Tobacco |
| ACP | Agricultural Commercialisation Programme |
| OSP | Out grower Support Programme |
| MACO | Ministry of Agriculture and Cooperatives |
| MoU | Memorandum of Understanding |
| TBZ | Tobacco Board of Zambia |
| CBZ | Coffee Board of Zambia |
| CDT | Cotton Development Trust |
| SFAP | Support to Farmers' Association Project |
| CLUSA | Cooperative League of United States of America |
| NGO | Non Governmental Organisation |

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ABSTRACT

An Evaluation of the Southern Tombwe Growers Association Out Grower Credit Scheme for Smallholder Farmers in Choma District

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The general objective of the study was to evaluate the credit delivery scheme provided to small scale tobacco farmers by Southern Tombwe Growers Association (STOGA) in the out grower scheme arrangement. The specific objectives were to determine (a) the loan recovery rate from small scale farmers at STOGA (b) the factors influencing small scale farmers to default in their loan repayments (c) the appropriateness and effectiveness of the credit delivery scheme offered by STOGA to small scale farmers.(d) strategies out grower schemes have in place to reduce high default rates by small-scale farmers.

This study was carried out in Choma District of Zambia. The study was done with STOGA which was running an out grower scheme with small scale farmers in this area. The study focused on a single crop (tobacco) for easy evaluation. The association had 378 members benefiting from the scheme and only 80 farmers were selected for the study using simple random sampling techniques. Both primary and secondary data was collected from the Board members and extension officers at STOGA who are the scheme managers. A case study conducted on STOGA. Interviews were conducted with small scale farmers to collect primary data using questionnaires and focus group discussions.

According to the research findings, the number of farmers who had defaulted was 57.5% i.e. they fell below the cut- off point. Of the factors that contributed to the farmers defaulting (54.3%) attributed the default to drought, (63.0%) to low price fetched by the tobacco on the market, (41.7%) to poor harvest due to late delivery of inputs and (67.5%) due to delays by the contracting firm to pay farmers for their produce were among some of the reasons farmers attributed to causing them to default. Despite the default rates being 57.5% of the farmers defaulting, 62.5% of the farmers indicated that they were benefiting from the out grower scheme in terms of increased income and improved livelihood and the defaults were not to the extent that can close down the out grower scheme.

It was recommended that the out grower scheme should consider revising the terms and conditions of paying back the loan in instances where yields are affected by natural causes. Farmers need to be consulted when it comes to setting the selling price of tobacco rather than imposing these prices on them. Prices of tobacco on the floor to be quoted in kwacha and not in dollars so that farmers can better understand the pricing system. Extension workers to intensify their visits during harvesting and curing time as this would help the farmers increase their income by achieving a better grade when selling tobacco on the floors. The out grower scheme to include programmes that incorporate the growing of staple foods such as maize side by side with tobacco to reduce on the number of farmers side selling the produce to buy food.

CHAPTER 1 INTRODUCTION

1.1 Introduction

One of Africa's main development challenges was the delivery of agricultural services (marketing, input supply, financing and other support) to smallholder farmers. Economic liberalisation and institutional reform had reduced and redefined the role of the state in service provision and the onus was now on the emerging private sector to provide production and marketing services. Over the last five years, the Natural Resources Institute (NRI) had carried out research in eight African countries to assess the viability of improving agricultural service provision through contract farming, otherwise known as out grower schemes (Coulter, 1999).

In Zambia, a shift from state marketing boards to the private sector i.e. through liberalisation of the agricultural sector had seen the entry into the sector of major companies such as Alliance I (tobacco), Dunavant (cotton), KASCOL (sugar cane) just to mention a few, to supply inputs such as seeds, agrochemicals, farm tools and implements. The provision of agriculture services such as loans, extension and marketing is crucial to the success of most programmes aimed at achieving agricultural growth and graduation of small-scale farmers into medium and large scale commercial farmers.

This study focused on the services provided by STOGA under the tobacco out grower scheme it was running with small-scale farmers with in Southern province, Zambia. It tried to find out why small scale farmers defaulted in paying back loans and the challenges STOGA faced in loan administration, recovery and its experiences in reconciling its policy objectives of lending to small-scale farmers. STOGA was operating in Choma, Kalomo and Kazungula districts and had 378 members growing tobacco under the out grower scheme arrangement in southern province. These districts had been divided into seven (7) zones and these zones are managed by leaf technicians who served as extension workers for the association. The farmers were supplied with seed, agrochemicals and fertilizer as inputs on loan bases and the farmers sold off all the produce harvested to a buyer through STOGA.

1.2 Historical Background

The contracting of crops had existed from time immemorial. In ancient Greece the practice was wide spread with specified percentages of particular crops being a means of paying tithes, rents and debts (FAO Agricultural Services Bulletin 145). Contract farming had been promoted in the recent three decades as an institutional innovation to improve agricultural performance in less developed countries (LDC's), sometimes as a key element in rural development and/or settlement projects (Ghee and Dorall 1992). Contract farming had been in existence for many years as a means of organizing the commercial agricultural production of both large and small scale farmers. Interest in it continued to expand, particularly in countries that had liberalized agricultural marketing through the closing down of marketing boards.

Agribusiness firms in Zambia especially Agro-industrial processors and Agricultural marketing firms had attached considerable importance to contract market systems. This was being practiced through small-holder out grower schemes (Shula, 1988). Instead of these firms owning land and farming directly, local farmers were contracted to use inputs supplied by the firm for production of a specified crop on a stipulated acreage. In addition, the firms provided the necessary extension services. Production inputs were basically supplied as loans on credit. A notable feature of contract farming is that the contracting firm assumes the responsibility of marketing and all the risks associated with marketing. Notable cases of formal contract farming or out grower schemes in Zambia cover crops such as tobacco, coffee, cotton, soy bean and a wide range of vegetable crops like baby corn, green bean, tomato, etc.

1.3 Statement of the Problem

Small-scale farmers had a poor financial resource base and as such, they needed to be assisted with loans from out grower schemes in order to sustain their agriculture production. In Zambia, contract farming seemed to offer considerable benefits to small scale farmers. Some of these benefits included provision of the necessary extension services, production inputs basically supplied as loans (Mwemba, 2005).

The ideal situation should have been that all small-scale farmers that accessed these loans were supposed to pay back in full which was not the actual case on the ground as had been observed that there were some constraints to the development of contract farming schemes, not least the risk that farmers would default, and the high costs of supervision (Goodland, 1999).

While this eventuality was generally recognized in Zambia, there had been few studies to carry out an evaluation on the extent of default rates in loans provided to small scale farmers under out grower scheme arrangements. Therefore, the question of why small-scale farmers defaulted in paying back loans and the challenges STOGA faced in loan recovery was what had prompted this study. The study tried to bring out a better understanding of the causes of the defaults and what instruments were being used to solve the problem.

1.4 Rationale

The development of increased agriculture production by small scale tobacco producers depended on increased participation in the same activity. Since contract farming was increasingly becoming an important means of obtaining credit and assured markets for agriculture produce in Zambia, its sustainability depended on the positive response from the small scale producers. While many governments had come up with agricultural policies favoring contract farming in various forms, studies on the evaluation of loans provided to small scale farmers by out grower schemes were rare. Equally rare were studies to explore the extent of default rates in such schemes. The proposed study sought to carry out an evaluation of loans provided to small scale farmers under out grower schemes with emphasis on the extent of default rates in these arrangements which had not been given much attention in studies on contract farming in Zambia.

The findings of this study would provide information for contracting firms, the government, agricultural policy makers and other investors on the extent of default rates in loan repayment in out grower scheme arrangements and also provide information to

new firms intending to establish out grower schemes on the contractual arrangements between the firms and small scale farmers.

1.5 Research Objectives

1.5.1 General Objective

To evaluate the credit delivery scheme provided to small scale farmers by STOGA in out grower scheme arrangements.

1.5.2 Specific Objectives

1. To determine the loan recovery rate from small scale farmers at STOGA.
2. To determine the factors influencing small scale farmers to default in their loan repayments.
3. To determine the appropriateness and effectiveness of the credit delivery scheme offered by STOGA to small scale farmers.
4. To determine strategies out grower schemes have in place to reduce high default rates by small-scale farmers.

1.5.3 Hypothesis

1. Poor harvest due to late delivery of inputs cause farmers to default.
2. Inadequate extension services cause high default in loan repayment among farmers in credit delivery schemes.
3. Delay of payments to farmers by contracting firms in out grower schemes cause farmers to divert their produce.
4. High market prices compared to those offered by the contracting firm in out grower schemes cause farmers to divert their produce.

CHATER 2 LITERATURE

2.1 Introduction

This chapter starts by defining out grower schemes and looks at an overview. It also looks at out grower schemes in Zambia, their population, location crops grown under these schemes. It also looks at the factors affecting loan recovery.

2.2 Definition of Out-Grower Schemes

Out-grower schemes encompass several farming arrangements. The common feature of out-grower schemes is that the farmers do not directly market and process their produce. A farmer produces for/or on behalf of a principal agent, who buys, undertakes the marketing and/or processes the produce into final products (Peter and Watts, 1994). After entering into a contract, the principal agent supplies farmers with the necessary farming inputs and requisites. These are often used on credit and are to be repaid through income deductions from the proceeds of crop sales.

Warning (et al 2002) defines out-grower schemes as, “the vertical coordination between growers of an agricultural product and buyers or processors of that product. Contracts typically provide the grower with production inputs, credit and extensions services”. The definition of out-grower schemes adopted in this study is in line with the MACO (2002) and Droppelmann (2004). In the Zambian context, Droppelmann (2004) distinguishes between out-grower operators and out-grower farmers.

An “out-grower” can be a nucleus entity, which can either be an individual, company, or a large commercial farm with the capacity to provide management, expertise, inputs, marketing, processing and extension services to a number of out-growers or could be a family willing to cultivate any hectareage of the crop being promoted by the scheme operator. For a better distinction we use the terms out-grower scheme for the specific arrangement between out-grower operator/promoter for the nucleus entity and out-grower farmer for the farming family (Droppelmann, 2004:2). In this study, the term ‘Out-

grower Scheme' refers to the administrative arrangements for promoting a particular crop.

2.3 Overview of Contract Farming

Contract Farming has been promoted in the recent three decades as an institutional innovation to improve agriculture performance in less developed countries, and/or settlement projects (Ghlee and Dorall 1992). The potential of contract farming is threatened by the problem of contract default. A company may break a contract with farmers, for example by failing to deliver inputs and services at the correct time, refusing to receive produce or arbitrarily raising quality standards. However the development of competitive output markets has shifted the balance of risk toward agri-business, and the latter now has a strong incentive to maintain good relations with smallholders, since this helps to secure future access to their produce. A key challenge for agri-business is how to overcome the threat of farmers defaulting on contracts. Default can occur because of production failure or simply because farmers have sold the produce to competing buyers (Coulter, 1999). Farmers may sell their tobacco through another registered farmer, thereby receiving money for the crop without having to repay the loan. This problem is overcome partly by monitoring carried out by extension workers, who become suspicious if one farmer is selling an excessive amount of tobacco. Also, defaulting farmers will be "de-registered" and therefore lose future benefits from the relationship with British American Tobacco (BAT Zimbabwe, 2000).

Farmers sell to an alternative buyer. This problem has arisen since 1996 when BAT's monopoly was cancelled. The Government of Uganda invited the African company Mastermind to take over the co-operative system of tobacco production which BAT dropped at the end of its 10-year contract. The problem that Mastermind faced was that the vast majority of farmers were already in agreement with BAT. To overcome this they offered farmers higher prices for the tobacco and promised to cover the cost of inputs supplied by BAT. The payment was through the co-operative system, and it appears that not all of the money distributed by Mastermind actually reached the farmers. BAT

incurred significant losses: around US\$200,000 of loans were not recovered (Tallontire,1999).

2.4 Out-Grower Schemes in Zambia

The concept of out-grower schemes is not new to the Zambian agricultural sector. The oldest out-grower scheme was established in 1970 (Droppelmann, 2004). However, the establishment of out-grower schemes assumed new urgency with the liberalization of the agricultural sector in the 1990s. In 2002, government adopted the Agricultural Commercialisation Programme (ACP), which included the Out grower Support Programme (OSP) as a central strategy for supporting smallholder farmers.

2.5 Population, Location and Crops under Out-Grower Schemes

There are six principal crops under government supported OSP. These are Coffee, Cotton, Tobacco, Fresh Vegetables, Paprika and Cashew Nuts. However, the Cashew Nut out-grower scheme is still at feasibility stage (MACO, 2004). The Ministry of Agriculture and Cooperatives (MACO) entered into agreements with four organizations to facilitate financial support to small-scale farmers under the OSP. These organizations are the principal 'players' in the promotion of out-grower schemes among small-scale farmers. The MACO signed a Memorandum of Understanding (MoU) with Tobacco Board of Zambia (TBZ), Support to Farmers' Association Project (SFAP), Coffee Board of Zambia (CBZ) and the Cotton Development Trust (CDT). The TBZ is responsible for promoting tobacco out-growing while the CBZ promotes coffee cultivation. The CDT is responsible for promoting cotton cultivation while the SFAP promotes paprika and fresh vegetables cultivation.

The location of out-grower schemes is influenced by several factors that include agro-ecological conditions and infrastructure development. Droppelmann (2004) finds that the largest number of out-grower schemes is concentrated around Lusaka and the old line of rail provinces (Southern, Central and Copperbelt). Paprika and Fresh vegetables are promoted in six of the nine provinces in Zambia under out-grower schemes followed by

tobacco which is promoted in five provinces. The Cashew Nut out-grower scheme, although in its formative stage, only exists in western province.

In terms of concentration, Lusaka and Southern provinces with seven out grower schemes each have the largest number. North-western and western provinces have one out-grower scheme each representing the lowest proportion. Among the determinants of the number of out-grower schemes in a province is the agro-ecological suitability for multi-cropping and infrastructure development such as road network. Lusaka, Southern and Eastern provinces lie within the favorable agro-ecological zone and are suitable for multicropping as opposed to Western and North-western provinces.

2.6 Factors affecting Loan Recovery

According to a study conducted by CLUSA in 2000, Loan recoveries have been affected (in all years) by the following:

- Staffing –it is important for farmers to find facilitators credible. This can be difficult where facilitators are younger than many of the farmers they are working with, or working with influential community members. This is addressed at initial staff training and management ensures that each area has facilitators with suitable skill before they are sent out to the field.
- Screening –is required at all levels but often farmers require time and experience to understand this. Social and family obligations tend to distort the decision making process. Often it is only after several years that groups realize that screening is essential.
- Group responsibility – there is a tendency for farmers to perform well in the first year, then when they discover they will have to pay for group members who do not repay their loans, in subsequent years, good farmers may only deliver enough crop to clear their own loans, or simply leave the group.
- Low yields due to weather patterns, unfamiliarity with new crops, and incorrect application of techniques. The techniques take time to learn and adoption is often only after seeing results of other farmers' labors.

- Priority of Maize for food security. Farmers tend to give more attention to their maize crop and leave the other crops until later. This is particularly true when farmers are unfamiliar with a crop, and exacerbated in years following food insecure seasons.
- Production of high value crops. Various high value crops have been introduced to farmers and these tend to ensure loan repayment. Paprika is an example of a good high value crop which farmers have been able to manage after training. In some areas where Paprika is not suitable Chillie has been introduced instead.
- Level of literacy of farmers. More educated farmers understand there are long term benefits. Farmers with previous experience of commercial out growers performed better in most cases.
- Cooperation between CLUSA field staff and other players e.g. government and other agribusiness extension workers, other NGO staff.

CHAPTER 3 METHODOLOGY

3.1 Introduction

This chapter looks at the study design, the study area, study population, data collection and data analysis and processing methods used in this study.

3.2 Study Design

The study design that was used was non-experimental design and a case study to evaluate loans provided to small scale farmers by out grower schemes was carried out.

3.3 Study Area

This study was carried out in Choma District. The town is located in Southern Province. The main language spoken is Tonga. There were many out grower schemes in this area growing tobacco meaning the market for tobacco was wide for the farmers, hence the decision to pick on this area to conduct the study on default rates. The study was done with STOGA which was running an out grower scheme with small scale farmers in this area. The study focused on a single crop (tobacco) for easy evaluation.

3.4 Study Population

The study population comprised Choma District in Southern Province of Zambia. The sample of the study was drawn from the said district and a random sample of 80 out grower farmers was selected for the study. Simple random sampling techniques were used to obtain samples from the farmers to ensure equality was extended to all the participants who were in the area at the time of the study. The sampling unit was the individual farmer. The total number of farmers benefiting from the loan provided by STOGA was 378.

3.5 Data Collection

Trust and confidence was first created in the respondents by explaining the purpose of the study. In this study, for the collection of data, three sets of questionnaires were prepared, one questionnaire for each out grower farmer, one questionnaire which was administered to one official at Alliance 1 head office and the other set for the leaf technicians. Questionnaires were administered as well as observations during the collection of primary data. Both quantitative and qualitative methods of data collection were used. A semi-structured interview was used to collect data from a group of farmers who were randomly selected. A questionnaire was used to solicit responses from respondents and during this process, probing further as well as counterchecking some of the major and interesting issues arising from the responses was done. The questionnaires consisted both closed and open ended questions to allow for consistent responses as well as personal views. Focused group discussions (FGD's) with Board members and leaf technicians were employed to validate the data collected using the questionnaire. The sample was drawn from Choma district.

3.6 Data Analysis and Processing

Descriptive methods were used to analyse both qualitative and quantitative data of the out grower scheme farmers. Excel, Statistical Package for Social Scientists (SPSS), cross tabulations and chi square tests were used to analyse the data that was collected.

CHAPTER 4 RESULTS AND DISCUSSIONS

4.1 Introduction

Tables and graphs have been used to facilitate the discussions and ensuring a clear flow of the discussions. Cross tabulations and chi-square tests have been used to find out the relationships between different variables. Demographic characteristics, experience in growing tobacco, credit delivery scheme, out put price for tobacco achieved by the farmers and default rates are looked at in this chapter.

4.2 Demographic Characteristics of Respondents

The tables below indicate the composition of respondents by selected background.

4.2.1 Distribution by Sex

The research study involved a sample of 80 small scale farmers. There were more male respondents as 95% males and only 5% were females as shown in the table below.

Table 1: Respondents Distribution by Sex

| Sex | Number | Percent |
|------------|---------------|----------------|
| Males | 76 | 95 |
| Females | 4 | 5 |
| Total | 80 | 100 |

Source: Own Survey Data

The reason why there were few female farmers is because tobacco is very a very laborious crop which requires farmers to spend most of the time in the field tending to the crop. This hinders women to take part in to tobacco growing as they have to create time to attend to house chores such as taking care of children, fetching fire wood and other household chores. The research found out that there were fewer females in contract farming because females have less access to credit as men being the heads of households would automatically be responsible for the credit offered by the out grower scheme.

4.2.2 Distribution by Age

The minimum age was 20 years and the maximum age was 69 years. The mean age was 43 years and the mode which was the most frequent age was 39 years. Most of the farmers were in the age group of (35 – 39) years which accounted for 30% of the farmers. The reason for this age group being the majority was attributed the fact that tobacco is labor demanding and this is the age group that is considered to be very energetic in society.

Table 2: Respondents Distribution by Age

| Age | Number | Percent |
|---------------|--------|---------|
| 20 – 24 | 3 | 3.8 |
| 25 – 29 | 11 | 13.8 |
| 30 – 34 | 4 | 5.0 |
| 35 – 39 | 24 | 30.0 |
| 40 – 44 | 3 | 3.8 |
| 45 – 49 | 6 | 7.5 |
| 50 – 54 | 14 | 17.5 |
| 55 – 59 | 3 | 3.8 |
| Over 60 years | 12 | 15.0 |
| Total | 80 | 100.0 |

Source: Own Survey Data

4.2.3 Level of Education

The level of education ranged from people who have not gone to school all the way up to those who have reached senior secondary school level with the majority not having gone beyond primary level at 63.8%. This shows that very few people with educational level beyond primary school are participating in contract farming.

Table 3: Respondent Distribution by Level of Education

| Level of Education | Number | Percent |
|--------------------|--------|---------|
| None | 8 | 10.0 |
| Primary | 51 | 63.8 |
| Junior Secondary | 11 | 13.8 |
| Senior Secondary | 10 | 12.5 |
| Total | 80 | 100.0 |

Source: Own Survey Data

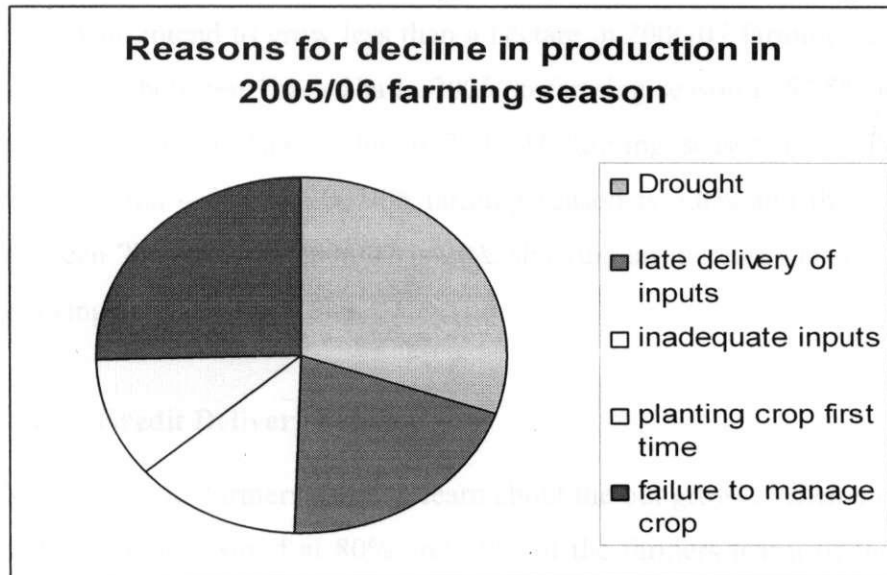
The education level determined the way the farmer responded to the problems encountered in the contractual arrangements as uneducated farmers are prone to exploitation. For instance, 58% of the farmers could not understand the grading system of the tobacco and this made them unsatisfied with the price the crop fetched on the floors. 91.3% of the farmers were not satisfied with the price and felt that there was a lot of subjectivity involved when it came to grading the tobacco due to lack of knowledge on the grading process. The farmers were also not consulted when it came to setting the price of the tobacco and the fact that the prices were quoted in dollars, they could not argue with the person grading the tobacco on the floor. This made the farmers feel cheated afterwards when receiving their payments as they were paid in kwacha.

4.3 Experience in Growing Tobacco

The out grower scheme was introduced in the year 2000 and before then, only 13.8% of the farmers now participating in the out grower scheme were growing tobacco. This shows that after introducing the out grower scheme, the number of small scale farmers who went into tobacco growing increased by 86.2%. 82.5% of the farmers who were previously growing tobacco indicated an improvement in their production after joining the out grower scheme.

The number of farmers who recorded good production levels in tobacco in the 2003/04 farming season was 53.8%. This number declined to 48.8% in the 2004/05 farming season. This decline in production was attributed to a partial drought by 30% of the farmers who experienced low yields. 20% of the farmers attributed the decline to late delivery of inputs. 11% of the farmers attributed it to inadequate inputs and 25% to failure to manage the crop.

Figure 1: Reasons for decline in production in 2004/05 farming season



Source: Own Survey Data

In 2005/06 farming season, the number of farmers who recorded an increase in the production levels of tobacco rose to 73.8%. Because of the increase in the production level, the number of farmers who intend to increase their hectare in 2006/07 farming season has increased as compared to 2005/06 farming season as shown by the two tables below.

Table 4: Distribution of Hectares Grown in 2005/06 Farming Season

| Hectares | Number | Percent |
|-----------|--------|---------|
| Below 1ha | 32 | 40.0 |
| 1ha – 2ha | 42 | 52.5 |
| 3ha – 4ha | 3 | 3.8 |
| 4ha – 5ha | 3 | 3.8 |
| Total | 80 | 100 |

Source: Own Survey Data

Table 5: Distribution of Hectares intended to be Grown in 2006/07 Farming Season

| Hectares | Number | Percent |
|--------------|--------|---------|
| Below 1ha | 30 | 37.5 |
| 1ha – 2ha | 30 | 37.5 |
| 2ha – 3ha | 16 | 20.0 |
| 4ha – 5ha | 3 | 3.8 |
| Non Response | 1 | 1.3 |
| Total | 80 | 100.0 |

Source: Own Survey Data

In 2006/07, the number of farmers growing tobacco on less than a hectare was 40% while those who intend to grow less than a hectare in 2006/07 farming season is 37.5%. Those who grew between 1ha – 2ha in 2005/06 farming season is 52.5% and those who intend to grow between 1ha – 2ha in 2006/07 farming season is 37.5%. Those who grew between 2ha – 3ha in 2005/06 farming season is 3.8% and those who intend to grow between 2ha – 3ha in 2006/07 is 20% showing an increase. There is no change in those growing between 4ha – 5ha.

4.4 Credit Delivery Scheme

Majority of the farmers came to learn about the out grower scheme through fellow farmers and the number stood at 80% and 20% of the farmers learnt of the out grower scheme through extension officers. Majority of the farmers have been in contract farming for 4 years representing 31.3% of the farmers followed by those who have been under contract farming for 1 year standing at 25% showing an increase in the number of people participating in contract farming. This is shown in the table below.

Table 6: Number of Years Farmers have been under Contract Farming

| Number of Years | Number | Percent |
|----------------------|--------|---------|
| One year | 20 | 25.0 |
| Two Years | 13 | 16.3 |
| Three Years | 11 | 13.8 |
| Four Years | 25 | 31.3 |
| More than four years | 11 | 13.8 |
| Total | 80 | 100.0 |

Source: Own Survey Data

All the farmers interviewed were receiving assistance from the credit delivery scheme in the form of seeds, chemicals, fertilizers and extension services. 63.8% of the farmers were also receiving assistance in the form of money for buying firewood and to meet the cost of transport of hiring labor. 61.3% of the farmers said the inputs provided by the contracting firm were not adequate while 38.8% said the inputs were adequate.

All the farmers received visits from the extension officers and 48.8% of the farmers had been visited more than 4 times. The table below shows the number of visits the farmers received from the extension officers.

Table 7: Number of Visits Received from Extension Officers

| Number of Visits | Number | Percent |
|-------------------|--------|---------|
| 2 | 16 | 20.0 |
| 3 | 17 | 21.3 |
| 4 | 8 | 10.0 |
| More than 4 times | 39 | 48.8 |
| Total | 80 | 100.0 |

Source: Own Survey Data

Asked on whether the visits were adequate or not, 52.5% of the farmers said the visits were not adequate and 47.5% of the farmers said the visits were adequate. Asked on the number of visits the farmers felt were adequate, 32.5% of the farmers said they needed at least between 8 – 9 visits as tobacco is a technical crop which requires a lot of attention with most of the visits being conducted during harvesting and curing time as this would help them improve on the quality of the tobacco being produced. 2.5% of the farmers said 5 visits were enough. 7.5% of the farmers said 6 – 7 visits were enough while 10% of the farmers said they needed more than 10 visits. 47.5% of the farmers were not sure of the number of visits they needed.

86.3% of the farmers said that the help they got from the extension officers was good and 13.8% of the farmers said the service they got from the extension workers was bad. A hypothesis test was carried out to find out whether there was a significant relationship between inadequate extension services causing default in loan repayment among farmers in the credit delivery scheme. A cross tabulation was carried out between those farmers who had failed to pay back the credit and whether the number of visits they had received from the extension officers were adequate and a chi-square test was carried out to measure if a significant relationship existed between the two variables. The table below shows the result of the cross tabulation and a chi-square test conducted.

Table 8: Cross Tabulation of Farmers who failed to Pay back Credit and the Visits Received from Extension Officers.

| | | Are the visits from the extension officers adequate? | | Total |
|--|-----|--|-------------|--------------|
| | | Yes | No | |
| Has there been a time you failed to pay back credit? | Yes | 24 52.2% | 22 47.8% | 46 100.0% |
| | No | 14 41.2% | 20 58.8% | 34 100.0% |
| Total | | 38 47.5% | 42 52.2% | 80 100.0% |

Chi-square test

| | Number | df | Asymp. Sig (2-sided) |
|--------------------|--------|----|----------------------|
| Pearson Chi-Square | 80 | 1 | 0.330 |

NOTE: If there is a significant relationship in the hypothesis being tested, the Pearson chi-square value should be between the range of 0.00 – 0.05.

Source: Own Survey Data

A Pearson chi-square value of 0.330 was found indicating that there is no significant relationship between one defaulting in loan repayment and extension visits one received. Despite failing to pay back the credit, 52.2% of the farmers indicated that the visits they received from the extension officers were adequate while 47.8% said the visits were not adequate.

4.5 Output Price Achieved by the Farmers

In the case of selling price achieved by the farmers for the tobacco, majority of the farmers managed a selling price of between US\$1 to US\$2 dollars representing 65% of the farmers and a 28.8% of the farmers sold their tobacco for over US\$2. 6.3% of the farmers had their tobacco fetching a price below US\$1. The table below shows the average selling prices of the tobacco achieved in the 2005/06 growing season.

Table 9: Average Selling Prices of Tobacco Achieved in the 2005/06 Growing Season.

| Price | Number | Percent |
|---------------------|---------------|----------------|
| Below 1 dollar | 5 | 6.3 |
| 1 dollar – 2 dollar | 52 | 65.0 |
| Above 2 dollar | 23 | 28.8 |
| Total | 80 | 100.0 |

Source: Own Survey Data

According to the price chart which was being used by the buyer, the highest price the tobacco can fetch on the floor is US\$3.75 and the least is US\$0.05. When it came to setting the price for the tobacco, the farmers are not consulted; the buyer comes up with the price.

91.3% of the farmers were not happy with the price their tobacco was fetching while 8.8% of the farmers were happy with the selling price. 28.8% of the farmers were not satisfied with the price fetched by their tobacco because the prices were being quoted in dollars hence being affected by the appreciation of the kwacha 35.6% of the farmers attributed their dissatisfaction to high production costs compared to the price offered for the produce hence failing to breakeven. 68.5% of the farmers were of the view that the price the tobacco was fetching was too low to enable them clear the credit. 38.4% of the farmers felt that there was a lot of subjectivity involved when it came to pricing the tobacco, despite the quality of tobacco appearing the same, they might be priced differently. 35.6% of the farmers couldn't understand the grading system of the tobacco on the floor making them unsatisfied with the price fetched by the produce.

Comparing the price that the farmers were being offered under contract farming with the open market price, 56.3% of the farmers said there was a difference in the price and that the market price was higher than the price being offered under contract. 15% of the farmers said that the prices were the same and 28.8% of the farmers were not sure.

A hypothesis test was carried out to find out whether high market prices compared to those offered by the contracting firm in the out grower scheme caused farmers to divert

their produce. A chi-square test was carried out to see if there existed a significant relationship between those farmers who had failed to pay back the credit and whether the difference in the price market and contract price encouraged the farmers to divert their produce. A chi-square test was carried out to see if there existed a significant relationship between the two variables. The table below shows the results of the cross tabulation and the chi-square test conducted.

Table 10: Cross Tabulation of Farmers who Failed to Pay Back Credit and Difference in Market and Contract Price

| | | Does this difference in price encourage you to divert the produce? | | Total |
|--|-----|--|-------------|--------------|
| | | Yes | No | |
| Has there been a time you failed to pay back credit? | Yes | 28 60.9% | 18 39.1% | 46 100.0% |
| | No | 17 50.0% | 17 50.0% | 34 100.0% |
| Total | | 45 56.3% | 35 43.8% | 80 100.0% |

Chi-square test

| | Number | df | Asymp. Sig (2-sided) |
|--------------------|--------|----|----------------------|
| Pearson Chi-Square | 80 | 1 | 0.333 |

Source: Own Survey Data

A Pearson chi-square value of 0.333 was found indicating that there was no significant relationship between one defaulting in loan repayment and the difference between market and contract price. Despite the results statistically showing that 60.9% of the farmers indicating they are encouraged to divert the produce because of the difference in the market and contract price. It was found that they do not divert their produce because they are bound by the contract.

4.6 Default Rate

The farmers who were participating in the credit delivery scheme were asked if their was a point at one particular time when they failed to pay back the credit. It was found that 57.5% of the farmers had defaulted at some time and 42.5% of the farmers had never defaulted before. This is shown in the table below:

Table 11: Number of Farmers who Failed to Clear Credit at One Point in Time

| Clear Credit | Number | Percent |
|---------------------|---------------|----------------|
| Yes | 46 | 57.5 |
| No | 34 | 42.5 |
| Total | 80 | 100.0 |

Source: Own Survey Data

Asked on some of the reasons that made them to fail to clear the credit, 54.3% of the farmers attributed their failure to clear the credit due to drought. 63.0% of the farmers attributed it to the low price fetched by their tobacco on the market as they had other responsibilities to take care of such as paying school fees for their children and feeding their households as they did not grow maize because they concentrated their efforts in growing tobacco. This made them direct the money they had realized to these pressing issues hence failing to clear the credit. 4.3% of the farmers attributed their failure to clear credit to the crop being destroyed by diseases and pests. It can be noted that the percentage is low here due to the fact that the farmers are well provided for with chemicals to spray their fields due to failure to adhere to instructions such as spraying the crop at the appropriate time. 41.7% of the farmers attributed their failure to clear the credit because of poor harvest due to late delivery of inputs. A cross tabulation was carried out to test the hypothesis to see if there was a relationship between poor harvest due to late delivery of inputs causing farmers to default. A chi-square test was carried out to find out if there was a significant relationship between the two variables. The table below shows the results of the cross tabulation and the chi-square test conducted.

Table 12: Cross Tabulation of Number of Farmers who Failed to Pay Back Credit and Poor Harvest Due to Late Delivery of Inputs.

| | | Poor harvest due to late delivery of inputs | | | Total |
|--|-----|---|-------------|--------------|--------------|
| | | Yes | No | N/A | |
| Has there been a time you failed to pay back credit? | Yes | 33 71.7% | 13 28.3% | | 46 100.0% |
| | No | | | 34 100.0% | 34 100.0% |
| Total | | 33 41.3% | 13 16.3% | 34 42.5% | 80 100.0% |

Chi-square test

| | Number | df | Asymp. Sig. (2-Sided) |
|--------------------|--------|----|-----------------------|
| Pearson Chi-square | 80 | 1 | 0.000 |

Source: Own Survey Data

A Pearson chi-square value of 0.000 was found indicating that there was a significant relationship between one defaulting in loan repayment and poor harvest due to late delivery of inputs. It was found that 71.7% of the farmers who had defaulted in loan repayment attributed this to poor harvest due to late delivery of inputs.

When farmers were asked on how they viewed the time period taken by the contracting firm to pay them money for their produce, 67.5% of the farmers felt it was bad, 21.3% felt the time period taken was good and 11.3% of the farmers felt the time taken was very bad. This is shown in the table below.

Table 13: How Farmers Rate the Time Period Taken by Contracting Firm to Pay Them.

| Rate Time | Number | Percent |
|-----------|--------|---------|
| Good | 17 | 21.3 |
| Bad | 54 | 67.5 |
| Very bad | 9 | 11.3 |
| Total | 80 | 100.0 |

Source: Own Survey Data

A hypothesis test was carried out to find out whether a significant relationship existed between delays of payments to farmers by the contracting firm encouraged the farmers to divert their produce. A cross tabulation was carried out between those farmers who failed to pay back credit and how the farmers rate the time period taken by the contracting firm to pay them for their produce and a chi-square test was carried out to measure if a significant relationship existed between the two variables. The table below shows the results of the cross tabulation of farmers who failed to pay back credit and how they rate the time period taken by contracting firm to pay them.

Table 14: Cross Tabulation of Farmers who Failed to Pay Back Credit and how they Rate the Time Period Taken by Contracting Firm to Pay them.

| | | How farmers rate time period take by contracting firm to pay | | | Total |
|--|-----|--|-------------|-------------|--------------|
| | | Good | Bad | Very bad | |
| Has there been a time you failed to pay back credit? | Yes | 4 8.7% | 37 80.4% | 5 10.9% | 46 100.0% |
| | No | 13 38.2% | 17 50.0% | 4 11.8% | 34 100.0% |
| Total | | 17 | 13 16.3% | 34 42.5% | 80 100.0% |

Chi-square test

| | Number | df | Asymp. Sig. (2-Sided) |
|--------------------|--------|----|-----------------------|
| Pearson Chi-square | 80 | 1 | 0.005 |

Source: Own Survey Data

A Pearson chi-square value of 0.005 was found indicating that there was a significant relationship between one defaulting in loan repayment and time period taken by the contracting firm to pay the farmers for their produce as 91.3% of the farmers who had defaulted at one point in time also admitted that the time period taken by the contracting firm to pay them. Because of the delay in payments, when these farmers divert their produce, it automatically meant that they had even defaulted in their loan repayment

because the contracting firm usually paid the farmers the difference of what they are owed by the farmer in the contract and the total produce the farmer supplies to the contracting firm. The payment system is arranged in such a way that the buyer on the floor does not pay the money directly to the farmers but to the contracting firm which in turn makes the payment to the farmer. But when the farmer diverts the crop, he directly receives the payment from the buyer who bought the produce since they are not in contact with the contracting firm.

Asked on how the farmers rated the credit delivery scheme in terms of service delivery, 71.3% of the farmers said the credit delivery service was bad and only 28.7% were of the view that the service being offered by the credit delivery scheme was good. Those who felt that the credit delivery service was bad cited the issue of late delivery supply and inadequate inputs as one of the areas the contracting firm needed to improve on. The farmers also felt that the contracting firm had to improve on the payment system unlike were they would group farmers in groups of 10s and not until all the farmers in the group finished paying their credit would then all group members receive their payments. This caused a lot of confusion when it came to receiving payments when one of the group members defaulted in paying back the loan. The farmers who defaulted complained that the contracting firm did not take into consideration the reason why the farmer defaulted. The farmers where of the view that the contracting firm needed to exercise some lenience by deferring payments of the loan to the next farming season if the cause of the default was as a result of a natural calamity like drought or hailstorm. Unlike sending bailiffs to grab property from them, who would even grab farming implements making it difficult for the farmers to continue farming. The farmers also complained on the attitude of the bailiffs as they felt that there was an element of exploitation as they would grab even insignificant things like 2 chickens and a few bags of maize from the farmers on top of significant assets like ploughs, ox-carts etc. The farmers also felt that the interest rate they were being charged on top of the credit was too high as they had to pay an interest rate of 18.5% and the loan had to be repaid within a period of 1 year. Failure to finish paying the loan meant that the farmer would not be considered for credit in the coming farming season.

Despite the farmers being of the view that the credit delivery service was bad, 62.5% of them indicated that they were benefiting from the credit delivery scheme and 37.5% of them felt that they were not benefiting from the scheme. This is shown in the table below.

Table 15: Number of Farmers who Felt they are Benefiting from the Credit Delivery Scheme.

| Benefiting | Number | Percent |
|-------------------|---------------|----------------|
| Yes | 50 | 62.5 |
| No | 30 | 37.5 |
| Total | 80 | 100.0 |

Source: Own Survey Data

From the farmers point of view, the out grower scheme is responsible for marketing the tobacco. The company also provides the farmers with money for hiring labor and provides extension services which helps them improve on their farming knowledge. The out grower scheme has helped the farmers enter the competitive tobacco industry which has enabled the farmers to earn more income to improve their livelihood and also the opportunity to increase the hectares of tobacco under cultivation.

CHAPTER 5

CONCLUSION AND RECOMMENDATION

1.5 Introduction

In this chapter, the findings of the study have been summarized and concluded. Relevant recommendations have been given.

1.6 Conclusion

According to the research findings, the number of farmers who had defaulted was 57.5% i.e. they fell below the cut-off point and only 42.5% of the farmers had never defaulted before. Of the factors that contributed to the farmers defaulting, (54.3%) of the farmers attributed their failure to clear the credit due to drought. (63.0%) of the farmers attributed it to the low price fetched by their tobacco on the market as they had other responsibilities to take care of such as paying school fees for their children and feeding their households as they did not grow maize because they concentrated their efforts in growing tobacco. This made them direct the money they had realized to these pressing issues hence failing to clear the credit. (4.3%) of the farmers attributed their failure to clear credit to the crop being destroyed by diseases and pests which was very insignificant and can be attributed to a farmers' bad agronomic practices due. This is because the farmers were provided with enough spraying chemicals and it was discovered that these few farmers had applied the chemicals at the wrong time. (41.7%) of the farmers attributed their failure to clear the credit to poor harvest due to late delivery of inputs. (67.5%) of the farmers felt the contracting firm was taking too long to pay them for their produce. This forced some of the farmers to side sell their produce just to raise money for upkeep and at times the farmers received less money than the crop had fetched earlier due to fluctuations in the exchange rate as the prices were quoted in dollars. High open market prices compared to those offered by the contracting firm did not contribute to causing the farmers to default as the farmers were tied to the contract hence failing to divert their produce. Extension services did not contribute in any way in causing farmers to default. The farmers were being put in groups and these farmers had to monitor the activities of fellow group members to ensure that they did not default as this could inconvenience fellow group members when it came to receiving payments.

In conclusion, it can be said that despite 57.5% of the farmers defaulting i.e. falling below the cut-off point, the farmers indicated that they were benefiting from the out grower scheme as 62.5% of the farmers indicated that the scheme was beneficial and the defaults were not to the extent that could close down the operations of the out grower scheme.

1.7 Recommendations

1. The out grower scheme should consider revising the terms and conditions of paying back the loan in instances where yields are affected by natural causes.
2. Farmers need to be consulted when it comes to setting the selling price of tobacco rather than imposing these prices on them.
3. Prices of tobacco on the floor to be quoted in kwacha and not in dollars so that farmers can better understand the pricing system.
4. Extension workers to intensify their visits during harvesting and curing time as this would help the farmers increase their income by achieving a better grade when selling tobacco on the floors.
5. The out grower scheme to include programmes that incorporate the growing of staple foods such as maize side by side with tobacco to reduce on the number of farmers side selling the produce to buy food.
6. The out grower scheme to conduct trainings for farmers on the grading of tobacco so that farmers would better understand the grading process of tobacco on the floors.

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APPENDICES

APPENDIX 1: Questionnaire

SECTION A

Background Information

1. Age
2. Sex Male [] Female []
3. Level of education None [] Primary []
Junior Secondary [] Senior Secondary [] Tertiary []

SECTION B

Credit delivery scheme

4. Which year did you start cultivating tobacco
5. Did you start growing tobacco because of the credit delivery scheme arrangement? Yes [] No []
6. If your answer to question 6 is No, would you say your production levels have improved under contract farming than under non contract farming?
Yes [] No []
7. How many hecters of tobacco did you grow in the last farming season 2005/06?
.....
8. How many hecters of tobacco do you intend to grow this farming season 2006/07?
.....
9. How have been your production levels of tobacco in the last 3 years?
Very Good [] Good [] Bad [] Very Bad []
10. If your answer to question 10 is Bad or Very Bad, give reasons for the bad production
.....
.....

11. How did you hear of the contracting firm i.e. STOGA?
 Alliance 1 [] Extension officer [] T.V []
 Radio [] News Paper []
 Others, specify
12. For how long have you been under contract farming? One year []
 Two years [] Three years [] Four years []
 More than four years []
13. Does the contracting firm provide you with credit/loan?
 Yes [] No []
14. Which items does this credit scheme cover? Seeds [] Chemicals []
 Fertilizers [] Extension services []
 Others, Specify
15. Are these services or inputs in question 15 provided by the contracting firm
 adequate to cover your production requirements? Yes [] No []

SECTION C

Extension service

16. Do you receive any visits from extension officers? Yes [] No []
17. If your answer to question 17 is Yes, how many times do the extension officers
 visit you in a growing season? 1 [] 2 [] 3 []
 4 [] More than 4 times []
18. Do you feel the numbers of visits from the extension officers are adequate to
 cover you in the production season? Yes [] No []
19. If your answer to question 19 is No, how many numbers of visits would you
 recommend?
20. How would you rate the help you get from the extension officer?
 Very Good [] Good [] Bad [] Very bad []

SECTION D

Pricing of produce

- 21. What was the average selling price of tobacco you achieved in the last growing season?
.....
- 22. Who sets the selling price of the tobacco produce under contract farming?
The contracting firm [] The farmer [] Both []
Others, specify
- 23. What is the present average selling price of tobacco you have achieved this year?
.....
- 24. Are you satisfied with the present agreed selling prices of tobacco?
Yes [] No []
- 25. If your answer to question 25 is No, give the reasons why
.....
- 26. Is there any difference between the price being offered by Alliance 1 and other contracting firms dealing in tobacco? Yes [] No []
- 27. Is the price being offered by other contracting firms higher or lower than that being offered by Alliance 1? Higher [] Lower []
- 28. What is the margin of difference?
- 29. Does this difference in price encourage you to sale to other buyers other than Alliance 1? Yes [] No []

SECTION E

Default rate in credit delivery scheme

- 30. Has there been a time when you failed to pay back the credit you got from STOGA? Yes [] No []

31. If your answer to question 30 is yes, what reasons made you to fail to pay back the credit?

32. What is the repayment rate of the credit?

33. How would you rate the time period taken by the contracting firm to pay you for the produce?

Very Good [] Good [] Bad [] Very Bad []

34. Would you say you are benefiting from the credit delivery scheme being offered by STOGA? Yes [] No []

35. How would you rate the credit delivery scheme being provided to you by STOGA?

Very Good [] Good [] Bad [] Very Bad []

36. If your answer to question 35 is Bad or Very Bad, in which areas would you like to see the credit delivery scheme improved?

.....
.....
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.....
.....

37. Any other comment(s)

.....
.....
.....
.....
.....
.....

End of questionnaire, thank you for you